

# A modern regional policy for the United Kingdom

---

March 2003



HM TREASURY

**dti**



OFFICE OF THE  
DEPUTY PRIME MINISTER



HM TREASURY

**dti**



OFFICE OF THE  
DEPUTY PRIME MINISTER

---

# A modern regional policy for the United Kingdom

March 2003

© Crown copyright 2003

Published with the permission of HM Treasury, the Department of Trade and Industry and the Office of the Deputy Prime Minister on behalf of the Controller of Her Majesty's Stationery Office.

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be sent to:

HMSO  
Licensing Division  
St Clements House  
2-16 Colegate  
Norwich  
NR3 1BQ

Fax: 01603 723000

E-mail: [hmsolicensing@cabinet-office.x.gsi.gov.uk](mailto:hmsolicensing@cabinet-office.x.gsi.gov.uk)

Further copies of this document are available from:

**HM Treasury**

Public Enquiry Unit  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4574

Email: [public.enquiries@hm-treasury.gov.uk](mailto:public.enquiries@hm-treasury.gov.uk)

**Department of Trade and Industry**

DTI Publications Orderline

Telephone: 020 7215 6024 (10am - 4pm, Mon - Fri)

Fax: 020 7215 0031

Minicom: 020-7215 6740

Email: [pubs.unit@dti.gsi.gov.uk](mailto:pubs.unit@dti.gsi.gov.uk)

This document can be accessed from the DTI's Internet Site at: [www.dti.gov.uk/europe/consultation.pdf](http://www.dti.gov.uk/europe/consultation.pdf), the Treasury's Internet Site: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk) and the ODPM's Internet Site: [www.odpm.gov.uk](http://www.odpm.gov.uk).

Published March 2003

DTI URN 03/649

Printed by the Stationery Office 03/03 819930

# CONTENTS

---

	<b>Page</b>
<b>Foreword by The Deputy Prime Minister, The Chancellor of the Exchequer and The Secretary of State for Trade and Industry</b>	<b>iii</b>
<b>Rhagair gan y Dirprwy Brif Weinidog, Canghellor y Trysorlys a'r Ysgrifennydd Gwladol dros Fasnach a Diwydiant</b>	<b>v</b>
<b>Executive Summary</b>	<b>vii</b>
<b>Crynodeb Gweithredol</b>	<b>ix</b>
<b>Chapter 1: The Government's Approach to Developing the UK's Nations and Regions</b>	<b>1</b>
<b>Chapter 2: Delivering the Vision</b>	<b>7</b>
<b>Chapter 3: Extending the Vision</b>	<b>17</b>
<b>Chapter 4: The UK Government's Proposal for EU Regional Policy</b>	<b>25</b>
<b>Annexes</b>	
<b>A1 Policies Targeting Drivers of Growth at National, Regional and Local Level</b>	<b>33</b>
<b>A2 Policies in Scotland, Wales and Northern Ireland</b>	<b>37</b>
<b>A3 Future of the Structural Funds: Emerging Commission Thinking</b>	<b>43</b>
<b>A4 Future of the Structural Funds: Other Approaches</b>	<b>45</b>
<b>A5 Position Papers on the Future of the Structural Funds</b>	<b>47</b>
<b>A6 Consultation Process Details</b>	<b>49</b>



# FOREWORD BY THE DEPUTY PRIME MINISTER, THE CHANCELLOR OF THE EXCHEQUER AND SECRETARY OF STATE FOR TRADE AND INDUSTRY

---

Five years ago, the Government set out its central economic objective of achieving high and stable levels of growth and employment. Regional policy is at the heart of our efforts to reach this goal – ensuring that economic prosperity reaches every part of the country and that everyone, no matter where they live, has the chance to make the most of their potential.

For too long, too many nations and regions of the United Kingdom have been allowed to fall behind; for too long there have been huge differences in prosperity within regions; and for too long too many people have been left out, their talents wasted. So we rejected the failed policies of the past and in their place developed a new framework for regional development for all UK nations and regions.

Since 1997, we have not only provided record increases in investment in the public services vitally needed to turn our regions around, but have also devolved real power to the nations and regions of the UK. Through the matching increase in funds allocated to the Scottish Executive, the Welsh Assembly Government and the Northern Ireland Executive,<sup>1</sup> these Administrations now have significant resources to tackle the economic and social priorities of the people they serve. And through devolution, we have ensured that these decisions, which affect the lives of local people, are taken by their own directly elected and accountable local representatives. We are now legislating to give people in the English regions a choice over whether they want decisions that affect them to be taken by their own elected assemblies.

Modern regional policy must be locally led, which means substantially devolved. The Government's new framework, which espouses this principle, is already delivering results. It is now time to modernise the European dimension to regional policy, and ensure that locally led initiatives have the freedom to make use of the full range of appropriate instruments.

We must build on the key principles of effective regional policy and take account of the needs of all Member States and their regions. European Union enlargement will bring many opportunities for the UK – entrenching democracy and stability in Eastern Europe and creating the largest single market in the world. But an enlarged Union with Member States with more widely differing economic conditions, institutional structures and financial strength will have much more diverse needs. So EU enlargement provides an additional impetus for modernising Europe's regional policy.

The Structural and Cohesion Funds have had many successes – helping poorer Member States catch up with the richer Member States and channelling EU spending of nearly £1.5 billion a year to the poorest regions of the UK. They have also made a significant impact in tackling problems such as those associated with distance from markets and low employability. They have provided a pointer to the benefits of EU membership. However, the lack of flexibility in the Structural Funds system, combined with state aid rules which are inadequate for today's economic environment, do not allow clearly identified market failures to be tackled effectively and constrain the flexibility that local bodies need to develop their own economic strategies.

Regional economic policy must be flexible enough to meet local needs, be they urban regeneration or rural development, improving transport or enhancing skills. In most cases this demands that decision making and delivery is locally led. The EU dimension must support this, concentrating EU involvement on where it can add most value.

---

<sup>1</sup> The devolved institutions in Northern Ireland are temporarily suspended and funding currently flows through the Northern Ireland Office.

This paper outlines the Government's approach to supporting the economic development of our nations and regions and in this context launches a consultation on an EU Framework for Devolved Regional Policy. This would allow UK nations and regions and all Member States to pursue effective policies for regional growth within a framework which is built on the key principles of effective regional policy. It would devolve policy responsibility and accountability to the most effective level and establish a clear framework of long term goals. Finally, it would be flexible enough to meet the differing needs of the nations and regions of the EU.

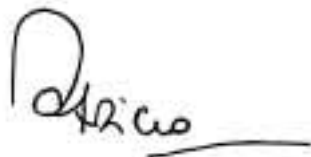
Reform of the Structural Funds will be an important topic for many in the UK. The Structural Funds have been used to support high profile projects across the country. The Government recognises that its proposal has implications for nations and regions of the UK who might otherwise have expected a continuation of some level of support in the form of EU receipts after 2006, albeit much reduced since eligibility criteria will be applied to relative prosperity of the EU25 instead of the EU15. If the Government's proposed framework for EU policy were agreed, we would therefore guarantee that, by increasing UK Government spending on regional policy, nations and regions receive a level of resources which ensures they do not lose out from the UK's proposals on Structural Funds reform, for example from the transitional funding they would have automatically received from the application of the eligibility criteria to EU25 instead of EU15. We would commit to ensuring that UK nations and regions have sufficient resources to continue to be able to promote regional productivity and employment from increased domestic spending on regional policy, targeted on those areas of high unemployment and low GDP. In the case of the devolved administrations, this would be in support of policies and programmes determined by them in line with the current constitutional settlements. More fundamentally, we believe that, without reform, we cannot make the progress that is essential to reduce disparities between regions and, by enabling the performance of all regions to improve, secure long-term prosperity for all in our country.



The Rt Hon John Prescott MP,  
Deputy Prime Minister



The Rt Hon Gordon Brown MP,  
Chancellor of the Exchequer



The Rt Hon Patricia Hewitt MP,  
Secretary of State for Trade and Industry

# RHAGAIR GAN Y DIRPRWY BRIF WEINIDOG, CANGHELLOR Y TRYSORLYS A'R YSGRIFENNYDD GWLADOL DROS FASNACH A DIWYDIANT

Bum mlynedd yn ôl, nododd y Llywodraeth ei hamcan economaidd canolog, sef sicrhau lefelau uchel a sefydlog o dwf a chyflogaeth. Mae polisiâu rhanbarthol wrth galon ein hymdrechion i gyrraedd y nod hwnnw – gan sicrhau bod ffyniant yn cyrraedd pob rhan o'r wlad a bod gan bawb, ni aeth ble y bônt yn byw, gyfle i wneud y gorau o'u potensial.

Ers rhy hir mae cenedloedd a rhanbarthau'r Deyrnas Unedig wedi'u gadael i syrthio nôl; ers rhy hir cafwyd gwahaniaethau enfawr mewn ffyniant o fewn rhanbarthau; ac ers rhy hir mae gormod o bobl wedi'u hanwybyddu, a'u doniau wedi'u gwastraffu. Ac felly rydym wedi gwrthod polisiâu methodig y gorffennol a gosod yn eu lle fframwaith newydd ar gyfer datblygu rhanbarthol yn holl genhedloedd a rhanbarthau'r DU.

Ers 1997, rydym nid yn unig wedi sicrhau'r cynnydd uchaf erioed yn y buddsoddiadau mewn gwasanaethau cyhoeddus y mae gwir angen amdanynt er mwyn gweddnewid ein rhanbarthau, ond rydym hefyd wedi datganoli gwir rym i genhedloedd a rhanbarthau'r DU. Drwy'r cynnydd cyfatebol yn yr arian sy'n cael ei ddyrannu i Lywodraeth Cynulliad Cymru, Senedd yr Alban a Gweithrediaeth Gogledd Iwerddon<sup>1</sup>, erbyn hyn mae gan y Gweinyddiaethau hynny adnoddau sylweddol i fynd i'r afael â blaenoriaethau economaidd a chymdeithasol y bobl y maent yn eu gwasanaethu. A thrwy ddatganoli, rydym wedi sicrhau bod y penderfyniadau hyn, sy'n effeithio ar fywydau'r bobl leol, yn cael eu cymryd gan eu cynrychiolwyr lleol eu hunain, sydd wedi'u hethol yn uniongyrchol ac sy'n atebol i'r etholwyr. Bellach rydym yn deddfu i roi dewis i bobl yn rhanbarthau Lloegr ynghylch a ydynt am i benderfyniadau sy'n effeithio arnynt hwythau gael eu cymryd gan eu cynulladau datganoledig eu hunain.

Rhaid i bolisi rhanbarthol modern gael ei arwain yn lleol, sy'n golygu ei ddatganoli i raddau helaeth. Mae fframwaith newydd y Llywodraeth, sy'n ategu'r egwyddor hon, eisoes yn talu ar ei ganfed. Erbyn hyn, mae'n bryd moderneiddio'r dimensiwn Ewropeaidd ar bolisi rhanbarthol a sicrhau bod mentrau o dan arweiniad lleol yn rhydd i ddefnyddio'r amrediad llawn o offerynnau priodol i'r eithaf.

Rhaid inni adeiladu ar egwyddorion allweddol polisi rhanbarthol effeithiol a chymryd i ystyriaeth anghenion yr holl Aelod-wladwriaethau a'u rhanbarthau. Bydd ehangu'r Undeb Ewropeaidd yn creu llawer o gyfleoedd i'r DU – gan blannu democratiaeth a sefydlogrwydd yn gadarn yn Nwyrain Ewrop a chan greu'r farchnad sengl fwyaf yn y byd. Ond, bydd anghenion Undeb ehangach o Aelod-wladwriaethau sydd ag amodau economaidd, strwythurau sefydliadol a chryfderau ariannol pur wahanol yn llawer mwy amrywiol. Oherwydd hynny, mae ehangu'r UE yn hwb pellach ar gyfer moderneiddio polisi rhanbarthol Ewrop.

Mae'r Cronfeydd Strwythurol a'r Cronfeydd Cydlynu wedi gweld llawer o lwyddiannau – gan helpu'r Aelod-wladwriaethau tlotaf i ddal yr Aelod-wladwriaethau cyfoethocaf a chan sianelu gwariant yr UE o bron £1.5 biliwn y flwyddyn i ranbarthau tlotaf y DU. Maent wedi creu effaith sylweddol hefyd wrth fynd i'r afael â phroblemau fel y rhai sy'n gysylltiedig â bod yn bell o farchnadoedd a chyflogadwyedd isel. Maent wedi dangos manteision bod yn aelod o'r UE. Er hynny, nid yw'r diffyg hyblygrwydd yn y Cronfeydd Strwythurol, ar y cyd â rheolau ar gymorth gwladol sy'n annigonol ar gyfer yr amgylchedd economaidd sydd ohoni, yn caniatáu i fethiannau amlwg y marchnadoedd gael eu datrys yn effeithiol ac maent yn llesteirio'r hyblygrwydd y mae ar gyrff lleol eu hangen i ddatblygu eu strategaethau economaidd eu hunain.

<sup>1</sup>Mae cyllid Gogledd Iwerddon ar hyn o bryd yn llifo drwy Swyddfa Gogledd Iwerddon.

Rhad i bolisi economaidd rhanbarthol fod yn ddigon hyblyg i ddiwallu anghenion lleol, boed adfywio trefi neu ddatblygu cefn gwlad, gwella trafndiaeth neu wella sgiliau. Ran amlaf, mae hyn yn golygu bod rhaid i'r penderfyniadau a'r gweithredu gael eu harwain yn lleol. Rhaid i ddimensiwn yr UE ategu hyn, gan ganolbwyntio cyfraniad yr UE ar y manau lle y gall ychwanegu mwyaf o werth.

Mae'r papur hwn yn amlinellu ymagwedd y Llywodraeth at ategu datblygiad economaidd ein cenedloedd a'n rhanbarthau ac yn y cyd-destun hwn mae'n lansio ymarfer ymgynghori ar Fframwaith yr UE ar gyfer Bolisi Rhanbarthol Datganoledig. Byddai hyn yn fodd i genhedloedd a rhanbarthau'r DU a'r holl Aelod-wladwriaethau ddilyn polisiau effeithiol ar gyfer twf rhanbarthol o fewn fframwaith sydd wedi'i adeiladu ar egwyddorion polisi rhanbarthol effeithiol. Byddai'n datganoli'r cyfrifoldeb a'r atebolrwydd dros bolisi i'r lefel fwyaf effeithiol ac yn sefydlu fframwaith clir o nodau tymor hir. Yn olaf, byddai'n ddigon hyblyg i ddiwallu gwahanol anghenion cenedloedd a rhanbarthau'r UE.

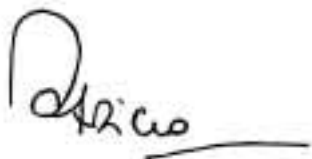
I lawer yn y DU, bydd diwygio'r Cronfeydd Strwythurol yn bwnc pwysig. Mae'r Cronfeydd Strwythurol wedi'u defnyddio i gefnogi projectau o broffil uchel ledled y wlad. Mae'r Llywodraeth yn cydnabod bod ei chynnig yn dwyn goblygiadau ar gyfer cenedloedd a rhanbarthau'r DU a allai fel arall fod wedi disgwyl gweld rhyw lefel o gymorth yn parhau ar ffurf derbyniadau o'r UE ar ôl 2006, hyd yn oed ar lefel lawer is gan y bydd y meini prawf cymhwyster yn cyfeirio bellach at ffyniant cymharol yr UE25 yn hytrach na'r UE15. Pe bai fframwaith arfaethedig y Llywodraeth ar gyfer polisi'r UE yn cael ei gytuno, fe fyddem felly yn gwarantu, drwy gynyddu gwariant Llywodraeth y DU ar y polisi rhanbarthol, y byddai'r cenedloedd a'r rhanbarthau yn derbyn lefel o adnoddau a fyddai'n sicrhau na fyddent yn colli dim yn sgil cynigion y DU ar ddiwygio'r Cronfeydd Strwythurol, er enghraifft yn sgil yr arian trosiannol y byddent wedi'i gael yn awtomatig wrth i'r meini prawf cymhwyster gael eu cymhwyso at yr UE25 yn hytrach na'r UE15. Byddem yn ymrwmo i sicrhau bod gan y cenedloedd a'r rhanbarthau ddigon o adnoddau i gael parhau i hybu cynhyrchedd a chyflogaeth ranbarthol oherwydd cynnydd yn y gwariant domestig ar y polisi rhanbarthol, wedi'i dargedu ar yr ardaloedd lle ceir diweithdra uchel a CMC isel. Yn achos y gweinyddiaethau datganoledig, byddai hyn yn ategu polisiau a rhaglenni a gâi eu pennu ganddyn nhw yn unol â'r setliadau cyfansoddiadol cyfredol. Yn fwy sylfaenol, heb ddiwygiadau, nid ydym yn credu bod modd gwneud y cynnydd sy'n hanfodol er mwyn lleihau'r anghysondebau rhwng y rhanbarthau a sicrhau ffyniant yn y tymor hir i bawb yn ein gwlad, drwy ganiatáu i berfformiad pob rhanbarth wella.



Y Gwir Anrh John Prescott AS,  
Dirprwy Brif Weinidog



Y Gwir Anrh Gordon Brown AS,  
Canghellor y Trysorlys



Y Gwir Anrh Patricia Hewitt AS,  
Ysgrifennydd Gwladol dros Fasnach a Diwydiant

# EXECUTIVE SUMMARY

---

Regional policy is not just about the poorest areas. To improve the UK's long-run growth and prosperity, it is essential that every nation and region of the UK performs to its full economic potential. That is why a modern regional policy must focus on improving the economic performance of every nation and region, by tackling the diverse market and social failures that are hindering their performance, and promoting opportunities for all.

This requires a locally led regional policy as a key element of the Government's economic and social strategy. The Government's regional development strategy is based on:

- **macroeconomic stability**, providing a stable basis to plan and invest following decades of under-investment;
- **microeconomic reforms** to tackle market failures at the national, regional and local level, focused on the key drivers of economic growth; and
- **a regional policy framework of devolution and decentralisation** so that regions have the resources and flexibility to deliver locally led policies, within a framework of clear accountability.

The Government has already devolved substantial power. Scotland, Wales and Northern Ireland have freedom over their policy design and, through the block grant arrangements, freedom over the associated allocation of resources in support of regional development and regeneration priorities. Decisions are taken by democratically elected representatives who are accountable to local people. The Government is legislating to give people in the English regions a choice over whether they want decision-making devolved to their own elected regional assemblies. The creation of other regional bodies, including the Greater London Authority and the Regional Development Agencies, means that policy in all the regions of the UK is increasingly driven by local needs. And this is being accompanied by increasing flexibility and discretion over the use of resources within clear accountability frameworks to deliver the most effective use of taxpayers' money.

The European Union has also committed itself to a ten-year strategy for reform of Europe's product, capital and labour markets. **The aim, agreed by European Heads of State and Government in Lisbon in 2000, is to create a Europe which by 2010 will be 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion'**. Just as the UK can only achieve its domestic economic and social goals if every UK nation and region realises its full potential, so the EU can only achieve these economic and social objectives if every nation and region of the EU also achieves its economic and social potential.

Although EU regional policies have delivered benefits in the UK and EU, there have also been significant challenges in their implementation, and current arrangements are often too centralised. This does not adequately reflect the differing needs across the Union, particularly in the more prosperous Member States where Community aid is a comparatively small proportion of spending on regional development, and this inflexibility places an unnecessary constraint on the freedom nations and regions need in order to support their own locally determined and delivered policies.

The Government believes that the principles underpinning its domestic regional policy should be the basis for reform of EU regional policy, so that it is locally-led and substantially devolved. This reform will become even more important in an enlarged EU, when the priorities and methods that the poorest accession countries will need to address to achieve

their potential will be very different to those facing the wealthier current Member States. The Government is a strong supporter of enlargement of the EU, which will entrench democracy and stability in Eastern Europe and create the largest single market in the world. But enlargement also provides an impetus to reform the EU's regional policy, to ensure that it meets the increasingly diverse needs of the EU as it works towards its Lisbon goals.

The Government's desire and commitment to see every nation and region enabled to realise its full potential to the full is at the heart of its approach to the future of regional policy in Europe. This goal demands reform of four key dimensions of EU policy:

- reform of the Structural and Cohesion Funds so that Member States can pursue effective policies for regional growth and developing human capital within a framework which has sufficient flexibility to meet their differing needs;
- reform of the state aid regime to create efficient, proportionate and responsive state aid rules that are able to accommodate the diversity of measures needed to achieve an effective local and regional policy;
- reform of European Investment Bank (EIB) financing to make the most effective use possible of EIB funds throughout the EU, and in particular its lending to less prosperous Member States; and
- reform of the Common Agricultural Policy to ensure a market oriented and sustainable policy.

In this paper the Government is therefore consulting on the proposition that its approach, the EU Framework for Devolved Regional Policy, should form the basis for a UK position in the debate on the future of the EU Structural and Cohesion Funds.

Under this Framework, EU Member States would agree common principles, but delivery of regional policy would be substantially devolved and decentralised, and offer greater flexibility to Member States and regions. EU support, both financial and institutional, would be refocused on those poorest Member States that will benefit most from direct EU involvement. For other Member States, regional policy would be resourced domestically with greater freedom to deliver according to domestic priorities than under the current regime. Reform should also allow Member States more flexibility to support other policy priorities such as their national action plans for employment. A modernised state aid regime will be a key source of this greater freedom, enabling the relevant market failures to be addressed wherever they occur and ensuring that local and regional measures with little impact on the wider EU economy can be approved quickly and with minimum compliance costs. If the Framework were agreed, we would guarantee that, by increasing UK Government spending on regional policy, UK nations and regions receive a level of resources which ensures they do not lose out from the UK's proposals on Structural Funds reform, for example from the transitional funding they would have automatically received from the application of the eligibility criteria to EU25 instead of EU15. We would commit to ensuring that nations and regions have sufficient resources to continue to be able to promote regional productivity and employment from increased domestic spending on regional policy, targeted on those areas of high unemployment and low GDP.

**What are your views on our proposed approach: that, in principle, the EU Framework for Devolved Regional Policy should form the basis for a UK position on Structural Funds post 2006? The Government would also welcome comments on its overall objectives for the future of Structural Funds and on the current thinking emerging from the Commission.**

# CRYNODEB GWEITHREDOL

Mae polisi rhanbarthol yn ymwneud â mwy na'r ardaloedd tlotaf yn unig. Er mwyn gwella twf a ffyniant y DU yn y tymor hir, mae'n hanfodol bod pob cenedl a rhanbarth yn y DU yn perfformio i'w potensial economaidd llawn. Dyna pam y mae'n rhaid i bolisi rhanbarthol modern ganolbwyntio ar wella perfformiad economaidd pob cenedl a rhanbarth, drwy fynd i'r afael â'r amrywiol fethiannau yn y farchnad ac yn y gymdeithas sy'n rhwystro'u perfformiad.

I wneud hyn, mae angen polisi rhanbarthol o dan arweiniad lleol fel elfen allweddol yn strategaeth economaidd a chymdeithasol y Llywodraeth. Mae strategaeth datblygu rhanbarthol y Llywodraeth wedi'i seilio ar y canlynol:

- **sefydlogrwydd macroeconomaidd**, sy'n cynnig sylfaen gadarn ar gyfer cynllunio a buddsodd yn sgil degawdau o dan-fuddsoddi;
- **diwygiadau microeconomaidd** i fynd i'r afael â methiannau'r marchnadoedd ar y lefel genedlaethol, ranbarthol a lleol, gan ganolbwyntio ar ysgogiadau allweddol twf economaidd;
- **fframwaith polisi rhanbarthol o ddatganoli** fel bod gan y rhanbarthau yr adnoddau a'r hyblygrwydd i roi polisiau ar waith o dan arweiniad lleol, o fewn fframwaith o atebolrwydd clir.

Mae'r Llywodraeth wedi datganoli grym sylweddol yn barod. Mae gan Gymru, yr Alban a Gogledd Iwerddon ryddid i ddylunio polisiau a rhyddid hefyd, drwy drefniadau'r grantiau bloc, i ddyrannu adnoddau i ategu datblygu rhanbarthol a blaenoriaethau ym maes adfywio. Mae'r penderfyniadau'n cael eu cymryd gan gynrychiolwyr sydd wedi'u hethol yn ddemocrataidd, sydd wedyn yn atebol i'r bobl leol. Mae'r Llywodraeth yn deddfu i roi dewis i bobl yn rhanbarthau Lloegr ynghylch a ydynt am i benderfyniadau gael eu datganoli i'w cynulliadau rhanbarthol eu hunain. Ac mae creu cyrff rhanbarthol eraill, gan gynnwys Awdurdod Llundain Fwyaf, a'r Awdurdodau Datblygu Rhanbarthol, yn golygu bod anghenion lleol yn arwain y polisi yn holl ranbarthau'r DU yn fwy ac yn fwy. I gyd-fynd â hyn, ceir mwy a mwy o hyblygrwydd a disgresiwn wrth ddefnyddio adnoddau o fewn fframweithiau o atebolrwydd clir er mwyn i arian y trethdalwyr gael ei ddefnyddio mor effeithiol â phosibl.

Mae'r Undeb Ewropeaidd wedi ymrwmo hefyd i strategaeth ddeng-mllynedd o ddiwygio marchnadoedd cynhyrchion, cyfalaf a llafur Ewrop. Y nod, y cytunwyd arno gan Benaethiaid Gwladwriaethau a Llywodraethau Ewrop yn Lisbon yn 2000, yw creu Ewrop erbyn 2010 lle ceir *'yr economi mwyaf cystadleuol a dynamig wedi'i seilio ar wybodaeth yn y byd, a fyddai'n gallu cynnal twf economaidd gyda mwy o swyddi, gwell swyddi a gwell cydlynedd cymdeithasol'*. Dim ond os bydd pob cenedl a rhanbarth yn y DU yn gwireddu eu potensial llawn y gall y DU gyrraedd ei nodau economaidd a chymdeithasol domestig, ac yn yr un modd, dim ond os bydd pob cenedl a rhanbarth yn yr UE hefyd yn gwireddu eu potensial economaidd a chymdeithasol y gall yr UE wireddu'r amcanion hyn ar gyfer yr economi a'r gymdeithas.

Er bod polisiau rhanbarthol yr UE wedi dod â manteision i'r DU a'r UE, cafwyd hefyd heriadau sylweddol wrth eu rhoi ar waith, ac mae'r trefniadau cyfredol yn aml wedi'u canoli ormod. Nid yw hyn yn adlewyrchu'r gwahanol anghenion ar draws yr Undeb yn ddigonol, yn enwedig yn yr Aelod-wladwriaethau mwyaf ffyniannus lle mae cymorth y Gymuned yn gyfran gymharol fach o'r gwariant ar ddatblygu rhanbarthol ac mae'r diffyg hyblygrwydd yn gosod llyffetheiriaid diangen ar y rhyddid y mae ar y cenedloedd a'r rhanbarthau ei angen i gynnal eu polisiau eu hunain sydd wedi'u pennu a'u gwireddu yn lleol.

Mae'r Llywodraeth o'r farn mai'r egwyddorion sy'n sail i'w pholisi rhanbarthol domestig hi a ddylai fod yn sylfaen ar gyfer diwygio polisi rhanbarthol yr UE, fel bod hwnnw'n cael ei arwain yn lleol a'i ddatganoli'n helaeth. Daw'r diwygio hwn yn bwysicach byth mewn UE ehangach, pan fydd y blaenoriaethau a'r dulliau y bydd angen i'r gwledydd tlotaf sydd am ymuno fynd i'r afael â hwy er mwyn gwireddu eu potensial yn wahanol iawn i'r rhai sy'n wynebu'r Aelod-wladwriaethau cyfoethocaf ar hyn o bryd. Mae'r Llywodraeth yn gryf o blaid ehangu'r UE, a fydd yn plannu democratiaeth a sefydlogrwydd yn gadarn yn Nwyrain Ewrop ac yn creu'r farchnad sengl fwyaf yn y byd. Ond mae ehangu hefyd yn hwb ar gyfer diwygio polisi rhanbarthol yr UE, i sicrhau ei fod yn bodloni anghenion mwyfwy amrywiol yr UE wrth iddo weithio tuag at nodau Lisbon. Awydd ac ymroddiad y Llywodraeth i weld pob cenedl a rhanbarth yn gallu gwireddu eu potensial yn llawn sydd wrth galon ei hymagwedd at ddyfodol polisi rhanbarthol yn Ewrop. I gyrraedd y nod, bydd rhaid diwygio pedwar dimensiwn allweddol ar bolisi'r UE:

- diwygio'r Cronfeydd Strwythurol a'r Cronfeydd Cydlynu er mwyn i'r Aelod-wladwriaethau ddilyn polisiau effeithiol ar gyfer twf rhanbarthol a datblygu cyfalaf dynol o fewn fframwaith sy'n ddigon hyblyg i ddiwallu eu gwahanol anghenion;
- diwygio'r gyfundrefn cymorth gwladol i greu rheolau ar gymorth gwladol a fydd yn effeithlon, yn gymesur, yn ymatebol ac yn gallu ymdopi â'r amrywiaeth o fesurau y mae eu hangen er mwyn sicrhau polisi lleol a rhanbarthol effeithiol;
- diwygio cyllid Banc Buddsoddi Ewrop i wneud y defnydd mwyaf effeithiol posibl ar gronfeydd y Banc ledled yr UE, ac yn enwedig felly ei fenthyciadau i'r Aelod-wladwriaethau lleiaf ffyniannus;
- diwygio'r Polisi Amaethyddol Cyffredin er mwyn sicrhau polisi cynaliadwy sy'n gogwyddo tuag at y farchnad.

Yn y papur hwn, mae'r Llywodraeth felly yn ymgynghori ar y cynnig mai ei hymagwedd hi, sef Fframwaith i'r UE ar gyfer Polisi Rhanbarthol Datganoledig, a ddylai ffurfio'r sylfaen ar gyfer safbwynt y DU yn y drafodaeth ar ddyfodol Cronfeydd Strwythurol a Chronfeydd Cydlynu yr UE.

O dan y Fframwaith hwn, byddai Aelod-wladwriaethau'r UE yn cytuno ar egwyddorion cyffredin, ond byddai'r dulliau gweithredu ar gyfer polisi rhanbarthol yn cael eu datganoli'n helaeth ac yn cynnig mwy o hyblygrwydd i'r Aelod-wladwriaethau a'r rhanbarthau. Byddai cymorth yr UE, yn ariannol ac yn sefydliadol, yn cael ei ail-ganolbwyntio ar yr Aelod-wladwriaethau tlotaf hynny a fydd yn elwa fwyaf o gyfraniad uniongyrchol gan yr UE. I'r Aelod-wladwriaethau eraill, byddai'r polisi rhanbarthol yn cael ei adnodd i'n ddomestig gyda mwy o ryddid i'w wireddu yn ôl y blaenoriaethau domestig nag o dan y gyfundrefn bresennol. Dylai'r diwygiadau ganiatáu hefyd i'r Aelod-wladwriaethau gael mwy o hyblygrwydd i gefnogi blaenoriaethau polisi eraill, megis eu cynlluniau gweithredu cenedlaethol ar gyfer cyflogaeth. Moderneiddio'r gyfundrefn cymorth gwladol fydd un ffynhonnell allweddol ar gyfer mwy o ryddid fel hyn, gan ganiatáu i fethiannau yn y marchnadoedd perthnasol gael sylw pryd bynnag y byddant yn digwydd, a chan sicrhau y gall mesurau lleol a rhanbarthol nad ydynt yn effeithio fawr ddim ar economi ehangach yr UE gael eu cymeradwyo'n gyflym a chyda chyn lleied â phosibl o gostau cydymffurfio. Pe bai'r Fframwaith yn cael ei gytuno, fe fyddem felly yn gwarantu, drwy gynyddu gwariant Llywodraeth y DU ar y polisi rhanbarthol, y byddai'r cenhedloedd a'r rhanbarthau yn derbyn lefel o adnoddau a fyddai'n sicrhau na fyddent yn colli dim yn sgil cynigion y DU ar ddiwygio'r Cronfeydd Strwythurol, er enghraifft yn sgil yr arian trosiannol y byddent wedi'i gael yn awtomatig wrth i'r meini prawf cymhwyster gael eu

cymhwyso at yr UE25 yn hytrach na'r UE15. Byddem yn ymrwmo i sicrhau bod gan y cenedloedd a'r rhanbarthau ddigon o adnoddau i gael parhau i hybu cynhyrchedd a chyflogaeth ranbarthol oherwydd cynnydd yn y gwariant domestig ar y polisi rhanbarthol, wedi'i dargedu ar yr ardaloedd lle ceir diweithdra uchel a CMC isel.

Beth yw'ch barn chi am ein hymagwedd arfaethedig, sef, o ran egwyddor, mai Fframwaith yr UE ar gyfer Polisi Rhanbarthol Datganoledig a ddylai fod yn sylfaen ar gyfer safbwynt y DU ar y Cronfeydd Strwythurol ar ôl 2006? Byddai'r Llywodraeth hefyd yn croesawu sylwadau ar ei hamcanion cyffredinol ar gyfer dyfodol y Cronfeydd Strwythurol ac ar y syniadau sy'n dod o'r Comisiwn ar hyn o bryd.

**Bydd cyfieithiad Cymraeg o'r ddogfen gyflawn ar gael oddi wrth y cyswllt yn Llywodraeth Cynulliad Cymru a enwir yn Atodiad A6.**



# THE GOVERNMENT'S APPROACH TO DEVELOPING THE UK'S NATIONS AND REGIONS

## INTRODUCTION

**1.1** The Government's central economic objective is to achieve high and stable levels of growth and employment. To meet this challenge, it is essential that every nation and region of the UK is able to perform to its full economic potential. That is why a modern regional policy must focus not just on the poorest areas of the UK, but on improving the economic performance of every nation and region.

**1.2** Regional policy is therefore a key element of the Government's economic and social strategy. The Government has set out a clear framework for regional development,<sup>1</sup> based on devolution and decentralisation so that nations and regions have the resources and flexibility to deliver locally-led solutions, within a context that ensures proper accountability. This paper describes the progress made in implementing this framework. The paper also explains how, in the Government's view, the framework for regional policy in the UK provides the basis for our approach to regional policy at the European level.

## UNDERSTANDING REGIONAL ECONOMIC PERFORMANCE

**1.3** At the most fundamental level, national, regional or sub-regional economic performance is a function of:

- i. Productivity: the output each worker produces; and
- ii. Employment: the number of people who are working, depending in turn on:
  - demography (the population of working age);
  - labour market participation rates; and
  - unemployment rates.

### National and regional disparities...

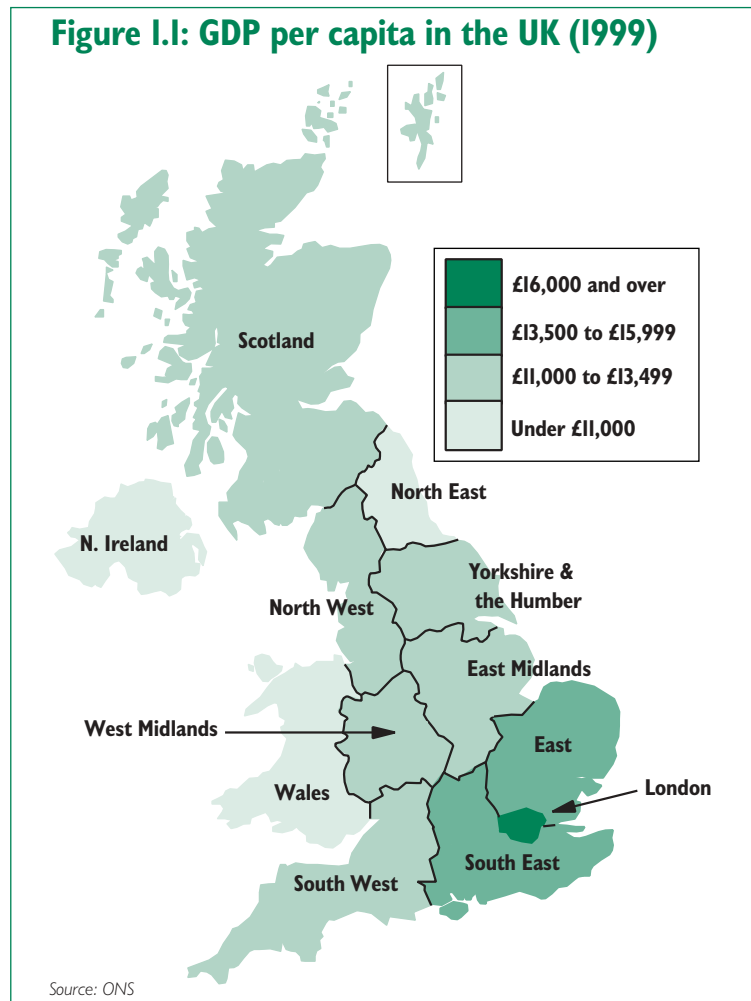
**1.4** Nations and regions of the UK have historically had varying levels of economic performance. Figure 1.1 compares GDP per capita across the UK. It shows that the economic output per person of the poorest nations and regions of the UK – Northern Ireland, Wales and the North East – is nearly 40 per cent, or £7,000, below that of London, the richest part of the UK. Moreover, these wide differentials are not recent phenomena, but have existed for generations.

**1.5** The impact of this untapped potential could be very significant. If all the lagging nations and regions of the UK improved their productivity performance to at least that of the current average, then the average person in the UK would be £1,000 a year better off. Real economic gain must come from a process of “levelling up” – enabling every part of the UK to develop and grow to its full potential, rather than simply redistributing existing economic activity.

### ...caused by productivity differences

**1.6** A close examination of national and regional economies shows that, the main cause of disparities is differences in productivity. It also shows that there is no single reason for underperformance and the effectiveness of factors driving productivity, such as skills, investment and enterprise, vary from area to area. This implies that the approach required for addressing market failures should be capable of addressing regional, as well as national needs. This is the approach which has been adopted by the Government, and is set out in more detail in Chapter 2.

<sup>1</sup> For instance, see *Productivity in the UK: 3 – The Regional Dimension*, jointly published by HM Treasury and the Department for Trade and Industry with the 2001 Pre-Budget Report.



## MACROECONOMIC STABILITY

**I.7** The Government's management of the macro-economy to deliver stability has provided an essential basis for the development of a regional policy framework. The high volatility of output in the UK over the previous 30 years has substantially increased the economic uncertainty leading to under-investment throughout the UK economy. Instability has also compounded regional inequalities, particularly during the recessions of the 1930s and late 1980s. Firms and individuals need stability so that they can plan, save and invest with a degree of certainty, reversing the legacy of under-investment in the UK.

**I.8** To provide this stability, the Government established a new framework for macroeconomic policy, comprising:

- independence for the Bank of England to ensure that interest rate decisions are taken in the best long-term interests of the economy;
- the development of and a commitment to adhere to prudent fiscal rules to ensure sound public finances and in the short-term to allow the automatic stabilisers to help smooth the path of the economy; and
- the establishment of a transparent framework for making fiscal policy decisions.

**I.9** Monetary and fiscal policy are now highly transparent, based on clear rules and targets, and underpinned by legislation. As a result, interest and inflation rates are now lower and more stable than in any other period for a generation.

## MICROECONOMIC REFORM

**Raising productivity...**

**I.10** But macroeconomic stability is not enough. The Government recognises that it must be supported by microeconomic reforms to tackle specific market failures. This has involved an integrated approach at national, regional and local level, focusing on the five drivers of productivity as priority areas.

### Box 1.1: The five drivers of productivity

The UK's productivity agenda is focused on reforms to address the five key factors which drive productivity, tackling the market and social failures at every level and in all parts of the country that are holding back these drivers of productivity:

- **skills** – the vital life-long training and education which raises productivity, broadens employment choice and raises individual self-esteem;
- **investment** – facilitated by integrated and efficient capital markets, and complemented by properly evaluated and rigorously monitored public investment;
- **innovation** – the development, diffusion and adoption of new technologies and processes;
- **enterprise** – encouraged by a friendly tax and regulatory environment, and a culture open to ideas and to risk-taking; and
- **competition** – which boosts innovation, cost-reduction and quality enhancement.

**I.11** Active labour market policies have empowered more people, particularly those facing significant barriers to work such as the long-term unemployed, lone parents, people with disabilities and other workers, to take advantage of these opportunities. Over the last five years, employment has risen and unemployment has fallen in every nation and region.

## THE FRAMEWORK FOR REGIONAL POLICY

**I.12** Within this context, and respecting the impact of the devolution settlements, the Government's framework for regional policy is based on two key principles:

- enabling leadership so that national, regional and local institutions can exploit the indigenous strengths and tackle the particular weaknesses of each area, through reforms providing the necessary flexibility, accountability and resources; and
- providing the environment for businesses and communities to maximise their potential by tackling market failures in national, regional and local markets through micro-economic reforms, at the national, regional and local levels, to strengthen the key drivers of productivity growth.

**I.13** The Government has set out its agenda for public sector reform.<sup>2</sup> The ambition is to ensure that public service providers have the discretion to innovate and improve the services they provide, constrained by the need to reach high minimum standards.

**...in every nation and region** **I.14** In the regional context, this means providing the best possible service for, and allowing the best possible outcomes from, the nations and regions themselves. And it means that support in the nations and regions reflecting the priorities and needs *in that part of the UK* – improving the prospects for each and every nation and region and reducing disparities.

### Institutional flexibility

**Devolution and decentralisation** **I.15** To ensure that regional policy builds on the strengths, and reflects the range of specific conditions found in regions and localities, it is important to have an institutional framework which supports the devolution and decentralisation of decision making and service delivery.

**I.16** For Scotland, Wales and Northern Ireland, responsibility for economic development, including the allocation of resources in support of economic objectives, is to a large extent devolved to the devolved administrations the Government has created.<sup>3</sup> In England, significant responsibilities for economic development have been decentralised within an overall national framework, with key policies now formulated and delivered in the regions, by the regions. For example, the Government has created Regional Development Agencies (RDAs) in each of the nine English regions, and has given them significant funding and flexibilities. In future there will be devolution of decision-making to elected regional assemblies, for those regions which choose to have one. And the Government has also just announced a greater say for the regions in strategic investment decisions on housing.

**I.17** This institutional framework is designed to maximise the efficiency and effectiveness of policy by:

- allowing policy design to draw on the expertise and knowledge of local and regional agents, including stakeholders from the local community, local businesses and non-profit organisations;
- improving the ability of Government to facilitate the development of locally differentiated solutions and better target policy delivery in every region and locality, both urban and rural; and
- facilitating the ability to benchmark regional and local performance – which improves the monitoring of these bodies by local and national electorates. This enhances the incentives to increase the efficiency of public service delivery and encourages the adoption of innovative policy solutions.

### Delivery and coordination

**I.18** Effective policy responses need to combine actions at national, regional and local levels to best effect. Policies which are best determined for the whole of the UK, but impact across all nations and regions, should be designed these impacts in mind. At the same time, policies developed and delivered by national, regional and local bodies must be properly coordinated. Suitable mechanisms to turn high level decisions at the centre into specific actions on the ground, taking account of the differing roles and responsibilities of all those involved in all localities, are an essential part of the process. It is also necessary to maintain channels to

<sup>2</sup> Described in detail in Chapter 1 of *2002 Spending Review: New Public Spending Plans 2003-2006* (Cmnd 5570).

<sup>3</sup> Although the devolved institutions in Northern Ireland are temporarily suspended, the expectation is that they will retain the same powers on resumption.

facilitate communication and the spread of best practice between the nations and regions, and to assist policy coordination. Such channels need to ensure that policy action in one area complements the actions of others and serves to enhance the performance of the country as a whole.

**I.19** There is more to do if the Government is to be successful in its objective of reducing disparities between the nations and regions. However, a coherent and well targeted regional policy will, over time, have the effect of reducing regional disparities whilst raising opportunities for all. The actions the Government is taking to deliver this vision in the UK are described in detail in the next chapter.



## INTRODUCTION

**2.1** This chapter outlines the steps the Government is taking to deliver an effective regional policy and empower UK nations and regions, enabling them to maximise their economic performance.

**2.2** Within the context of a stable macroeconomy and respecting the impact of the devolution settlements, the underlying principles are that Government should act to:

- enable devolved, regional and local institutions to exploit the indigenous strengths and tackle the particular weaknesses of each area, through reforms providing the necessary flexibility, accountability and resources; and
- provide the context for businesses and communities to maximise their potential by tackling market failures through microeconomic reforms, at the national, regional and local levels, to strengthen the key drivers of productivity growth

### **Box 2.1 – Devolution and the scope of central government reforms**

Scotland, Wales and Northern Ireland have substantial devolved powers, enabling democratically elected and accountable representatives to make decisions that reflect the priorities of the people they serve. The extent of the powers which have been devolved vary between the three devolved nations, but all have significant powers in the areas of regional policy and economic development.

In this chapter, the Government sets out its strategy for regional economic development. This strategy includes a programme of microeconomic reforms to tackle market failures at a national, regional and local level, which are set out below. Some of these reforms are in devolved areas, and so may not apply in Scotland, Wales or Northern Ireland.

In devolved areas of policy the devolved administrations will determine their own priorities and decide their own policy measures, and Annex A2 contains further information on the approaches of the devolved administrations.

**Spending on regional economic development** **2.3** As outlined in Chapter 1, a raft of Government policies provides a coherent supporting framework for regional development. Many of these do not involve substantial funding – for example, improving the business environment through better regulation. But others do, and many Government spending programmes are specifically designed to contribute towards regional economic development. For example, in England funding, including for the Regional Development Agencies, New Deal for Communities, the National Strategy for Neighbourhood Renewal, England Rural Development Programme, Regional Selective Assistance, the Government Offices for the Regions, and the Structural Funds is either set with a significant degree of regional discretion over its use, or specifically targeted at deprived communities within regions. This is in addition to ‘mainstream’ spending on programmes which assist regional development, for example, on education, housing and transport.

**2.4** Regional development spending in England varies from year to year and is largely determined by the relevant Departments within their overall spending plans.<sup>1</sup> In the case of Scotland, Wales and Northern Ireland the devolved administrations determine their regional development spending in devolved areas of responsibility within their budgets provided through the normal Barnett formula arrangements. Very approximately one quarter of spending on programmes specifically aimed at regional economic development across the UK is accounted for by the Structural Funds.

**2.5** The Government is determined to ensure that taxpayers throughout the UK get the best value from the use of these resources to deliver productivity gains and rising prosperity in every nation and region. In the Government's view, this must be done by giving local service deliverers, who are locally accountable, maximum flexibility and discretion over the use of these resources.

**2.6** This chapter describes action on three fronts. First, institutional reforms aimed at creating a regional capacity to take decisions and deliver policies specifically designed to meet the needs of the individual nation or region, and measures to increase accountability. Second, policy reforms built around the five productivity drivers, including policies set centrally with their regional impact in mind and policies which can be engineered and delivered locally to meet local needs. And third, mechanisms for delivery and coordination, to allow government to work at all levels – national, regional, and local – to achieve its regional policy objectives.

## INSTITUTIONAL REFORMS

**2.7** A fundamental principle of effective and lasting public sector reform is that service deliverers should have maximum flexibility to innovate and respond to conditions at the local level, within a clear framework of accountability for results. In the regional policy context, this means either:

- devolving responsibility for development and regeneration to the point where it can most effectively be exercised, with appropriate local democratic accountability arrangements; or
- where there is a need to retain a national framework of clear long term goals set by the Government to provide a context for delivery or where appropriate local democratic channels do not currently exist, decentralising such responsibility to the point where it can most effectively be exercised.

### Devolution to Scotland, Wales and Northern Ireland...

**2.8** Following devolution in 1999, each devolved administration is now wholly accountable to its own democratically elected representatives for use of its resources. While each devolved administration develops its own policies and priorities, all administrations share the same desire to improve economic performance of all parts of the UK.

**2.9** Devolution coupled with the block grant arrangements means that Scotland, Wales and Northern Ireland have freedom over their policy design and associated allocation of resources in support of regional development and regeneration. Funding comes through the application of the Barnett formula, but the three devolved administrations are then completely free to allocate resources in accordance with their own regional development priorities.

<sup>1</sup> Data on spending by region broken down by function is published in Chapter 8 of *Public Expenditure Statistical Annexes* (Cmnd 5401).

**...and to London** **2.10** The Greater London Authority has powers to promote economic development in London, as well as powers in areas including regeneration, planning, housing and transport. Both the Mayor and the London Assembly are directly elected by and accountable to the people of London.

**...and the other English regions** **2.11** As part of the Government's ongoing constitutional reforms, the Government has introduced in Parliament the *Regional Assemblies (Preparations) Bill* to enable referendums to be held in English regions outside London on the establishment of elected regional assemblies. Under the Government's proposals (see the White Paper *Your Region, Your Choice*, May 2002), elected assemblies will be established in those regions that vote in a referendum to have one. Such assemblies will be given powers and significant funding to make real improvements based on regional priorities in areas including economic development, regeneration, planning, housing and transport. Regions which do not choose to have an elected assembly will not have the increased autonomy available to democratically accountable bodies, but in all English regions the existing institutions, including the Regional Chambers, Regional Development Agencies (RDAs) and the Government Offices (GOs), will continue to address regional priorities.

**Decentralisation in England and Regional Development Agencies** **2.12** The nine RDAs were established in England by the Government to act as the catalysts for economic development and regeneration in the regions. A key part of this role is drawing up Regional Economic Strategies to cover:

- economic development and regeneration;
- promotion of business efficiency, investment and competitiveness;
- promotion of employment; and
- enhancement, development and application of skills relevant to employment.

**2.13** Since their creation, RDAs have progressively been given more flexibility through the creation of an innovative Single Pot funding arrangement. This brings together separate funding streams from five Departments into a single budget distributed to the individual RDAs, over which they have considerable flexibility to allocate funding in support of their key priorities. In return, the RDAs have committed to delivering demanding targets for economic development and regeneration. The 2002 Spending Review provided further funds, increasing RDA budgets by an average of 4.5 per cent a year in real terms over the period 2002-03 to 2005-06, giving a total budget of £2 billion by 2005-06. The Spending Review also gave the RDAs new responsibilities in the fields of tourism, transport, housing and planning. RDAs will become accountable to elected regional assemblies, where such assemblies are established.

**2.14** Regional planning guidance has a role to play both in assisting in the delivery of the Regional Economic Strategies and in providing a long term spatial framework for them. To increase the effectiveness of regional planning guidance (RPG) the new *Planning and Compulsory Purchase Bill* provides for RPG to have statutory status as a regional spatial strategy and to give it more teeth both in relation to local plans and in determining planning applications. The Government will also be directly funding regional planning bodies under the *Regional Assemblies (Preparations) Bill*. From this April the role of regional planning body should be undertaken by the Regional Chamber in each region, thereby bringing together the regional planning and RDA scrutiny functions.

**Strengthening regional Government Offices** **2.15** The Government has also taken steps to strengthen the Government Offices (GOs) in each of the English regions. The GOs are now the key representatives of central Government in the regions. The number of Departments represented in the GOs has grown from 3 in 2000 to 9 today.<sup>2</sup> They form a crucial part of the delivery chain, managing and implementing Government programmes (especially cross-cutting ones) and expenditure of nearly £7 billion per annum. Their expertise and experience at the regional and local level adds value to Whitehall policy-making. They also manage relationships with regional stakeholders on behalf of central Government and bring together key Government bodies in their regions to ensure that work is joined up.

**Strengthening local authorities** **2.16** In addition to regional bodies, local authorities have an important role to play in promoting local economic development, contributing significantly to the development of their regions. Their role is being strengthened, for example through the introduction of Business Planning Zones and more generally through the Government's localism agenda. The Government's proposed new funding framework for local authorities in England represents an important part of the overall agenda to decentralise decision making as far as possible.

**Skills and employment** **2.17** Skills and employment are at the heart of regional development. The Government believes it is important for national, regional and local partners to work together to ensure that employers and individuals alike have as much co-ordinated help as possible to improve employment opportunities and skills levels and thereby accelerate prosperity and competitiveness.

**Enhancing rural focus and delivery** **2.18** Rural development is another important constituent of regional development in most parts of the UK. The Rural Affairs Forum, supported by eight regional fora, has been formed to bring together rural stakeholders to contribute to the development of rural policies at national level. The Government has also appointed a rural champion to encourage the rural-proofing of all Government policies, and the creation of the Department for Environment, Food and Rural Affairs has brought together agriculture and rural issues under one central Department.

**Regional housing boards** **2.19** The Government recently announced in *Sustainable Communities: Building for the Future*<sup>3</sup> that regional housing boards would be established in England, involving key stakeholders in the region. The boards will be tasked with producing a regional housing strategy and advising Ministers from 2004/05 on the distribution of a new single regional pot for housing investment. The two main objectives of these new arrangements are to ensure that housing investment is targeted more effectively on regional and local priorities, and to strengthen the integration of housing, economic and planning policies at the regional level.

<sup>2</sup>The Office of the Deputy Prime Minister, the Department of Trade and Industry, the Department for Education and Skills, the Department for Transport, the Department for Environment, Food and Rural Affairs, the Home Office, the Department for Culture, Media and Sport, the Department of Health and the Department for Work and Pensions.

<sup>3</sup>February 2003.

**Box 2.2 – National and regional achievements**

- In **Wales**, the Wales Development Agency is managing ‘Accelerate Wales’, an initiative to support and improve the performance of automotive supply chains. The initiative provides development infrastructure and project management resources for each supply chain, and places a heavy emphasis on knowledge transfer. It has also encouraged local sourcing of supply for customers based in Wales and overseas through the assistance of Source Wales. Accelerate Wales is estimated to have already saved participating firms more than £22 million a year, and will be further enhanced later this year. The Accelerate Wales model is being adopted in part for the National (UK) Supply Chain Groups programme sponsored by the DTI, in which Wales is also collaborating.
- In central **Scotland**, the Falkirk Wheel re-opened the link between the Forth and Clyde canal and the Union canal and will allow the region to benefit from increased tourism to the area. Projects led by the local tourist board and council to improve visitor access, establish a local festival, and market the Wheel and the surrounding area, will increase visitor numbers by upwards of 570,000, generate £7.6m of visitor expenditure, and create 264 new jobs in the East of Scotland by 2006. Other local contributors include Scottish Enterprise Forth Valley, British Waterways and the Scottish Arts Council. Total project costs are £4.9 million with grant approved of £1.2 million.
- In **Northern Ireland**, Belfast’s Lagan Weir and Lagan Lookout received some £7 million from the Structural Funds to help create an attractive riverfront environment to encourage private sector development and regenerate this high visibility area of the City. Coupled with this, some £5 million from Structural Funds built riverside walkways and helped in the redevelopment of an adjacent derelict gasworks site which is now a thriving business park. Overall, the environmental upgrading and redevelopment of run-down urban locations within the Laganside area has attracted over £150 million worth of investment.
- In the **South West**, the spectacular success of the £86 million *Eden Project*, opened in March 2001, has transformed a derelict clayworks in a depressed rural part of Cornwall into a major international botanical attraction. Funded by the Millennium Commission, the Structural Funds and £15 million from the South West of England Regional Development Agency, it has had a knock-on visitor spend in the region of over £111 million and has led to the creation of 400 jobs.
- In the **North West**, Manchester’s hosting of the 2002 Commonwealth Games provided a launchpad for the regeneration of East Manchester on a scale almost unprecedented in an English city. The renaissance of 1,100 hectares of underused land immediately east of the city centre is being spearheaded by New East Manchester Ltd, an urban regeneration company set up by the Northwest Development Agency, Manchester City Council and English Partnerships. Several projects are under way, including a £30 million regeneration of the Ashton Canal Corridor.

## ACCOUNTABILITY

### Devolved, regional and local institutions must be held to account

**2.20** With institutional reform – devolution or decentralisation – comes a recognition that, like central government, national, regional and local institutions must be held to account for their use of the resources they have at their disposal and what they deliver with them. The devolved administrations, the Greater London Authority and local authorities are accountable in their different ways to the people they serve through their democratically elected representatives, and this will also be the case in those English regions which choose to adopt elected regional assemblies. Where responsibility for decision making has been devolved and decentralised, there is also a need for those exercising that responsibility to do so within a clear accountability framework. For the regional institutions in England, this involves delivering against a demanding set of specific targets which are linked to the Public Service Agreement (PSA) targets held by the Departments funding their activities.

## POLICY REFORMS

### Raising productivity

**2.21** The Government's microeconomic reform programme has been aimed at improving the efficient operation of markets and providing an economic environment for creating productive and successful businesses, and enabling them to flourish and grow.<sup>4</sup> The programme has focused on tackling market and social failures through policies aimed at improvements in the five key areas that are considered to be the main 'drivers' of productivity. In particular, Government policies are designed to:

- improve the **skills** base to maximise the contribution of human capital to growth.
- encourage **investment** to improve the UK's stock of physical capital across the economy;
- support **innovation** to utilise the potential of new technologies and to develop more efficient ways of working
- promote **enterprise** to help new and established businesses start up, develop and grow; and
- strengthen **competition** to encourage firms to innovate, minimise costs and provide better quality goods and services to the consumer.

**2.22** Given that the evidence suggests that the main cause of national and regional disparities is productivity differentials, it is clear that policies targeting each of these productivity 'drivers' need to be based on a carefully coordinated approach involving national, regional and local delivery providers. This means they can be designed and implemented flexibly, so as to make the most of indigenous strengths of different parts of the country, while at the same time ensuring that they are consistent with national priorities.

**2.23** The Government has already introduced a number of policies targeting these drivers. Some examples of such policies are given at Annex A1, and some specific examples of policy strategies in Scotland, Wales and Northern Ireland at Annex A2.

<sup>4</sup> The economic underpinning of the Government's policies to improve the economic performance of the UK economy is set out in report: *Productivity in the UK: The Evidence and the Government's Approach*, published by HM Treasury with the 2000 Pre-Budget Report.

**Box 2.3 – Further national and regional achievements**

- In the **North East**, the Newburn Riverside industry park is the UK's largest reclamation project and has potential to generate over £100 million of private sector investment and 5,000 jobs in the regional economy. First phase development of the 92 hectare site, which is being serviced by One NorthEast at a cost of £33 million, is being carried out by UK Land Estates. Access has been improved by a new £10 million dual carriageway and bridge funded by Capital Challenge and £4 million from One NorthEast.
- In the Highlands and Islands of **Scotland**, a £9 million business development project provided premises for an inward investor to establish wind turbine manufacturing facilities near Campbeltown. The project brought together Structural Funds, local agencies – notably Highlands and Islands Enterprise – and the private sector. The project created over 120 jobs in a remote, economically fragile area and will contribute to wider initiatives on renewable energy and sustainable development.
- In **Wales**, Objective 1 funding is being used to support a network of Technium facilities, providing centres which offer the optimum environment to enable innovative young companies to reach their potential through hands-on business support and access to world-class facilities and expertise. The aim is to create a central Technium in each region of Wales, linked to sector-specific Technium each catering for key growth industries. To date Objective 1 funding has been used to support hubs in both West and North Wales, as well as a Media Technium, a Digital Technium, a Biotechnium and an OpTic Technium catering for the opto-electronics industry.
- In **Northern Ireland**, the isolation of the electricity industry has been ended, increasing quality and choice, and reducing costs, for customers. Northern Ireland did not previously have access to the electricity networks in Great Britain, and – with few indigenous energy resources – was dependant on imports to meet its primary energy requirements. The Moyle Electricity Interconnector between Scotland and Northern Ireland, completed in 2001, is therefore the single most important infrastructure development in the history of Northern Ireland's energy industry. The construction costs amounted to £155m, with £52.5 million funded through Structural Funds. In addition, cross-border electricity interconnection between Northern Ireland and the Republic of Ireland has been strengthened through a number of projects, also supported by Structural Funds, thereby ending Northern Ireland's isolation in both an East West and North South direction.

**DELIVERY AND COORDINATION****Effective policy responses combine national, regional and local levels**

**2.24** Effective policy responses need to combine actions at national, regional and local levels to best effect. The key challenges are to recognise the interactions, and to deliver responsibility for policy and decision making, together with appropriate resources and flexibility, to the point at which it can most effectively be exercised. Policies which are best determined centrally, but impact across all nations and regions, should be designed with their national and regional impact in mind. At the same time, policies developed and delivered below the UK level must be properly coordinated. Suitable mechanisms to turn high level decisions at the centre into specific actions on the ground, taking account of the differing roles and responsibilities of all those involved in all localities, are an essential part of the process.

**2.25** The Government recognises that different nations and regions need different policy approaches to improve their economic performance, and that national decision making processes must reflect this. It also recognises that building on the knowledge and understanding of what is needed in the nations and regions themselves is a key part of the solution, rather than believing that the centre always knows best. That is why, for the first time, the Government asked for Regional Priority Documents to be prepared by the English regions – RDAs and GOs – as part of the evidence base for the 2002 Spending Review. These documents identified each region's own view of its key policy priorities, set in the context of RDAs' regional economic strategies. Central departments were asked to use this information in drawing up their own inputs to the Spending Review, and to prepare regional impact assessments of their spending proposals.

**2.26** As a result, measures were announced in the 2002 Spending Review<sup>5</sup> to meet the priorities identified by English regions for promoting prosperity in their regions; to promote growth in all regions by improving the key drivers of productivity at regional level; to strengthen regional institutions and decentralise power to regions and local communities; and to promote a fairer allocation of public spending across the regions.

**2.27** The Government's commitment to ensuring that all regions share in the UK's economic prosperity was reinforced by the agreement of a new joint PSA target between the Office of the Deputy Prime Minister (ODPM), the Department of Trade and Industry (DTI) and the Treasury to make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between those regions.

#### **Box 2.4 – The new regional Public Service Agreement target for England**

The Department of Trade and Industry, the Office of the Deputy Prime Minister and the Treasury have agreed to a new shared regional PSA target:

**To make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006.**

Performance against the target will be measured in terms of regional trend growth rates in Gross Value Added per head over the periods 2003-2008 and 2003-2012 for the first two parts of the target respectively (see technical note on HMT, DTI and ODPM websites for details).

The three Departments are in the process of drawing up detailed delivery plans for achieving the target. For instance, as part of delivering this target, they will:

- further cross-departmental research to identify the causes of regional disparities and the most effective policy measures for reducing such disparities;
- generate relevant information on regional priorities and on the regional impacts of departmental policies;
- build a regional dimension to the outcomes of future Budget and Spending Review processes; and
- continue to foster strong regional institutions, maximising their freedom and flexibility to deliver their own solutions at local level.

<sup>5</sup> Described in detail in Chapter 23 of 2002 Spending Review: New Public Spending plans 2003-2006 (Cmnd 5570).

**Targets delivering regional improvements** **2.28** A number of other PSAs have either an explicit or implicit regional dimension, for instance:

- the Office of the Deputy Prime Minister's target to achieve a better balance between housing availability and the demand for housing in all English regions;
- the Department of the Environment, Food and Rural Affairs' target to reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2006;
- the Department for Education and Skills' target to improve adult skills;
- the Department for Culture, Media and Sports' target to improve the productivity of the tourism, creative and leisure industries;
- the Department for Work and Pension's target for increasing the employment rates of disadvantaged areas;
- the Department of Trade and Industry's target to improve innovation;
- the Department of Health's target to reduce inequalities in health outcomes by 2010.

**2.29** These targets are owned by central government Departments, with Ministers ultimately responsible for their delivery. But the detailed processes which are being put in place to ensure the targets are met depend heavily on effective action from and coordination between a wide range of stakeholders at national, regional and local levels. The delivery planning process reinforces the translation of high level decisions from the centre which have an impact on the regions into effective action which can be taken by the regions themselves.

**Improved regional coordination** **2.30** The Government is also committed to improve the coordination of policy at the regional level. This is reflected in a further specific target for the Office of the Deputy Prime Minister (ODPM) to promote better policy integration nationally, regionally and locally, where the work necessary to achieve this is led by the ODPM's Regional Coordination Unit, which also manages the Government Office network.

**2.31** The RCU is leading work being undertaken across Government departments to ensure that Area Based Initiatives are well designed and coordinated such that they each add maximum value. In practice, this involves rationalising the number of Area Based Initiatives that exist across English regions, for instance by integrating such initiatives into mainstream government programmes. The Government published its response to the Better Regulation Task Force report on local delivery in December 2002, and will produce updates on progress for the Task Force in June and December 2003. The European Structural Funds Forum in Scotland provides an example of good practice. Chaired by the Deputy Minister for Finance and Public Services, it comprises the most senior representatives from Structural Fund partner organisations, other key agencies, the Scottish Parliament and MEPs, maintaining a strategic overview of programme implementation to ensure synergy with domestic policy priorities.

**Box 2.5 – Regional achievements: the Thames Gateway**

Chaired by the Minister for Housing Planning and Regeneration, and involving Ministers from several Government Departments, the Thames Gateway Strategic Partnership brings together regional and sub-regional partners from the regions of London, the South East and the East of England. The aim of the partnership is to provide the framework to achieve the Thames Gateway area's potential as a major focus for growth, regeneration and development. The partnership has identified 14 Zones of Change as the key locations for action in the Gateway.

The construction of the new high speed **Channel Tunnel Rail Link (CTRL)** connecting London and continental Europe is central to the development framework for the Gateway. Upon completion in 2007, the CTRL will radically reduce journey times between London and North Kent. Up to 50,000 new jobs could be realised around the two International stations at Stratford and Ebbsfleet through the creation of sustainable communities and mixed-use urban development.

**Silvertown Dock**, part of the London Development Agency's work to develop the Gateway, is a mixed-use development in East London that is set to become the centrepiece of the Royal Docks. The development will contain offices, shops, major visitor attractions and other leisure facilities and will provide, in total, around 3,000 homes, making it one of the largest new residential developments in London.

**Chatham Maritime**, on the banks of the River Medway at the heart of the Gateway, is the South East England Development Agency's flagship regeneration project. More than £400 million has been invested in the scheme from the public and private sectors resulting in a thriving, successful new area for business, leisure and residential developments.

**2.32** The Government believes that the progress outlined in this chapter – on delivering institutional reforms, and increasing accountability, of targeting the five productivity drivers at national, regional and local level, and on improved delivery and coordination – provides the best chance in more than a generation of improving productivity and economic performance across the UK as a whole, and reducing the national and regional disparities that have persisted throughout most of the twentieth century. The vision is of an agenda for rising prosperity which will benefit everyone in the UK, whatever their circumstances and wherever they live.

## INTRODUCTION

**Regional policy is not just about the poorest areas**

**3.1** As we have seen, regional policy involves each nation and region overcoming the barriers that prevent it from realising its full potential. This is true for the nations and regions of the EU as it is for the nations and regions of the UK. As set out in Chapter 2, to meet UK productivity and employment objectives, every part of the UK will need to improve its performance-reducing regional disparities while promoting opportunity for all. Regional policy is not just about the poorest areas. More successful areas also have scope to improve their performance, though the barriers they need to overcome may be different to those in areas that have historically had the weakest growth.

## REGIONAL POLICY FOR THE MANY, NOT THE FEW

**3.2** The UK is committed to improving the productivity and employment performance of the EU. European leaders, meeting at Lisbon in March 2000, committed themselves to a ten-year strategy for reform of Europe's product, capital and labour markets. The aim was to create a Europe which would be *"the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"*. The economic, social and environmental dimensions of sustainable developments were fully and explicitly integrated into this agenda in June 2001.

**3.3** In its twin focus on employment and productivity, the Lisbon agenda complements and is complemented by the UK Government's domestic policy objectives: raising the rate of sustainable growth, and achieving rising prosperity through the creation of employment opportunity for all. The EU can only achieve these objectives if every nation and region of the EU tackles the market and social failures that are holding them back from achieving their full productivity and employment potential and providing the basis for lasting social cohesion.

**3.4** Thus there is an important EU dimension to regional policy, and it is right that the EU should have clear regional policy objectives, supporting and contributing to wider productivity, employment and sustainable development objectives. In particular, the EU is committed to "the strengthening of economic and social cohesion"<sup>1</sup> and this goal has an explicit regional dimension: "the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas."<sup>2</sup>

**A more modern, flexible and devolved framework is required**

**3.5** These EU regional policy objectives clearly complement the UK Government's regional policy goal to allow every nation and region to reach its full potential, as described in the previous chapters. Every region across the EU has an important role to play in achieving these regional policy objectives, and the different challenges they face mean that a wide range of different policy measures will be required and applied in diverse ways. In the Government's view, the UK's approach to regional policy shows how a more modern, flexible and devolved EU regional policy framework could better accommodate the diversity of regional policy needs and, hence, better deliver the EU's objectives.

<sup>1</sup>Treaty on European Union, Article 2.

<sup>2</sup>Treaty establishing the European Community, Article 158.

## EXPERIENCES OF EU REGIONAL POLICY

### Experience has been mixed

**3.6** A number of Community instruments affect the UK's regional policy, of which the Structural and Cohesion Funds are the most prominent. Other tools include the European Investment Bank (EIB), and the Community's wider policies, amongst which the rules on state aid are particularly important. Box 3.1 provides some examples of UK experiences with these different instruments.

**3.7** Co-ordination between these policies has been improving. The definition of a needy area, broadly common to the Structural Funds, state aid and EIB rules, is well-recognised and these three policy instruments are often used in combination. The Structural Funds themselves are now better co-ordinated, focusing on three Objectives – originally the Funds had been set up with ill-coordinated purposes. There is also come co-ordination with the EU's broader policies: for example, the European Social Fund expressly supports Member States' policies, as part of the European Employment Strategy, to improve their labour markets and develop human resources. The Structural Funds also support the Common Fisheries Policy, in particular aiding regeneration of communities dependent on fishing, and along with the Common Agricultural Policy (CAP) support rural development measures.

**3.8** Although EU regional policies have delivered benefits in the UK and the EU, there have also been significant challenges in their implementation, and current arrangements are often too centralised. This does not adequately reflect the differing needs across the Union, particularly in the more prosperous Member States where Community aid is a comparatively small proportion of spending on regional development and this inflexibility places an unnecessary constraint on the freedom nations and regions need in order to support their own locally determined and delivered policies.

**3.9** Evidence on cohesion across Europe over the last two decades is mixed. There have been greater reductions in disparities between Member States than between regions across the EU, but there has been some divergence of regions within Member States.<sup>3</sup> For most regions the process of catching up, in the absence of any reform of the current arrangements, will be a long haul.

### Some convergence between countries...

**3.10** Though economic disparities persist between Member States, they have diminished substantially since 1988, reflecting the convergence of the cohesion countries. Ireland is the strongest example, with per capita GDP measured in purchasing power standards increasing from 64% of the EU average in 1988 to 118% of the EU average in 2001, and the extent that the other three cohesion countries lag behind has also shrunk by almost a third – with GDP per capita increasing from 68% to 78% of the EU average over the same period. But, as noted below, the precise role of the Structural Funds in these changing patterns is far from clear.

### ...but disparities between regions have increased

**3.11** At regional level, the reduction in disparities has continued to a lesser extent than at national level, and these disparities have grown within some Member States. The ratio between the richest 10% of regions and the least prosperous 10% decreased from 2.8 to 2.6 between 1990 and 2000, while the ratio between the richest and least developed 25% of regions remained unchanged at 2.0. Disparities between regions within each Member State increased between 1990 and 2000, with only Germany, France and Austria seeing reductions in the variation of GDP per capita across regions.<sup>4</sup> Employment variables show similar patterns.

<sup>3</sup> The data presented here is drawn from the Commission's Communication COM(2003)/4, *Second progress report on economic and social cohesion*, 30 January 2003.

<sup>4</sup> Data for Germany from 1991, including the Eastern Länder.

**Box 3.1 – UK experience of EU regional policy**

In the Government's view, **there are many good elements to the EU's regional policy instruments.** The Structural Funds rules place a strong emphasis on using appropriate local and regional partners and often encourage innovation, which fits well with the Government's approach to effective delivery in the UK. The Structural Fund programmes have made it possible to plan economic development on a longer time-frame than most other funding sources allow, and the direct involvement of a wider range of partner organisations in decision-making has delivered distinct benefits in securing consensus on funding priorities that takes an integrated rather than a sectoral approach. Cross-border co-operation between Member States formalised under the INTERREG programme has promoted partnerships across borders encouraging balanced development, including extending links between the UK and the Republic of Ireland. EIB loans support innovation and draw in private investment. State aid rules place an important emphasis on strong and fair competition to constrain inappropriate aid and funding.

**These policies have undoubtedly delivered benefits.** In the UK, EIB funding has supported the Jubilee Line extension, and UK nations and regions have made use of Structural Funds in projects including the renewal of Birmingham City Centre and the Eden project in Cornwall. Structural Funds have also contributed more than £20 million to support Finance Wales, providing equity and loan finance which would not otherwise be available for small and medium-sized businesses to realise their potential, and supported a Bambury Regeneration Centre project that generated 40 new jobs, 30 childcare places, 65 training places, and wider social and community benefits in the East End of Glasgow. They also support employment and skills policies at regional level: for example, about £150m is now made available through the Learning and Skills Councils. They have provided a visible pointer to the benefits of EU membership and a catalyst for innovative ways of addressing regional needs. In the EU, the least prosperous Member States have made considerable progress in closing the prosperity gap – benefiting from favourable status for EIB loans, the special Cohesion Fund in addition to the Structural Funds and a state aid treatment which has allowed these generous funds to be matched and administered.

**However, the lack of flexibility and other problems have limited their usefulness.** For some English regions it has proved difficult to use the Structural Funds to address adequately the priorities in their Regional Economic Strategies. There have also been difficulties in advancing regeneration programmes. Stakeholders often comment on the bureaucracy involved in administering the Funds, particularly for small projects, the very long programming and guidance documents and the lengthy decision-making process. And it is not clear that the use of Structural Funds adds significant value in comparison to domestic initiatives. In addition, the rigid application of state aid rules that often fail to recognise the market failures being addressed has delayed the regeneration of deprived communities and derelict sites.

**Any reform must aim to keep the strengths and lose the weaknesses of the current system.**

### Assessments of the success of EU regional policies

**3.12** There is a substantial body of academic investigation in this area.<sup>5</sup> There is also considerable debate over the causes of this persistence in regional inequality and, hence, the role of EU regional policy in tackling these disparities. Some argue that there are underlying forces of divergence that would otherwise increase regional disparities (e.g. through increasing returns, trade and endogenous growth leading to the concentration and clustering of activity) and that EU regional policy has been relatively successful in maintaining regional cohesion overall, and prompting convergence in some cases.

**3.13** Others have argued that there is no statistical evidence that structural funds have had a positive impact on productivity growth in the poorer regions,<sup>6</sup> or that there are underlying forces of convergence that would otherwise decrease regional disparities (e.g. through labour mobility and structural reform – the decline of low productivity industries and their replacement with higher productivity industries) and EU regional policies have in many cases actively undermined these forces, preventing convergence.<sup>7</sup>

### Reform is needed

**3.14** Most would agree that EU regional policies have been reasonably successful in speeding the catch-up of the poorer Member States – which is to be expected given their greater potential for productivity growth. The performance at regional level has been more mixed, and while there is scope to learn from the policies that have contributed to the substantial convergence in income levels seen by some regions (e.g. the Italian North-East, the East German Länder, Metropolitan Lisbon and Inner London), the current EU regional policy is not delivering improvements for all. Reform is needed. It is likely that more flexible arrangements would have been more successful in improving the performance of a wider range of regions.

## MODERN REGIONAL POLICY MUST BE LOCALLY-LED

### Diverse regional policies to meet local needs

**3.15** The EU has set itself demanding targets for raising its performance on employment, productivity and social cohesion. Unless every nation and region within the EU is able to reach its full potential on these dimensions, the EU as a whole will inevitably fail to reach its full potential.

**3.16** Achieving this full potential will require tackling the market and social failures that hold back the performance of nations and regions across the EU. The different nations and regions face a wide range of different market and social failures. Hence it is important that the ability to address these barriers is devolved to the level best placed to identify and meet local needs. Thus governments will need to employ a diversity of policy measures at a variety of levels in order to tackle the particular priorities for each locality in the most appropriate manner.

### Radical state aid reform is essential

**3.17** The state aid disciplines have two important roles in the achievement of these regional policy objectives. First, they promote strong and fair competition – ensuring less prosperous regions can compete on an equal footing with wealthier areas. Second, they enable Member States to address the causes of regional disparities. There has been good progress in developing horizontal state aid rules (that apply across the whole of the economy) focusing on particular market failures, but the current rules prevent empowered local institutions from adequately tackling these causes of relative regional disadvantage. The challenge now is to build on this progress to deliver a reformed state aid regime that meets the needs of regional policy. Box 3.2 highlights the key dimensions to the wider state aid reform agenda.

<sup>5</sup> For a survey of this literature see Braunerhjelm *et al.* (2000), “Integration and the regions of Europe: how the right policies can prevent polarisation”, Centre for Economic Policy Research.

<sup>6</sup> For example, Boldrin and Canova (2001), “Europe’s regions: income disparities and regional policies”, *Economic Policy* 32.

<sup>7</sup> For example, Midelfart-Knarvik and Overman (2002), “Delocation and European integration: is structural spending justified?”, *Economic Policy* 35.

**Box 3.2: State aid reform**

There is an important regional policy dimension to the wider efforts to reform the state aid regime. The plans to strengthen the economic foundations of the state aid rules will ensure they more closely complement the wider objectives of regional policy. This can be seen in two key elements of the reform agenda:

- by streamlining the state aid regime to **focus efforts on the most economically significant state aid**, the regime will deal much more swiftly with aid that is not significant, imposing a far smaller compliance burden on regional bodies and on measures addressing specific regional problems; and
- by using more robust economic tests and ensuring the state aid rules **accommodate clearly identified market failures**, the regime will enable the causes of regional disadvantage to be tackled more effectively.

**Enlargement is a historic opportunity...**

**3.18** The UK is a strong supporter of EU enlargement, which represents a historic opportunity for a reunited Europe of peace and prosperity, and offers:

- increased political and democratic stability within the new Member States;
- removal of barriers to trade and investment between the current EU and the new Member States. This will create a more competitive and diverse single market in the EU of over 450 million people. Consumers will benefit through lower prices and a wider range of goods. Industry will gain through the opening up of markets and greater efficiency.
- improved stability amongst the new Member States, combined with greater investment, should increase the rate at which their economies grow. Over the long run this will lead to greater demands for UK good and services, so boosting other EU economies.

**3.19** Enlargement will also strengthen the role of the European Union within the global economy, strengthening our position in international trade. And independent research suggests that enlargement will increase UK GDP by up to £1.75bn.<sup>8</sup>

**3.20** Regional policy will have to reflect the realities of an enlarged Union. It cannot be right that, after enlargement, countries with the institutions and financial strength to develop and pursue their own devolved regional policies should continue to receive a large proportion of EU structural and cohesion funding. All the new Member States have a per capita GDP below the EU average, with the lowest four below 40%. With far less developed financial and administrative capacity, EU assistance in both areas is likely to be far more effective and important in these countries. Reform of European regional policy will be crucial to enabling these new Member States to fulfil their potential.

**...and will further increase the diversity of regional policy**

**3.21** The key barriers, market and social failures and other priorities that the poorest accession countries will need to address to achieve their potential will be very different to those facing the wealthier current Member States. By tackling these barriers and market failures, each can make important contributions to the EU's regional policy objectives. Hence, it is critical that the EU's regional policy framework is sufficiently flexible to accommodate the full range of instruments and interventions that will be required.

<sup>8</sup>Richard Baldwin, Joseph Francois, and Richard Portes (1997), 'The Costs and Benefits of Eastern Enlargement', *Economic Policy* 24.

**3.22** For the least-developed regions in an enlarged EU, this may well mean concentrating resources on facilitating their efforts to build up the key infrastructure – human and physical capital – that will help underpin their future economic success. Such programmes will need to be supported by state aid rules that continue to recognise the particular difficulties faced in areas which are significantly lagging behind, for example in terms of low standards of living or serious under-employment, and the particular measures likely to be required to overcome the causes of these problems.

**3.23** At the same time, the more-developed regions are likely to need to employ a wide range of different interventions to address the specific market failures that are holding back their performance. Much greater devolution will be required to ensure these decisions can be made by the empowered regional and local bodies who are best-placed to address these failures and meet the needs of the local communities. In turn, EU policies need to ensure these regional bodies have the flexibility and the support to make the most effective use of this freedom and responsibility. Here too, such programmes will need to be accommodated by suitably efficient, proportionate and responsive state aid rules. Reform of the state aid regime should ensure the relevant market failures can be addressed wherever they occur across the EU, and that local and regional measures with little impact on the wider EU economy can be approved quickly and with minimum compliance costs.

## TOWARDS A NEW EUROPEAN REGIONAL POLICY

**3.24** The Government is determined to improve the economic performance of every nation and region of the UK. That is why the Government has adopted the framework for regional policy set out in Chapter 1. The Government believes that building on this approach in Europe would also help Europe realise its potential. Europe needs a framework which addresses market and social failures, which recognises the profound diversity between Member States, and supports them in their promotion of regional prosperity. Decisions must be taken as close as possible to local people whilst working towards the common European goals of more and better jobs and greater economic and social cohesion.

### **Box 3.3: Key principles for a new European regional policy**

- **Provide an effective, sustainable and affordable EU regional policy which gives a fair result and the best possible value for money for the taxpayer.**
- **Support and add value to Member States' policies to promote prosperity in nations and regions, while working towards the common European goals of more and better jobs and greater social cohesion. In particular, by:**
  - **addressing market and social failures,**
  - **recognising the profound diversity between Member States, and**
  - **allowing decisions to be taken as close as possible to local people.**
- **Actively support the Lisbon agenda of higher productivity and employment, encouraging investment in both physical and human capital via the more efficient use of better targeted funds promoting more open and dynamic markets, protecting the environment and promoting sustainable development.**

**3.25** A regional policy focused on delivering these objectives would benefit everyone living in the EU. But to meet these key objectives, reform is needed. The state aid regime needs reform to ensure it can accommodate an effective regional policy, tackling the causes of relative regional under-performance. The best and most appropriate use needs to be made of EIB financing throughout the EU, and in particular its lending to less prosperous Member States. And, the Structural Funds system needs to be reformed so that Member States can pursue effective policies for regional growth and social justice within a framework which has sufficient flexibility to meet their differing needs. Further details on the approach the Government proposes to take on Structural Funds reform are set out in Chapter 4.



# 4

## THE UK GOVERNMENT'S PROPOSAL FOR EU REGIONAL POLICY

The Government wishes to consult formally on the proposed approach outlined in this chapter: that, in principle, its proposed EU Framework for Devolved Regional Policy should form the basis for a UK position on Structural Funds post 2006. The Government would also welcome comments on its overall objectives for the future of Structural Funds and on the current thinking emerging from the Commission.

This consultation is addressed to organisations and individuals in all parts of the UK with an interest in the role and future of Structural Funds in the UK.

You are invited to make comments on the analysis and proposals in this chapter. For details of how to respond, see Annex A6.

Responses are invited by 4 July 2003.

### INTRODUCTION

**4.1** The next major opportunity to reconsider and reform the EU approach to regional policy will be in the debate over the Structural and Cohesion Funds system for the period 2007-2013, for which it is expected that the Commission will issue proposals in late 2003 in its Third Cohesion Report. The Government is strongly committed to a modern regional policy which enables not only the poorest regions but all regions to achieve their full potential. In the light of this commitment, it believes a new approach, the EU Framework for Devolved Regional Policy, should form the basis for a UK position in this debate. This approach would allow UK nations and regions and all Member States to pursue effective policies for regional growth within a framework which had sufficient flexibility to meet their differing needs and was co-ordinated with the EU's priority goals. This chapter describes this approach and its implications in more detail, before seeking views in a formal consultation.

### GOVERNMENT OBJECTIVES

#### Realising potential

**4.2** The Government's desire and commitment to see every nation and region enabled to realise its potential to the full is at the heart of its approach to the future of regional policy in Europe, and in particular to the forthcoming reform of the Structural and Cohesion Funds. The Government's overarching objective for the future of the Structural Funds is therefore that they should be part of an effective, sustainable and affordable regional policy for the UK and the EU which gives the best possible value for money and outcomes for the UK taxpayer. Within that, the Government will pursue objectives for domestic growth, based on higher productivity and increasing employment, and for EU growth, on which domestic growth increasingly depends, as well as seeking a fair deal for the UK in budgetary terms.

#### Growth for UK nations and regions

**4.3** The Government is committed to ensuring all parts of the UK share in the UK's economic prosperity. In the reform of the Structural Funds, the Government's objectives for the UK in this area are therefore:

- **an outcome which supports and adds value to the UK's existing approach.** This includes its policies for promoting prosperity and for reducing disparities in all UK nations and regions, including in rural areas, communities dependent on fishing, urban areas and other disadvantaged communities, delivered by appropriate levels of regionally and nationally focused support and devolution giving significant autonomy to Scotland, Wales and Northern Ireland;

- a system of support which enables resources to be applied effectively with **significantly simpler, better integrated and more flexible implementation** arrangements than at present.

**EU regional growth** 4.4 The Government believes that, correctly implemented, the agenda agreed at the Lisbon European Council of March 2000 will bring benefits to UK nations and regions and to the EU as a whole. The Government's objective for EU regional growth is therefore:

- reform of the Structural Funds system which is not only consistent with but **actively supports the Lisbon agenda** of higher productivity and employment, encouraging investment in both physical and human capital via the more efficient use of better targeted funds and promoting more open and dynamic markets, protecting the environment and promoting sustainable development.

4.5 In addition, as a strong supporter of enlargement, a further Government objective is to:

- **concentrate EU budgetary support on the relatively less prosperous states**, including new Member States, whilst taking into account their absorptive capacity.

**Budget discipline and a fair deal for the UK** 4.6 The Government's approach to the overall EU budget is characterised by its concern for effectiveness, value for money, budget discipline, achieving a fair deal for the UK, and respect for the EU principle of subsidiarity. In any reform of the Structural Funds, the Government's objectives in this area are therefore:

- that it achieves **a fair deal for the UK in budgetary terms**; and
- that the overall **EU budget for Structural Funds is constrained** and focused on where it will provide **maximum value for money**.

## THE UK'S PROPOSAL: AN EU FRAMEWORK FOR DEVOLVED REGIONAL POLICY

4.7 To support the objectives set out above, and consistent with its approach to UK regional policy, the Government is proposing a new approach to EU regional policy – the EU Framework for Devolved Regional Policy – which it believes represents the best policy for UK nations and regions and for the UK and Europe as a whole.

**Dynamism through devolution and decentralisation** 4.8 A modern regional policy is not just for the poorest nations and regions. As argued in Chapters 1 and 2, a modern regional policy must enable every region and every locality to develop to its full potential. A dynamic policy must be locally led, within a framework which is flexible and enabling yet ensures proper accountability. In a domestic context, this means substantial devolution; in an EU context, subsidiarity. Where Member States have the institutional structures and financial strength to develop and pursue their own modern regional policies, they should be enabled to do so. EU policies must support and encourage this, whilst assisting Member States which have not yet reached this position to do so, with the goal that these Member States would ultimately no longer need such support.

**Flexibility through co-ordination** 4.9 Whilst the greatest opportunities and, correspondingly, the greatest responsibilities lie at the national, regional and local level, there are several activities where the EU has an important enabling role:

- co-ordination of EU policies: in particular, a modern regional policy requires a new attitude to state aids; it also requires constructive co-ordination with a reformed Common Agricultural Policy and Common Fisheries Policy;

- transparency of diverse national policies through co-ordination of broad guidelines in support of the EU's overarching economic goals, particularly the Lisbon agenda, promoting higher productivity, employment and sustainable development;
- assistance for Member States which do not yet have the institutional structures and financial strength to fully develop and pursue their own devolved and decentralised regional policies or to develop their national labour markets;
- the exchange of best practice, so that diverse nations and regions can learn from and build on each others' successes.

**An EU Framework with...** **4.10** An EU Framework for Devolved Regional Policy would offer a logical and structured basis for delivering this through:

- **common principles** which are based on broad EU-wide, outcome-focused objectives and founded on the Lisbon priorities to achieve Treaty obligations;
- **flexibility for devolved and decentralised domestic policies** to support these objectives; and
- **separation of aims from means**, distinguishing policy from funding.

**...common principles** **4.11** The Framework would encompass a set of broad, EU wide, outcome-focused objectives founded on Lisbon priorities – for example, sustainable economic development, creating more and better jobs and combating social exclusion. It would encourage Member States to raise productivity at all levels throughout the EU through enabling the pursuit of policies targeted at the key drivers of growth. The common EU dimension would be further reinforced by transparency and sharing best practice.

**...flexibility for devolved and decentralised domestic policies** **4.12** While there should be common EU objectives, the delivery of regional policy in each Member State will reflect the disparate needs of an enlarged Union. In line with the principle of subsidiarity, those Member States which have the institutions and financial strength to fully develop and pursue their own devolved and decentralised regional policies in support of these objectives should be encouraged and enabled to do so. Other Member States will continue for some time to benefit from assistance – in particular, financial and administrative – to promote regional development. The Framework should be consistent with the European Employment Strategy and enable Member States to support their employment, skills and lifelong learning policies.

**...separation of aims from means** **4.13** Regional assistance in the more prosperous Member States (i.e. Member States with greater than 90% of the average EU GNP per capita measured in purchasing power parities, the criterion currently used for the Cohesion Fund) would be funded domestically. This could be subject to possible transitional Community support, though to keep administrative costs to a minimum it might be that this funding period should be kept as short as possible. Less prosperous Member States would continue to receive Community support which would, as now with the Cohesion Fund, be determined in proportion to national prosperity. There could also be a continuing role for EU financial support for small EU added-value cross-border initiatives, in addition to the general expectation of cross-border co-operation, for example: transnational initiatives of the type currently conducted under INTERREG; or networking good practice on promoting equal opportunities and labour market inclusion currently conducted under EQUAL. All EU financial support would need to be efficiently monitored and evaluated for effectiveness and to ensure appropriate checks are in place to protect the EU budget against fraud.

**Community solidarity** 4.14 This Framework approach, if appropriately adopted and implemented, would significantly enhance the ability of nations and regions to realise their potential. The overarching Framework, backed-up by the encouragement to exchange best practice, would keep an EU dimension to local projects. The Commission would play an important role, which would need to evolve to give appropriate support: for example, a more efficient, proportionate and responsive approach to state aid approval based on robust economic foundations; promoting the exchange of best practice; and encouraging cross-border co-operation. Commission regional policy resources would in future be focussed on supporting capacity building of institutions and infrastructure in those Member States which need it.

**Emerging Commission thinking and the Framework** 4.15 The central feature of current Commission thinking<sup>1</sup> is a focus and concentration of resources on Objective 1 with an eligibility threshold of 75% of EU25 GDP per capita. Outside Objective 1 measures likely to be supported include interventions in: urban areas; rural areas; cross-border co-operation; areas undergoing industrial restructuring; areas with severe geographical or natural handicaps; more and better jobs; support for the new economy and knowledge society and several more. The Framework proposed here in no sense precludes action in any of these fields; indeed it would give even greater freedom to accountable bodies to pursue their policies with full discretion and even greater flexibility in the context of the tailored strategies they have developed. Moreover, they would be able to integrate them fully into the complete range of policy levers available to them as a nation or region.

## THE GOVERNMENT'S COMMITMENT TO UK NATIONS AND REGIONS

**Sufficient resources** 4.16 The Government believes strongly that after enlargement, it cannot be right for richer Member States to continue to receive substantial development funding from the EU budget. Equally, it cannot be assumed that nations and regions of the UK should have to scale down their spending on regional development programmes to accommodate the loss of EU support. As set out in Chapters 1 and 2, the Government is committed to an active regional policy which reduces regional disparities and helps all nations and regions to pursue a set of outcomes which will enable them to develop and share in the UK's prosperity. We would therefore guarantee that, by increasing UK Government spending on regional policy, UK nations and regions receive a level of resources which ensures they do not lose out from the UK's proposals on Structural Funds reform, for example from transitional funding they would have automatically received from the application of the eligibility criteria to EU25 instead of EU15. We would commit to ensuring that nations and regions have sufficient resources to continue to be able to promote regional productivity and employment from increased domestic spending on regional policy, targeted on those areas of high unemployment and low GDP.

**Scotland, Wales and Northern Ireland** 4.17 Under this proposal, the devolved administrations in Scotland, Wales and Northern Ireland would benefit from increases in funding for domestic regional programmes on a multi-annual basis from the incorporation of this new approach into the block formula arrangements, in a way which ensures that, taking account of any exceptional circumstances, they receive their fair share. Implementation of regional economic policy is fully devolved and so as now, they would be free to allocate these resources in support of their own national priorities. In addition the spending ought to be more effective because the devolved administrations would have greater flexibility than under the current EU-led arrangements. This should make it easier to ensure that resources are used in a timely and effective way, under their discretion. If the devolved administrations decide to allocate their increased resources to their regional spending programmes, domestic regional spending will be higher in the devolved administrations after 2006 than before.

<sup>1</sup> See further Annex A3.

**4.18** Northern Ireland and the Border Region of Ireland also currently benefit from a unique PEACE II Programme. This demonstrates the European Union's continuing support for the Good Friday Agreement and is a special Programme, delivered by a North South Implementation Body, that aims to reinforce progress towards a peaceful and stable society and to promote reconciliation in the region. Since 1995 the European Union has made a substantial financial commitment to the Peace Process, which has undoubtedly assisted the political, social and economic development of Northern Ireland. The current PEACE II Programme ends in 2004 and there is no doubt that the need for activities that promote reconciliation will continue after that date as underpinning support for the implementation of the Good Friday Agreement. This proposed Framework does include a continuing role for added-value cross-border initiatives. In addition to this, further EU support to promote reconciliation and further underpin the wider work to implement the Good Friday Agreement would remain a possibility. However, the unique objectives and different timescale of the PEACE II Programme make it appropriate that this would happen separately from the consideration of this proposed EU Framework for Devolved Regional Policy.

**English regions 4.19** The precise details of how the EU Framework would be implemented in England do not need to be settled in order to reach a decision in principle as to whether this should form the basis of the Government's position on the Structural Funds post-2006. But the Government's framework for institutional reform to deliver an effective regional policy in the UK, outlined in Chapters 1 and 2, provides an obvious starting point. A nationally funded approach for regional development should be managed within a framework in which:

- there were clear long term goals set by the Government, for example, through the setting of PSA targets which set out the key outcomes the Government is committed to achieving in return for investment, or through the national action plans for employment, which link funding to the delivery of improvements in services and outcomes;
- service deliverers would have maximum local discretion and flexibility to innovate, respond to local conditions and meet differing consumer demands within a framework of targets and accountability arrangements;
- there would be independent and effective arrangements for audit and inspection to hold departments and agencies accountable for performance against targets;
- there would be transparency about what is being achieved, through the monitoring and reporting of performance against targets; and
- strategic planning and decision-making would be devolved fully to elected regional assemblies and decentralised as far as possible to other existing regional bodies.

**Strengths of Structural Funds must be retained 4.20** In pursuing this approach, it would be important to ensure that the strengths of the current Structural Funds – seven year funding, partnership working, the ability to 'badge' projects to reflect their special status – could be retained. At the same time, the opportunity should be taken to tackle some of the weaknesses: for example, by providing greater freedom to focus on regionally or locally determined priorities and through simplified implementation with less red tape and regulation.

**Rural development and the CAP 4.21** Implementation of the Framework in the UK would need to ensure that rural development measures are suitably supported. Reform of the Common Agricultural Policy will contribute to higher rural productivity and can be expected to have a major beneficial impact upon the rural dimension of EU regional policy and the UK will continue to negotiate to ensure that farmers are reconnected to the market and to ensure that public money is used where appropriate to pay to combat market failures and for identifiable public benefits.

**Budgetary implications** **4.22** In regard to the UK's position as a contributor to the EU budget, the total amount the UK contributes to the overall budget over the 2007-13 funding period would be significantly lower under the EU Framework than continuing with the status quo or other high-budget approaches and these savings could contribute towards enhancing domestic regional policies.

## EU DEBATE AND NEGOTIATION

**4.23** The Government not only believes that this approach represents the best policy for UK nations and regions, and for the UK as a whole, but also that, founded on sound economic principles which aim to capture and build on the benefits of regional diversity, it represents the best policy for EU regions and Member States, and for the EU as a whole.

**EU debate so far...** **4.24** The Commission's Second Cohesion Report was published in January 2001, and since then there have been three major Commission-organised events in Brussels (May 2001 and May and September 2002), from which the Commission's thinking has begun to emerge, and several discussions at meetings of Member States in the General Affairs and External Relations Council Structural Actions Working Group. Other Member States are also in the process of formulating their positions. Early contributions to the debate came from the Spanish and Italian Governments, who issued memoranda in April and June 2001 respectively, and the Dutch Government, who adopted an initial position on the future of the Structural Funds in September 2001. The Commission has also been developing its own thinking (see Annex A3) and will put forward proposals in its Third Cohesion Report expected in November this year.

**...has failed to propose the necessary reform** **4.25** Fundamental reform of the EU's current approach to regional policy is required, whilst recognising the need for a continuing EU dimension. In the Government's view, none of the other approaches put forward so far adequately achieves this. The emerging Commission thinking would not go far enough in providing the reforms needed. And whilst the 'Cohesion Approach' (see Annex A4) would reduce the wasteful recycling of money between the more prosperous Member States, it lacks a framework to tackle issues at a European level – a serious drawback. It is only by taking a holistic approach, creating a framework which promotes and enables modern, flexible, locally led policies, devolved to the most appropriate level, that the right environment can be created for every region to develop its potential to the full.

**4.26** Negotiation at the EU level is a difficult and uncertain matter. Member States have differing interests and can all be expected to defend these interests across the whole range of issues under negotiation at any time. The final decision on the 2007-2013 Structural Funds will be taken by unanimity so all Member States will have to support whatever is agreed. Traditionally the main objective of most Member States in Structural Fund negotiations has been to maximise their budgetary receipts, and this will continue to be a factor in future negotiations. Other Member States will therefore need to be persuaded that an approach that reduces spending in richer Member States and gives greater flexibility in the pursuit of a dynamic regional policy would better serve their interests.

**4.27** Those Member States, including the UK, that are net contributors to the EU budget might be expected to see immediate benefits in terms of reduced gross contributions, potentially freeing up resources for increased national expenditure in support of domestic policies. We believe that many Member States, whether net contributors or not, will also share our view that the present system of recycling a large proportion of the Structural Funds budget amongst the richer Member States should be brought to an end, and that resources in future should be focused on the delivery of programmes in the poorest Member States. At the same time, the EU Framework for Devolved Regional Policy would ensure the necessary flexible environment for successful regional policy at the national, regional and local level throughout the EU in all Member States.

**4.28** The Framework also responds to the desire, shared by a number of Member States and the Commission, to retain a strong EU dimension to future cohesion policy. And for those Member States who are currently major beneficiaries under Structural and Cohesion Fund programmes, it offers a structured approach to managing the transition to an EU of 25 or more Member States in which they will no longer be the principal beneficiaries and in which over time, on present economic growth trends, they will themselves become net contributors.

## CONSULTATION

---

**4.29** The debate is getting underway across the UK; for example, a number of discussions have already been organised by the RDAs, Regional Assemblies and other organisations in the English regions about the future of the Structural Funds and several regions have subsequently developed position papers (see Annex A5 for a list of current position papers). The devolved administrations have been actively engaged in the debate, including organising events, conducting bilateral meetings with sectors and regions involved in Structural Funds delivery, and participating in Commission seminars on the issue.

**4.30** The debate now needs to be widened to inform the development of a UK position. The Government believes that the proposed EU Framework for Devolved Regional Policy provides the best way forward for the nations and regions of the UK, for the UK as a whole and for the EU. This Framework is based on the Government's firm commitment to an effective regional policy. In particular, the Government believes the increased flexibility for UK nations and regions which this approach would allow is the best way of enhancing their ability to develop in accordance with their natural strengths. But before finalising its position, the Government wishes to consult stakeholders in the nations and regions of the UK. The Government therefore asks:

**What are your views on our proposed approach: that, in principle, the EU Framework for Devolved Regional Policy should form the basis for a UK position on Structural Funds post 2006? The Government would also welcome comments on its overall objectives for the future of Structural Funds and on the current thinking emerging from the Commission.**

**4.31** Responses are invited by 4 July 2003, and the details of how to respond can be found in Annex A6.

