"Growing Regions, Growing Europe" – A Welsh Local Government Association response to the Fourth Report on Economic and Social Cohesion

31st January 2008
Key messages

- We recognise the significant investment and contribution EU cohesion policy continues to make in the process of regenerating some of the most deprived communities in Wales.

- There is a need to have stronger involvement of local and regional authorities in the Lisbon Strategy processes.

- The closer alignment between the Lisbon Strategy and EU cohesion policy for the 2007-2013 period is a welcome development. Further analysis and discussion is needed on the potential impact the new challenges will have on cohesion in Europe.

- An EU-wide cohesion policy should continue to focus a majority of its resources on supporting lagging regions as well as temporary support for those in transition.

- Further evaluation is needed on how to allocate resources and on the best type of support measures for non-Convergence regions.

- The territorial cooperation objective provides real EU added value and should be enhanced in the future.

- We welcome recent developments at EU level in recognising the importance of geography such as the references to territorial cohesion in the Lisbon Treaty, the EU Territorial Agenda and the forthcoming Green paper on Territorial Cohesion.

- While there have been positive steps at simplifying policy management processes for the 2007-2013 period, further consideration needs to be given to ways of reducing administrative and operational divisions between the Funds.
INTRODUCTION

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales, and the three national park authorities, the three fire and rescue authorities, and four police authorities are associate members.

2. It seeks to provide representation to local authorities within an emerging policy framework that satisfies the key priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.

3. We welcome the Fourth Report on Economic and Social Cohesion, “Growing Regions, Growing Europe” and note its findings on current trends as well as on the effectiveness and added value of EU regional policy. It is also a welcome contribution to the debate regarding the future of EU cohesion policy.

4. Welsh Local Government recognises the significant investment that EU cohesion policy has made in Wales over a sustained period of time. The previous Objective 1 programme and the new Convergence programme in West Wales and the Valleys in particular are making a positive contribution to the process of regenerating deprived communities across Wales.

5. We recognise that the guidelines and regulations for the 2007-2013 programmes have only recently been agreed and that there is a need to properly evaluate the effectiveness of the improvements introduced in this new period before too much detailed analysis should be undertaken of future implementation systems. This response is therefore only a first reaction highlighting a number of issues and principles of importance to our members, based on the experiences of our local authorities, as well as raising questions that require further attention in the coming years.
6. We also believe that it will be important to place the deliberations on the future of cohesion policy within the broader EU context, namely the discussions on the future EU budget, possible future enlargement of the EU and evolving political priorities.

**What lessons can be drawn from the experience of preparing the 2007–2013 programmes? In this context and in the light of the analysis provided by this report, how far is cohesion policy adapted to the new challenges European regions will face in the coming years?**

7. The main achievement of cohesion policy for the 2007-2013 period has been to align itself with the Lisbon Strategy for growth and Jobs. The new strategic planning framework in particular has demonstrated how strategic political priorities agreed at EU level can be translated into operational programmes in the regions.

8. The debate on the future of cohesion policy is closely related to the way the Lisbon policy guidelines and delivery processes will evolve over the coming years. In terms of the delivery process, there is a need for more decentralised implementation of the Lisbon Strategy in the next three-year cycle with stronger involvement of local and regional authorities in the process of developing and revising the National Reform Programmes in each member state. The Committee of the Regions Lisbon Monitoring Platform report to the Spring Council in 2008 provides an opportunity for further discussion on this issue.

9. In terms of the Lisbon guidelines, the European Commission’s strategic report on economic reform across Europe, published in December 2007, outlined the challenges facing Europe in four priority areas – knowledge (education, R&D and innovation); a better business environment; investing in people and modernising labour markets; and energy and climate change. This implies that the EU will not only need to deal with its internal challenges but also direct its focus outward from where some of the key challenges come.
10. These new challenges, as outlined in the Fourth Cohesion Report, will affect not only those regions lagging behind but to differing degrees all regions across the EU. We would welcome further analysis of the potential impact the various challenges will have on cohesion in Europe. This would provide the basis for more detailed discussion as to the extent cohesion policy should be used to address all the challenges outlined in the Lisbon guidelines and how this can be balanced with the objectives of cohesion policy as outlined in the Lisbon Treaty.

How can the regions react to restructuring pressures from dynamic competitors in low and medium tech sectors?

11. Most regions in Europe are confronted by the need to restructure and modernise their economies and facilitate continuous innovation in products, management and processes. Indeed, many regions in the more prosperous member states have a high share of employment in traditional sectors, where competitive advantage is largely based on lower-cost, lower-wage production methods. Clearly, competition on cost factors alone is not a viable option and regions need to modernise and diversify their economic structure into higher value-added sectors.

12. Cohesion policy needs to focus on promoting economic growth through higher value-added products and services, allowing businesses to grow and to improve their competitiveness and productivity through technological advances. WLGA recognises the need to increase the focus on the environment in which economic actors operate rather than just on the direct aid to the actors themselves. A mixture of investments – transport and communications, infrastructures, information networks, workforce skills, research and development, innovation and entrepreneurship – all contribute to creating the appropriate business environment and to improving the functioning of the market.

Given wide differences in birth rates, death rates and migratory flows at regional level, what is the role of cohesion policy in responding to demographic change?
13. Europe faces a number of drivers of demographic change – the trend towards longer and healthier lives, lower fertility, the importance of migration and the continuing pattern of urbanisation and depopulation in some rural areas. Given these trends, it appears likely that many regions will thus face a double challenge of fostering growth and employment while tackling the adverse impacts of ageing and population decline.

14. At regional level, demographic structures and future patterns will vary greatly from the national and EU averages. Certain regions will be more affected than others or simply face threats and opportunities earlier than some. Cohesion policy should allow regions to respond to the various aspects of population change through a mix of policies which are tailored to their specific needs. Addressing the demographic challenge should not necessarily be seen as a separate priority but rather as a challenge to be met by cohesion policy in general, and to support the policy areas that remain the prerogative of national governments.

**To what extent is climate change a challenge for cohesion policy?**

15. There is clear evidence that many regions throughout Europe will be increasingly confronted with the impact of climate change as well as with new challenges in terms of energy provision and energy efficiency. The combined impact of climate change will pose serious problems to quality of life, tourism and agriculture in some EU regions, and will require significant investment to face drought, fires, coastal erosions and flooding. Climate change will impact on some regions more than others.

16. On the other hand, the need to improve energy efficiency and to reduce traditional energy dependency is an opportunity for European enterprises. Many of the new regional policy programmes support to a higher extent the development of renewable and alternative technologies – wind, solar, biomass – which can give the EU a leading edge and thus strengthen its competitive position. The fight against climate change provides regional economies with new economic incentives and opportunities through eco-innovation, the growth of environmentally friendly industries and employment in this area.
How can cohesion policy further develop an integrated and more flexible approach to development/growth and jobs in this new context?

17. WLGA believes that the main task for a European cohesion policy should be to help local and regional authorities prepare in the best possible manner to respond to the challenges facing them. We support a cohesion policy with a prominent convergence priority which addresses the needs of the least developed regions and this should remain a top priority in the future. Consideration should also be given to providing temporary support for those regions moving out of this category in the next programming period.

18. Further thought and discussion is needed on how to allocate resources and on the best type of support measures for non-Convergence regions, taking into account the lessons learnt during the current and previous funding periods. Given the likelihood of limited resources being available, future priorities may need to be better defined both thematically and geographically.

19. Achieving better integration means placing cohesion policy clearly within the broader structure of the EU budget and demonstrating its linkages to other policy areas. We need to move away from a sectoral approach to territorial policy approach, which means that various sectoral policies should be better integrated at the regional level. The increased recognition of territorial issues is consistent with trends in national regional policies which are increasingly going beyond economic and social development and are concerned with functional inter-relationships of particular areas, such as those between urban and rural areas.

20. A more flexible approach requires a better understanding of the different stages of development and experience of the various regions and that cohesion policy needs to be adaptable enough to support specific territorial issues or problems e.g. employment, productivity, education levels or innovative capacity.
21. The Fourth Cohesion report’s conclusions on future challenges for cohesion policy suggest that there is a need to look at using new indicators, alongside GDP, which will be able to provide a more accurate picture of territorial realities in each region.

**How can cohesion policy better promote harmonious, balanced and sustainable development taking into account the diversity of EU territories, such as least favoured areas, islands, rural and coastal areas but also cities, declining industrial regions, other areas with particular geographic characteristics?**

22. We note positively that the territorial concentration of EU27 GDP in the traditional economic ‘core’ of Europe has decreased which is important for a more balanced development of the EU territory. We are concerned, however, that within member states there is a tendency of economic activities to be concentrated in capital city regions throughout the EU, leading to increasing disparities within regions and potential negative externalities in terms of housing shortages, congestion and pollution. One key challenge will be to strengthen the link between rural and urban areas, building on their respective strengths.

23. We welcome recent developments at EU level in recognising the importance of geography such as the references to territorial cohesion in the Lisbon Treaty, the EU Territorial Agenda and the forthcoming Green Paper on Territorial Cohesion. We believe that the inclusion of territorial cohesion, both as an objective of the Union (Article I-3) and as a competence, is an indispensable step towards a better territorial coherence of EU policies. The adoption of the EU Territorial Agenda at the Informal Ministerial meeting in Leipzig on 24-25 may 2007 and the subsequent Action Plan are also a welcome development but needs to be better coordinated with other initiatives at EU level. We look forward to the Green Paper on Territorial Cohesion that will be proposed in 2008 which will hopefully contribute to a better common understanding of what territorial cohesion means.

24. Of particular interesting to us is the need to “territorialise” various sectoral policies. While each Community policy has its own logic and method of operation, it is
important to remember that they all have an impact on the Union’s territories. Therefore, it is essential that this impact is taken into account when these policies are designed and developed. In addition, they must be delivered in a coherent and coordinated way, so that their goals do not conflict on the ground but rather reinforce each other. More needs to be done, particularly on the way in which cross-sectoral coordination is ensured at all levels. This effort should be accompanied by more assessments of the territorial impacts of Community legislation, in line with the wording of the protocol on subsidiarity.

What are the impacts of the challenges identified in the report for key elements of social cohesion such as inclusion, integration and opportunity for all? Are further efforts needed to anticipate and counteract these impacts?

25. While the Lisbon Strategy is showing encouraging results in terms of rising employment and falling unemployment, it is clear that the EU can do more to fully achieve its objectives of social cohesion. Indeed, 16% of Europeans are still at risk of poverty, one in five live in sub-standard housing, 10% live in households where nobody works and the proportion of early school leavers is 15%. Further problems include the proportion of adults without a basic school-leaving qualification, the number of people of working age that have no qualifications at all and the lack of basic skills – literacy and numeracy.

26. It is important to ensure that the employment guidelines, outlined in the Lisbon Strategy, recognise and respond to the challenges of social cohesion in Europe. The ESF has been aligned with the employment guidelines for some time and the Fund needs to continue to complement many of the policy initiatives and social security competencies which remain the preserve of member states.

What are the key future skills that are essential for our citizens in facing new challenges?
27. An educated and well qualified workforce is an important factor in the development of a competitive knowledge economy. Since the adoption of the Lisbon Strategy, the EU has seen considerable improvements in its economic and labour market position and the qualification and skill profile of its workforce has changed dramatically. The proportion of the labour force without qualifications has fallen substantially; many more people are acquiring higher level qualifications, and far greater numbers are employed in higher level occupations.

28. However, some of the other competitors have improved at even faster rates and much remains to be done. One out of six young persons aged 18 to 24 in the EU still leaves education with no more than lower secondary education and currently participates in no form of education and training. The high number of school leavers is an obstacle to developing a knowledge-based economy and greater social cohesion and many adults still have basic literacy and numeracy problems.

29. We would support the suggestion in the Commission’s Strategic Report on the Lisbon Strategy that further work is needed at Community level to improve the forecasting and monitoring of future skills requirements in Europe.

What are the critical competencies that should be developed at the regional level to make regions globally competitive?

30. It has become clear in recent years that development is best driven through multi-level governance, through the coordinated actions of the Union, member states and local and regional authorities. Within this system, the local and regional levels are best placed to translate broader strategies and guidelines into operational investments. Public investment policy is most effective when implemented by local and regional authorities who best know their territories. It is interesting to note in the Report that national governments themselves have recognised this by transferring an increasing amount of responsibility for public investment to the sub-national level the past decade.
31. It is a concern, as the Report highlights, that convergence between member states may be hiding the widening inter-regional disparities within member states in Europe. Nowadays the competition for assets such as creative people, innovative companies or young researchers is taking place at the regional and even local levels. Throughout the Union we see a variety of development patterns, depending on how able and how successful local and regional authorities are in this competition. The devolution process in Wales is a good example of the move towards strengthening the institutional capacity and resources at the regional level in the UK to tackle these challenges.

**Following the appraisal of the previous questions, what is the assessment of the policy management system for the period 2007–2013?**

32. Although it is too early to properly evaluate the policy management system for 2007-2013, it possible to make some initial comments. We welcome the strategic planning framework developed for the 2007-2013 period (Community Guidelines – National Framework – Operational Programmes) although there may be an opportunity to evaluate the earmarking system to ensure that it doesn’t become too centralised an instrument.

33. We also welcome the reduction in the number of objectives to three and the clearer distribution of tasks between member states and the Commission by defining the principles governing relations between them. The principle of proportionality, based on programme size, is also to be welcomed and could be an important element in the future.

34. Important steps have been taken to streamline legislation and simplify rules for managing cohesion policy. There is now a single Commission implementing regulation for the 2007-2013 programming period; member states will be able to use national eligibility rules; and financial plans will now be made at a higher level (at priority rather than measure level) which will simplify management.
Given the need for efficient management of cohesion policy programmes, what is the optimum allocation of responsibility between the Community, national and regional levels within a multi-level governance system?

35. The multi-level system of governance is one of the real strengths of cohesion policy and sets it apart from most other Community policies. The new strategic planning system, based on Community Guidelines and National Frameworks, is an important development which allows European-wide priorities to be reconciled with the realities of local circumstances. A clear separation of responsibilities – between the determination of objectives at EU level and implementation of those objectives at national and sub-national level is to be welcomed. The separate chapter given to Wales in the UK NSRF is also to be welcomed and respects the regional-based approach to regional policy in the UK.

36. The new principle of proportionality in the regulations for 2007-2013 is a welcome contribution to clarifying the responsibilities and relations between the different levels of government as is continued decentralisation of responsibility towards, and within, member states. The clearer delimitation of responsibilities outlined in the Lisbon treaty and in particular the new definition of subsidiarity provides the right moment to reflect on the system of multi-governance. The system should not be set in stone and may need to be strengthened and modernised in the future to ensure a stronger participation of the private sector and by reinforcing horizontal and vertical coordination of decision-making levels.

37. WLGA welcomes the statement in the Cohesion Report that the division of responsibility can affect the ‘quality’ of public investment insofar as authorities at local and regional are likely to have a better understanding of local needs and are perhaps in a better position to tailor investment programmes to their needs. A strong institutional and policy-making capacity at the regional and local levels is vitally important for the effectiveness of cohesion policy.
38. Cohesion policy is known to be exposed to the temptations of renationalisation, to which some member states are particularly prone, on the basis of an essentially bean-counting approach to Community policies. As the Fourth Cohesion report shows, the added value of structural fund programmes goes beyond mere figures.

**How can cohesion policy become more effective in supporting public policies in Member States and regions? What mechanisms of delivery could make the policy more performance-based and more user-friendly?**

39. One of the strengths of cohesion policy has been that it has provided dedicated and additional funding for supporting economic and social development and has provided real added value to what is being developed in the member states and the regions. There may be opportunities to reflect further on the linkages between the NSRF and the National Reform Plans in the member states to better demonstrate the connections between cohesion policy and domestic developments.

40. We note the comments made by the OECD that the Community could achieve more with its regional budget if it were more performance-based and agree that this is a crucial issue for cohesion policy in the future. Performance needs to be seen in its widest context and go beyond ‘tangible outcome’ to include policy, operational and learning aspects. A Committee of the Regions report in November 2006 on the leverage effects of the Structural Funds illustrated the benefits of financial pooling and attracting private investment through various forms of financial engineering.

41. We therefore recognise the potential and importance of the new financial engineering instruments such as JEREMIE and JESSICA and suggest exploring the possibility of an instrument that specifically aims to foster economic diversification in rural regions. However, we caution that there is a need to analyse carefully the benefits as well as shortcomings encountered in the current period before deciding on any extension of their use. Can also be through improving the quality of policy-making and building institutional capacity at local and regional level.
42. WLGA congratulates the Commission on the course it has embarked on with regard to simplifying the procedures and rules relating to the implementation of the 2007-2013 programmes. These include ensuring that the Funds should complement national actions, the principle of proportionality which requires the administrative resources for implementing the Funds to be proportional to the financial size of the Operational Programme, setting the rules on eligibility of expenditure at member state level, priority rather than measure level management. Also, the seven-year programming approach of the policy, based on a secure budget over this period, has significantly improved long-term budgetary planning in the regions. There may be an opportunity to review the duration of programming within the context of the EU budget review and the Lisbon policy cycles.

43. It may also be an opportunity to attempt better coordination between ERDF and ESF. The move towards mono-fund programmes may create administrative and operational divisions between the two Funds and the possible linkages lost. A single fund may improve this situation.

**How can we further strengthen the relationship between cohesion policy and other national and Community policies to achieve more and better synergies and complementarities?**

44. The forthcoming budget review will hopefully clarify the policy objectives of the EU and how the EU budget should be structured to attain these objectives. Structural policies must not be based on a compartmentalised, thematic view, but form part of an approach which is integrated with other Union policies and with the public policies pursued by the member states. In that respect, there may be an opportunity to use the delivery structures and mechanisms used by cohesion policy in other EU policy areas. We welcome the increased importance of the territorial dimension in EU R&D policy in each successive generation of programming as well as the introduction of new initiatives such as Regions for Knowledge.
45. Despite regulatory reforms to make Structural Funds and CAP more similar as financial instruments, it is questionable whether it remains appropriate to continue separate approaches for cohesion and rural development. The fact that cohesion policy has increased its focus on urban areas while the EAFRD addresses rural issues has created more tension than coordination. The fact that cohesion and rural development policies and programmes are administered separately by different departments means that programmes are delivered in very different ways making it difficult to coordinate activities on the ground. There may be opportunities to coordinate, and possibly combine, cohesion and rural development policies into a more spatial policy in the future.

**What are the new opportunities for co-operation between regions, both within and outside the EU?**

46. WLGA has welcomed the decision that territorial cooperation is an objective in its own right in the 2007-2013 programming period. The current system based on three types of cooperation – cross-border, transnational and inter-regional – is now well established. It is clear that the cooperation objective provides real added value and should play a more prominent role in future cohesion policy. More synergies could be created between the cooperation and the other objectives.

47. The introduction of territorial cooperation as one of the fundamental objectives of the EU is also a reason to strengthen the cooperation objective in the future. The notion of territorial cooperation is currently a rather vague concept with different interpretations by the member states. The experience of past and present cooperation programmes could contribute to a better understanding of the concept of territorial cohesion, and should be used in the development of the Green Paper to be produced in 2008.

48. We also welcome the new Regions for Economic Change initiative as a way of linking cooperation initiatives with the priorities of the Lisbon Strategy and of sharing best practice between regions. Given the fact that cohesion policy could in future be addressing ‘global’ challenges, it seems reasonable that the Union supports cooperation with other parts of the world to share understanding and practice. This
could build on the notion of European excellence being developed through the
Regions for Economic Change initiative.

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