

DP 47/99-03



Rhodri Morgan AM MP

Cynulliad Cenedlaethol Cymru  
The National Assembly for Wales

Prif Ysgrifennydd · First Secretary

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M Michel Barnier  
Membre de la Commission Européenne  
200 rue de la Loi  
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12 April 2000

*Dear Michel*

Thank you for your letter of 6 March. I was grateful for your kind words on my appointment as First Secretary. These are, as you say, important times for Wales, and the challenges before us are immense but we will not be lacking the confidence and the courage to address them. I know that we will have the Commission's support in that endeavour.

You expressed concern about an apparent lack of progress in the negotiations on our Objective 1 proposals. The position is now very different, and substantial agreement has been reached between our officials; I intend formally to present the amended proposals to the full Assembly on 12 April, and I am as confident as any First Secretary can be that they will be favourably received. I wish to record my thanks to your officials for their constructive efforts to assist mine in bringing the negotiations to a satisfactory conclusion.

On the related financial issues, I know that you have also written to Stephen Byers about this. Under the UK's Public Expenditure System, Structural Funds receipts form an element of the public expenditure provision for Government Departments. This also applies to the National Assembly. The Assembly's expenditure plans make separate and identifiable provision to cover forecasts of payments under Structural Funds programmes for which the Assembly has expenditure responsibility. These plans are revised as necessary should the actual amount of payments differ from the forecasts. These arrangements, which applied in Wales in respect of Objective 2 and Objective 5b programmes during the period 1994-99, will continue to apply for the new programmes.

For the period up to March 2001, the Assembly has allocated £25million for Objective 1 expenditure. If additional projects are approved and expenditure incurred during that period over and above this, sufficient additional resources will be provided on an in-year basis to make good any potential shortfall in payments. For future years, resources for Wales, including those for Objective 1, will be determined in the UK Government's Spending Review, which will conclude in July. I have been given an assurance that enabling West Wales and the Valleys to take full advantage of the opportunities presented by Objective 1 status is a key issue for the Government, and that the Government's goal is to ensure that all the UK's Objective 1 allocations are fully taken up over the programming period. In terms of public expenditure provision to cover the European receipts, therefore, the Assembly will be able to submit the final Single Programming Document, including of course the Financial Tables, in good faith. I have the Treasury's support in saying that.

As regards match funding, the United Kingdom practice is for project applicants to identify this. There are a number of sources available, including in the Welsh case the Assembly's own programmes and those of the public agencies and local authorities to which it provides resources. You refer to "pound for pound" public sector match funding as desirable, but I am aware that Objective 1 programmes in other Member States have not followed this pattern, most recently in the case of an Austrian region where the ratio of Structural Fund support to public funding is 3 to 1 rather than 1 to 1. The proposals we have put forward in our draft Single Programming Document seem to me appropriate, especially given the balance of match funding to be found in relation to the previous programmes. I also share my UK colleagues' view that there should be a degree of flexibility in the financial tables as to the proportions of public and private sector funding; if it proved possible to secure more private sector match funding than projected in the Financial Tables for a particular measure, it should be permissible to reduce the public contribution *pari passu*, increasing the public funding support in a different measure which is experiencing a shortfall in private sector support. Naturally, the overall size of the programme and the additionality of the Structural Fund contribution would be respected.

Finally, you referred to implementation of the programme. Obviously this is as important a matter for us as it is for you, and the Assembly's Economic Development Committee has taken a close interest in the proposed arrangements; the Committee has also benefited from evidence on this matter given by one of your senior officials. The Assembly decided at an early stage that the existing Welsh European Programme Executive needed to be substantially enhanced to meet the demands of the much bigger Objective 1 programme. It has now established a special agency called the Welsh European Funding Office to administer the new programmes, and its new Chief Executive (who has substantial private sector experience as well as good knowledge of the Assembly's internal organisational arrangements) is already in post. I expect to meet him on a regular basis to review progress

in implementing the programme. The staff of the Welsh European Programme Executive have been absorbed en bloc into the new agency, and so the experience of the old programmes will be brought to bear on the new ones; Assembly staff from our European and Urban and Rural Development Divisions have also been incorporated into the new structure. Active steps are being taken to develop the administrative arrangements for the new programmes, and the necessary ICT connections have been established and are fully operational. I am confident that we will be in a position to begin implementation of the programme this summer as soon as we have the Commission's Decision.

*Jones*

*Rhodri*

10 MAR 2000

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MICHEL BARNIER

*Membre de la Commission européenne*

Brussels,  
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06 -03- 2000

Dear Mr Morgan,

I am taking this opportunity to write to you in your new role as First Secretary for Wales in order to draw your attention to certain important issues relating to the preparation of the Objective 1 single programming document (SPD) for West Wales and the Valleys. I also wish to extend my warmest congratulations to you on your appointment which comes at an important moment for Wales.

With regard to the Objective 1 SPD, a particular concern of mine is the apparent lack of progress in the negotiations with the Commission. The Commission is anxious to see that actions on the ground begin without delay, recognising that Wales has the largest Objective 1 programme in the UK in terms of population coverage and levels of EU funding. This was why my services reacted without delay to the initial development plan coming from the region, and meetings were convened in Cardiff on 24 November, 14 and 15 December. Preliminary written comments were forwarded on 20 December 1999. Further meetings were held in Brussels, Manchester and Cardiff on 19 January, and 17 and 25 February 2000.

At present, and in spite of this activity, the plan appears to contain many of the weaknesses identified at the outset: insufficient description of the current socio-economic position of the region, absence of an operational ex-ante evaluation, incomplete information on the financing of the plan and inadequacies in the description of the delivery mechanism. The aim of the Commission is simply to ensure that this highly important programme for the region and its citizens has a sound beginning, with all of the elements set out in the regulation in place to ensure value-for money. It is also important to bring the negotiations to a satisfactory conclusion as soon as possible, and I very much hope that you will be able to help me reach this point in the coming weeks.

A particular matter that I wish to mention is that of the simultaneous funding of the previous and current programmes. We spoke about this when you came to my office on 27 January.

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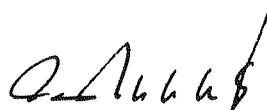
The previous programmes, which ended on 31 December 1999 as far as the *contracting* of resources was concerned, will continue to be realised on the ground over the next 2 years giving rise to payments to final beneficiaries. These payments will require national co-financing in addition to the payments arising in the initial phases of the new Objective 1 programme. I would therefore underline the need for you to ensure that sufficient resources are made available to co-finance all of these Structural Funds programmes.

In the past, the tradition within the UK has been one of matching European money "pound-for-pound" by the public sector at the programme level. This has been a national decision, but the Commission has tended to find it a sensible one in the circumstances as an expression of a political commitment at national level - matching that at the level of the Union - to contribute effectively to the development of the worst off areas. I think that it would be a step backwards if this traditional commitment were discontinued and I would like to see it reflected in the new programmes, preferably, within the text of the SPD itself.

Another matter of concern relates to the delivery system for the implementation of the programme. The European Union contribution to the Welsh Objective 1 programme alone is more than twice that given under all Structural Fund programmes in the region in the period 1994-1999. At the same time, it is not clear that the experience gained in the management of past programmes will be brought to bear in the new programmes. The new programmes are the most decentralised that the Union has operated since the reform of the Structural Funds in 1989. It is therefore more important than ever that the Commission has the necessary assurances on the quality of the delivery system for the administration of the programme, especially with regard to financial management and control. I am obliged to seek complete information on these matters before the SPD can be approved.

My services will be pursuing these and other issues with yours over the coming weeks. I remain convinced, however, that a satisfactory outcome can be reached by the end of March leading to the formal adoption of a new SPD for West Wales and the Valleys.

Yours sincerely, *Michel Barnier*



Michel BARNIER