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# European Structural Funds

The schemes of regional assistance in the United Kingdom provided by the European Union have recently been renegotiated. The new schemes are now in operation for the period 2000 to 2006 inclusive.

This Paper includes discussion of funding under Objectives 1, 2 and 3 and related issues. It also considers whether there is enough public expenditure provision to permit the use of all the money available to Wales from the Structural Funds.

A further Paper, on UK regional aid schemes provided domestically, is expected to be produced shortly, following today's announcement that the revised Assisted Areas map has been approved by the European Commission.

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## **Summary of main points**

The schemes of regional aid in the United Kingdom provided by the European Union have recently been renegotiated. The new schemes are in operation for the period 2000 to 2006 inclusive.

This Paper discusses the schemes of assistance available from the European Structural Funds. In each case, the areas eligible for assistance are discussed, the types of project that can be funded and the amounts of money involved.

Some aspects of the provision of regional aid are now devolved to the administrations in Scotland, Wales and Northern Ireland. Where these now differ from the situation in England, reference is made to this. In particular, the Paper includes a consideration of whether there is enough public expenditure provision to permit the use of all the money available to Wales from the Structural Funds.

A further Paper, on UK regional aid schemes provided domestically, is expected to be produced shortly, following today's announcement that the revised Assisted Areas map has been approved by the European Commission.

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## I Background

The Structural Funds provide the main way in which the EU encourages greater economic and social cohesion and uniformity of living standards across its area. They are the:

- European Regional Development Fund (ERDF),
- European Social Fund (ESF),
- European Agricultural Guidance and Guarantee Fund (EAGGF) guidance section and
- Financial Instrument for Fisheries Guidance (FIFG).<sup>1</sup>

Assistance is also given through the European Investment Bank and the Cohesion Fund.<sup>2</sup> Parts of the UK are designated as being eligible for assistance under the different programmes. In most cases, designations last for several years since the programmes are organised on a multi-annual basis. The Commission provides global sums of money for the implementation of national development plans. As most funding is provided on a programme basis, the sums allocated under each scheme are often received over a period of years rather than in one lump sum.

Structural Fund expenditure is expected to complement national policies and actions: it should supplement rather than displace resources allocated at a national level. This concept is often referred to as ‘additionality’. As a general rule, the EU contributes no more than 50 per cent of the total cost of projects.

## II The Situation 1994 to 1999

During the period 1994 to 1999, financial assistance from the Structural Funds concentrated on seven Objectives, which focused attention on the regions and groups in society most in need of assistance. They were:

- |             |  |
|-------------|--|
| Objective 1 | to promote the development and structural adjustment of regions whose development is lagging behind the rest of the EU                                       |
| Objective 2 | to convert regions seriously affected by industrial decline  |
| Objective 3 | to combat long-term unemployment and facilitate the integration into working life of young people and of persons exposed to exclusion from the labour market |

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<sup>1</sup> The FIFG was, strictly speaking, not a Structural Fund in the 1994 to 1999 period, but it financed structural actions in the fisheries sector. It is, however, a Structural Fund in the 2000 to 2006 programme period.

<sup>2</sup> FIFG was concerned solely with programmes under Objective 5(a) between 1994 and 1999. During the present programme period, FIFG funding in Objective 1 regions is incorporated into regional development programmes with the other Structural Funds. The Cohesion Fund is only applicable to Greece, Spain, Ireland and Portugal under the provisions of the Maastricht Treaty, but cannot be used to finance projects that receive support from the ERDF, the ESF or the guidance section of the EAGGF.

Objective 4	to facilitate the adaptation of workers to industrial changes and to changes in production systems
Objective 5 (a)	speeding up the adjustment of agricultural and fisheries structures in the framework of the reform of the Common Agricultural Policy
Objective 5 (b)	facilitating the development and structural adjustment of rural areas
Objective 6	assisting the development of sparsely-populated regions (Sweden & Finland only)

All parts of the EU were equally eligible for support under Objectives 3, 4 and 5(a). It was, however, under the other Objectives – 1, 2, 5(b) and 6 – that specific regions and areas qualified for support.

Areas that were eligible for Objective 1 funding were not eligible for assistance under the other area and regional Objectives; they also did not qualify for assistance under Objectives 3 or 4. Within the UK, the Highlands and Islands, Northern Ireland and Merseyside were eligible for funding under Objective 1. Areas eligible for Objectives 2 and 5b were more widely dispersed. Areas eligible for Objective 2 covered about 31% of the total UK population including much of central Scotland, South Yorkshire, the West Midlands and South Wales.<sup>3,4</sup> Areas eligible under Objective 5b covered 11% of the total area of the United Kingdom and comprised three types: the uplands and the least-favoured outlying regions (eg south eastern Scotland and most of Wales); the lowlands affected by the reform of the Common Agricultural Policy (eg Lincolnshire, Norfolk and the Fens); and regions heavily dependent on fisheries (eg Cornwall and parts of Devon).<sup>5</sup>

The funds available for particular Objectives are shown in **Table 1** below.

**Table 1**  
**Allocation of Structural Funds by Objective, 1994-1999**

Objective	ERDF	ESF	EAGGF-Guidance	FIFG
1	✓	✓	✓	✓
2	✓	✓		
3		✓		
4		✓		
5a			✓	✓
5b	✓	✓	✓	
6	✓	✓	✓	✓

*Source: European Commission Reform of the Structural Funds 2000-2006; Comparative analysis (June 1999)*

<sup>3</sup> Smaller areas that were eligible under Objective 2 included four areas that had not previously been eligible: East London and the Lee Valley, Plymouth, Thanet and Gibraltar, which is counted as part of the UK for Structural Funds purposes.

<sup>4</sup> *Source: European Commission The Impact of the Structural Funds on the United Kingdom*

<sup>5</sup> *Source: European Commission, ibid*

As well as the numbered Objectives, thirteen Community Initiatives were implemented during the 1994-99 programming period. Among those applicable to parts of the UK were KONVER (economic diversification in regions heavily dependent upon the defence sector), LEADER II (rural development), PEACE (support to the peace and reconciliation process in Northern Ireland) and URBAN (regeneration of crisis-struck areas in medium-sized and large towns).<sup>6</sup>

The total UK allocation for the 1994 to 1999 period was 13,652 million ECU (or £9.2 billion)<sup>7</sup> at 1998 prices.<sup>8</sup> It is, however, difficult to arrive at precise figures for the amounts actually *received* by the UK during any particular period – as distinct from the amounts initially *allocated* – from the Structural Funds. As well as variations due to exchange rate fluctuations, some receipts are not recorded centrally, and receipts in one year include reimbursement of some claims submitted in respect of earlier years. In addition, programmes have until the end of 2001 to spend and claim the amounts allocated and committed for the period 1994-99.<sup>9</sup> A good indication of the amounts actually received (in sterling terms), however, is given in **Table 2**, which contains figures recorded by HM Treasury. To put these amounts into context, they represent just over 30% of the total public sector receipts going to the UK from the Community Budget between 1994/95 and 1999/2000.<sup>10</sup> Most of the remaining £16.8 billion was received under the Common Agricultural Policy from the Agricultural Guarantee Fund.

**Table 2**  
**Public sector receipts from the European Structural Funds**  
**United Kingdom**

	£ million						
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	Total
	outturn	outturn	outturn	outturn	outturn	estimated	1994/95 to outturn 1999/2000
Agricultural Guidance Fund	66	23	39	51	52	101	<b>332</b>
Social Fund	496	709	733	867	511	816	<b>4,132</b>
Regional Development Fund	607	404	621	640	348	442	<b>3,062</b>
<b>Total</b> <sup>(a)</sup>	<b>1,169</b>	<b>1,136</b>	<b>1,393</b>	<b>1,558</b>	<b>911</b>	<b>1,359</b>	<b>7,526</b>

(a) Excludes some small amounts received from the FIGF. These are shown in a departmental breakdown in Table 13d in Cm 4615.

Source: HM Treasury *The Government's Expenditure Plans 2000-2001 to 2002-2002*, Chancellor of the Exchequer's Departments, Cm 4615, April 2000, Table 13c

<sup>6</sup> Details of each initiative are available at [http://www.inforegio.org/wbpro/prord/prordc/prdc2\\_en.htm](http://www.inforegio.org/wbpro/prord/prordc/prdc2_en.htm)

<sup>7</sup> Using an exchange rate in 1998 of 1.4887 synthetic euros to the pound, as in Table 7.1A of NS *Financial Statistics*, July 2000

<sup>8</sup> Source: Trade & Industry Committee, *Reform of European Structural Funds* HC 697 1997/98, Annex B Table 1

<sup>9</sup> HC Deb 8 June 2000 c297W

<sup>10</sup> Source: HM Treasury *The Government's Expenditure Plans 2000-2001 to 2002-2002*, Chancellor of the Exchequer's Departments, Cm 4615, April 2000, Table 13c.

It is usually even more difficult to quantify the receipts received by any particular area *within* the UK. For example, a portion of the ESF receipts going to DfEE needs to be included with Structural Fund receipts received by the former Scottish Office when trying to establish the total amount received by Scotland in the years when DfEE was responsible for ESF funding in Scotland. Despite these difficulties, Scottish Executive Finance Minister Jack McConnell was recently able to state:<sup>11</sup>

Scotland has a record which is second to none in maximising the utilisation of European Structural Funds. In our last round, we spent fully 99% of the allocation of money available to us. Projects worth over £2.4 billion were approved involving about £1 billion of structural grant.

It is too early to assess the precise extent to which Scotland's performance has been better than that of the other parts of the UK.

At a more local level (eg for a local authority area or parliamentary constituency), identification of amounts received is not routinely carried out. This is because projects are managed by various bodies, and it is not always possible to identify the precise geographic areas benefiting from a particular project.

### **III Renegotiating the Structural Funds**

From 1997 to 1999, the European Commission undertook a full review of the way in which the Structural Funds operated. This review was necessitated by several factors:

- The programming round for the Structural Funds was due to expire at the end of 1999;
- The structure for the financing of the whole of the European Union – the Financial Perspective – expired at the end of 1999. Related to this was a commitment for the Commission to re-examine not just the patterns of expenditure within the EU Budget, but also the way in which it was financed.<sup>12</sup>
- The likely enlargement of the EU. The potential entrants to the EU are significantly less affluent than the current Member States, and are therefore more likely to qualify for assistance from the Structural Funds for economic development than some of the existing Member States. It would simply not be possible to extend the current system of funding at its present level and intensity to new entrants without significant increases in the size of the EU budget. Indeed,

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<sup>11</sup> Scottish Executive press release *McConnell praises Scotland's performance on EU Structural Funds*, 30 May 2000

<sup>12</sup> *Financing the European Union: Commission Report in the Operation of the Own Resources System*, European Commission DG XI, 7 October 1998



if the programmes currently undertaken by the Structural Funds and the Cohesion Fund were extended without reform to the new applicant States then the total costs could more than double.

The European Commission published a document on 16 July 1997 entitled *Agenda 2000*. This provided the starting point for the review of the Structural Funds and regional policy. From this a new set of Regulations was drafted, discussed, revised and finally adopted. These Regulations now form the framework for the operation of the Structural Funds for the period 2000 to 2006.

## IV The new system: 2000 to 2006

Regulations governing the operation of the Structural Funds and the Cohesion Fund from 2000 to 2006 were formally adopted by the Council of Ministers on 21 June 1999.<sup>13</sup> One of the main differences from the 1994 to 1999 period is that the number of Objectives was reduced from seven to three. Another change is that the Structural Funds available for each Objective have been streamlined. They are now as shown in **Table 3** below.

**Table 3**

### Allocation of Structural Funds by Objective, 2000-2006

Objective	ERDF	ESF	EAGGF-Guidance	FIFG
1	✓	✓	✓	✓
2	✓	✓		
3		✓		

Source: European Commission *Reform of the Structural Funds 2000-2006; Comparative analysis* (June 1999)

On 1 July 1999, the European Commission announced the financial allocations to each Member State for Objectives 1 and 2.<sup>14</sup> The new schemes of assistance are outlined below.

### A. Objective 1

Two thirds of total Structural Funds are devoted to those regions whose development is lagging behind. Objective 1 status for 2000 to 2006 has been conferred on:

- current NUTS level 2 regions<sup>15</sup> whose GDP per capita is less than 75 per cent of the Community average;

<sup>13</sup> Council Regulation (EC) No 1260/1999 of 21 June 1999. These documents are available on the EU's regional policy website, 'Inforegio' at [http://www.inforegio.cec.eu.int/wbdoc/docoffic/official/reglem\\_en.htm](http://www.inforegio.cec.eu.int/wbdoc/docoffic/official/reglem_en.htm).

<sup>14</sup> European Commission press release IP/99/442 dated 1 July 1999 available at <http://europa.eu.int/rapid/start/welcome.htm>

<sup>15</sup> NUTS (Nomenclature of Units for Territorial Statistics) is a hierarchical classification of spatial units that provides a breakdown of the EU's territory for producing comparable regional statistics. Following

- the most remote regions (the French overseas departments, the Azores, Madeira and the Canary Islands), which are all below the 75 per cent threshold;
- areas eligible for Objective 6 funding in the period 1995 to 1999 (the remote parts of northern Sweden and Finland).

The list of eligible regions was announced by the Commission on 1 July 1999.<sup>16</sup> In the UK, the following areas are eligible: Cornwall, South Yorkshire, Merseyside and West Wales & the Valleys. They are due to receive a total of about £3 billion between 2000 and 2006<sup>17</sup> and cover over 5.5 million people, or 8.6% of the UK population.<sup>18</sup> A list of Objective 1 areas in all fifteen Member States is given in **Appendix 1** at the end of this paper.

## **B. Objective 2**

There are four strands within the new Objective 2: areas undergoing socio-economic change in the industrial or service sectors, rural areas, urban areas, and areas dependent on the fisheries sector. Assistance provided under Objective 2 has to be concentrated on the areas most in need. Objective 2 funding has generally been based on NUTS level 3 regions.<sup>19</sup>

Support under Objective 2 is restricted to 18% of the EU population, compared with 25% of the EU population covered by Objectives 2 and 5b in the 1994 to 1999 period. The Commission has indicated that the split between the four strands should be 10% industrial/service sectors, 5% rural areas, 2% urban areas and 1% fisheries areas. The UK is subject to an overall limit of 13.8 million (or 24%) of the population.

The eligibility criteria for Objective 2 are rather more complicated than those for Objective 1, since there are different criteria for each of the four strands. The notes below provide a summary of the criteria; the full text is given in Article 4 of the Regulation.

**Areas undergoing socio-economic change in the industrial and service sectors** – The criteria for this strand are based principally on two factors. The first is that employment in the region is highly dependent upon a particular

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a recent review, there are 37 NUTS level 2 areas in the UK. They generally comprise groups of local authority areas or larger individual counties.

<sup>16</sup> European Commission press release IP/99/442

<sup>17</sup> DETR press notice 644/99 *English regions share nearly £2 billion of EU money*, 1 July 1999

<sup>18</sup> *Source*: European Commission *Regional policy and Structural Funds in the United Kingdom (2000-2006): regions whose development is lagging behind, eligible for Objective 1*, 18 May 2000

<sup>19</sup> Following a recent review, there are 133 NUTS level 3 areas in the UK. They generally comprise groups of local authority areas or individual counties or unitary authorities.

industry – and has fallen in recent years, and secondly that the region has an above average level of unemployment.

**Rural areas** – To be eligible for Objective 2, rural areas must either have a low population density, or a dependence on employment in agriculture, **and** have an above average rate of unemployment.

**Urban areas** – Urban areas must meet at least one of the following criteria: high rate of long-term unemployment, high level of poverty (including precarious housing conditions), a damaged environment, high crime rate and poor educational attainment.

**Fisheries areas** – coastal areas in which the number of jobs in the fishing industry as a percentage of total employment is significant, and which are facing socio-economic problems relating to the restructuring of the fisheries sector.

In the UK, the DTI (which is the Department with overall responsibility for the Structural Funds) conducted a public consultation over the designation of areas for Objective 2 funding. This was used to inform the process of devising a new map of eligible areas.

The draft Objective 2 map was published by the DTI on 8 October 1999.<sup>20</sup> The areas included on the map were built up from individual electoral wards, with each block having a minimum population of 50,000. This therefore represented a move away from the use of NUTS level 3 areas referred to above. The eligible areas on the draft map included parts of Devon and north Somerset; parts of Norfolk, rural Wales and the Marches, the Lincolnshire Fens, industrial areas within the West Midlands, the North West and the North East, rural parts of North Yorkshire, Cumbria and Northumberland; the Scottish Borders, and the central industrial belt in Scotland.

After examination by three consultative Commission committees,<sup>21</sup> final approval was given on 30 March 2000.<sup>22</sup> A few changes were made to the draft map in England and Scotland before final approval was given. These were made to meet the requirements of the Regulation on statistical data and size of each proposed area.<sup>23</sup> The eligible wards are listed at the DTI web-site at [http://www.dti.gov.uk/objective2/pr\\_notice.htm](http://www.dti.gov.uk/objective2/pr_notice.htm). The amount allocated for the UK over the 2000 to 2006 period is about £2.8 billion.<sup>24</sup>

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<sup>20</sup> *EU Structural Funds: The Government's Proposals for New Objective 2 Areas*; DTI, 8 October 1999 [URN99/1021]

<sup>21</sup> The Committee for the Development and Reconversion of the regions, the Committee for Agricultural Structures and Development, and the Committee for Fishing and Aquaculture

<sup>22</sup> HC Deb 18 April 2000 c452W

<sup>23</sup> HC Deb 2 March 2000 c342W. Details of the changes were given at HC Deb 3 March 2000 cc425-6W

<sup>24</sup> *Source*: European Commission *Regional policy and Structural Funds in the united Kingdom (2000-2006)*, 18 May 2000

### **C. Objective 3**

Objective 3 provides support for the adaptation and modernisation of policies and systems of education, training and employment. It applies outside areas covered by Objective 1. Each Member State is to receive a percentage of the total resources on the basis of its share of the eligible population, the employment situation, the severity of problems such as social exclusion, education and training levels, and the participation of women in the labour market. Great Britain is eligible for about £2.9 billion for the 2000 to 2006 period.<sup>25</sup>

### **D. Fisheries**

The FIFG fund adds to actions taken under the Common Fisheries policy. In Objective 1 regions, the FIFG funds are integrated into other regional development programmes with the other Structural Funds. Elsewhere, £73m has been allocated to FIFG in the UK for the period 2000-2006.<sup>26</sup>

### **E. Community Initiatives**

Under the new Regulations there will be just four Community Initiatives:

- INTERREG – cross-border, trans-national and inter-regional co-operation;
- EQUAL – trans-national co-operation to combat all forms of discrimination and inequalities in the labour market; attention will be paid to the social and vocational integration of asylum seekers
- LEADER – rural development;
- URBAN – economic and social regeneration in urban areas with a view to promoting sustainable development.

Originally, the draft Regulations listed just three Community Initiatives, and did not include the URBAN Initiative. Following discussions in the European Parliament in May 1999, however, it was reinstated.

The total budget across the EU for the four Initiatives for the period 2000 to 2006 is €10.442 billion (about £6.5 billion), or 5.35% of the total allocation for the Structural

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<sup>25</sup> Source: Policy update ESF Post-2000 – Objective 3 update at <http://www.esfnews.org.uk/pt2000.htm>

<sup>26</sup> Source: European Commission *Regional policy and Structural Funds in the United Kingdom (2000-2006)* 18 May 2000

Funds The total budget for these Initiatives within the UK is €961m (about £600m), with the following breakdown:<sup>27</sup>

INTERREG	€362M (about £225M)
EQUAL	€376M (about £235M)
LEADER	€106M (about £65M)
URBAN	€117M (about £75M).

The reduction in the number of Community Initiatives has taken place mainly because many of the Community Initiative programmes in the 1994 to 1999 period were thought to be of only a limited value and visibility. In some cases, the work involved in administering them was out of proportion to the money available.<sup>28</sup> It is intended that several of the previous Initiatives will be incorporated within one or more of Objectives 1, 2 and 3. The PEACE Initiative will, for example, be included with the programme of ex-Objective 1 transitional support to Northern Ireland. In addition, the scope of each Structural Fund has been widened so that each Initiative can be funded by only one Fund without the scope of each Initiative having to be reduced.<sup>29</sup>

Across the EU, nearly 50% of Community Initiative appropriations have been allocated to INTERREG. This will focus attention on cross-border activities, particularly within the context of enlargement; and better co-ordination with the PHARE and TACIS programmes (which are providing assistance to EU applicant countries).

## F. Transitional Support

Transitional support will be given to all regions previously receiving assistance under one of the Structural Fund programmes but which do not meet the new eligibility criteria. The overall financial allocation for transitional support has been set at €11.142 billion (about £7 billion). The assistance in all regions and areas is lower in 2000 than in 1999, and will cease for ex-Objective 1, ex-Objective 2 and ex-Objective 5b regions by the end of 2005 in most areas.<sup>30</sup> The profile of transitional support will be tailored to the specific needs of individual regions, in agreement with the Commission.

Within the UK, transitional support to ex-Objective 1 areas (Northern Ireland and the Highlands and Islands) will total £750m between 2000 and 2006, covering a population

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<sup>27</sup> Source: European Commission *Regional policy and Structural Funds in the United Kingdom (2000-2006)* 18 May 2000

<sup>28</sup> Source: Working Document at [http://www.inforegio.org/wbdoc/docoffic/official/orient\\_en.htm](http://www.inforegio.org/wbdoc/docoffic/official/orient_en.htm)

<sup>29</sup> The ERDF funds INTERREG and URBAN, the EAGGF (Guidance section) funds LEADER, and the ESF funds EQUAL. Source: European Commission *Reform of the Structural Funds 2000-2006: Comparative analysis* (June 1999)

<sup>30</sup> Support will continue into 2006 in some poorer areas, such as the Orkneys and Shetland.

of 2 million. In addition, almost £500m is available over the same period for ex-Objective 2 and 5b areas.<sup>31</sup>

Details of former Objective 1 areas in all Member States eligible for transitional support are given in **Appendix 1** at the end of this paper.

## **G. Financial Allocations**

Article 7 of the Regulations shows how the overall allocations for the period 2000 to 2006 have been divided up:

Objective 1	69.7%	(including 4.3% for transitional support)
Objective 2	11.5%	(including 1.4% for transitional support)
Objective 3	12.3%	
Community Initiatives	5.35%	
Innovative Actions	0.65%	

**Table 4** below shows the allocations for the three Objectives for each Member State.

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<sup>31</sup> DTI press notice *Byers welcomes Commission agreement to £3 billion regional funding*, undated, at [http://www.dti.gov.uk/objective2/pr\\_notice.htm](http://www.dti.gov.uk/objective2/pr_notice.htm)

**Table 4**  
**Structural Fund Allocations 2000-2006** <sup>(a)</sup>  
**Million euros, 1999 prices**

Country	Objective 1	Phasing Out Objective 1	Objective 2	Phasing Out Objective 2	Objective 3	FIFG (outside Objective 1)	<b>Total</b>
Belgium	0	625	368	65	737	34	<b>1,829</b>
Denmark	0	0	156	27	365	197	<b>745</b>
Germany	19,229	729	2,984	526	4,581	107	<b>28,156</b>
Greece	20,961	0	0	0	0	0	<b>20,961</b>
Spain	37,744	352	2,553	98	2,140	200	<b>43,087</b>
France	3,254	551	5,437	613	4,540	225	<b>14,620</b>
Ireland <sup>(b)</sup>	1,315	1,773	0	0	0	0	<b>3,088</b>
Italy	21,935	187	2,145	377	3,744	96	<b>28,484</b>
Luxembourg	0	0	34	6	38	0	<b>78</b>
Netherlands	0	123	676	119	1,686	31	<b>2,635</b>
Austria	261	0	578	102	528	4	<b>1,473</b>
Portugal	16,124	2,905	0	0	0	0	<b>19,029</b>
Finland	913	0	459	30	403	31	<b>1,836</b>
Sweden <sup>(c)</sup>	722	0	354	52	720	60	<b>1,908</b>
UK <sup>(b)</sup>	5,085	1,166	3,989	706	4,568	121	<b>15,635</b>
<b>Total</b>	<b>127,543</b>	<b>8,411</b>	<b>19,733</b>	<b>2,721</b>	<b>24,050</b>	<b>1,106</b>	<b>183,564</b>

Notes: (a) Excluding Community Initiatives

(b) Including PEACE (2000 to 2004) which is to be funded under Objective 1

(c) Including the special programme for Swedish coastal zones

Source: European Commission press release IP/99/442 dated 1 July 1999

Importantly, total annual receipts from structural operations (ie Structural Funds and the Cohesion Fund combined) in any Member State must not exceed 4 per cent of national GDP.

On the rates at which assistance will be paid, Article 29 states that the contribution of the funds will be subject to the following ceilings:

a maximum of 75% of the total eligible cost and, as a general rule, at least 50% of eligible public expenditure in the case of measures carried out in the regions covered by Objective 1. Where the regions are located in a Member State covered by the Cohesion Fund, the Community contribution may rise, in exceptional and duly justified cases, to a maximum of 80% of the total eligible cost and to a maximum of 85% of the total eligible cost for the outermost regions and for the outlying Greek islands which are under a handicap due to their distant location;

a maximum of 50% of the total eligible cost and, as a general rule, at least 25% of eligible public expenditure in the case of measures carried out in areas covered by Objective 2 or Objective 3.

## H. Match funding<sup>32</sup>

As stated above, the European Structural Funds meet only a proportion of the cost of any project. The remainder of the costs has to be ‘match funded’ from other sources, which can be from the public, private or voluntary sectors within Member States. Various Government programmes and funds which can be used as matched funding for Structural Funds in England are listed within a leaflet available on the DTI web-site.<sup>33</sup> Examples of possible sources include the Coalfields Enterprise Fund, National Lottery grants, the New Deal for Communities, the Single Regeneration Budget, and various funds within the Small Business Service budget.

Clearly, full use will not be made of the available Structural Funds assistance if the necessary match funding cannot be secured. Alternatively, for some projects to go ahead, spending on other public services would need to be cut to provide enough the money needed to meet match funding commitments. There is also concern over the clawback provision, where money is lost unless it is spent within two years of being committed.<sup>34</sup> These issues are of particular importance in Wales, and the key points are discussed in more detail later.

## V Implementation of the new system: 2000 to 2006

### A. Draft guidance on the use of the Structural Funds

On 3 February 1999, the Commission published draft guidance to assist Member States in drawing up plans on how Structural Funds programmes would operate for the period 2000 to 2006. Following the coming into force of Regulation 1260/99, the Commission adopted a Communication that formalised the draft guidance.<sup>35</sup>

It sought to help national and regional authorities to prepare their programming strategies for Objectives 1, 2 and 3 of the Structural Funds and their links with the Cohesion Fund. Its aim was to set out the priorities of the Commission based both on past experience in the implementation of programmes and on current Community policies for structural assistance. These priorities should help ensure the best possible use of Community assistance at the national and regional level. It focused on several different themes:

<sup>32</sup> Also known as ‘matching funds’.

<sup>33</sup> DTI & other departments *Match funding for European structural Funds: Potential sources from central government and national organisations*, URN00/742, March 2000, at <http://www.dti.gov.uk/europe/mf1.htm>

<sup>34</sup> Welsh Affairs Committee *European Structural Funds*, 46, February 2000, paragraph 13

<sup>35</sup> *The Structural Funds and their co-ordination with the Cohesion Fund: Guidelines for programmes in the period 2000-06*, Communication of the Commission, 1 July 1999, available at [http://www.inforegio.cec.eu.int/wbdoc/docoffic/coorffon/coord\\_en.htm](http://www.inforegio.cec.eu.int/wbdoc/docoffic/coorffon/coord_en.htm)



- creating the basic conditions for regional competitiveness;
- building competitive enterprises; priority to small and medium-sized enterprises
- promoting employability, skills and mobility through life-long learning
- developing adaptability and entrepreneurship
- urban and rural development – their contribution to balanced territorial development.

## **B. Programming**

The first stage of the programming for Objectives 1, 2 and 3 is for the Member States to draw up development or restructuring plans. These are presented either in the form of Single Programming Documents (SPD) (mainly for Objective 2 and 3, and smaller Objective 1 regions) or Community Support Frameworks (CSF) containing a series of separate operational programmes (for larger Objective 1 regions). Member States are expected to consult all the relevant regional partners when drawing up their plans (local and regional authorities, economic and social partners etc). Each plan includes an analysis of the regional situation in each Objective area, an assessment of priority needs, the strategy and envisaged priorities for action, and an indicative financing plan. These strands are, in turn, based on the national and regional priorities in each Member State and on Commission guidelines.

For Objectives 1 and 2, these SPDs/CSFs had to be submitted to the Commission within four months of the establishment of the lists of eligible areas, and the Commission had five months in which to agree each document. This meant that, for the **Objective 1** areas in the UK, the deadline for submitting SPDs/CSFs for Objective 1 areas to the Commission was 1 November last year, with approval from the Commission being required by the end of March this year. Progress has, however, been slower than this in practice. The South Yorkshire Objective 1 SPD, for example, was not received by the Commission until mid-November last year,<sup>36</sup> and the Commission did not give approval in principle to the SPDs for the four UK Objective 1 regions until 26 June.<sup>37</sup>

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<sup>36</sup> HL Deb 15 February 2000 WA139 and HL 22 February 2000 WA24

<sup>37</sup> European Commission press release IP/00/660 dated 26 June 2000

The final decision on them is expected to be made later this month (July), after they have been considered by four advisory committees.<sup>38</sup> In addition, the Commission gave approval in principle to the SPD for the Highlands & Islands Special Transitional Objective 1 programme on 17 July.<sup>39</sup> Again, a final decision will be made after it has been considered by the four committees. The SPD for Northern Ireland Special Transitional Objective 1 programme has not yet been approved by the Commission. The UK Government has issued guidance to programme managers on the implementation of Objective 1 programmes to help them to minimise the effects of the delays.<sup>40</sup>

As far as **Objective 2** is concerned, programme documents for Yorkshire and the Humber, the North East, the West Midlands, the East Midlands, the North West, London, the East of England and the South East were formally lodged with the Commission on 14 April, whereas the one for the South West was due to be lodged at a slightly later date.<sup>41</sup> It seems unlikely, however, that the UK SPDs will be approved by the Commission much before the end of the year, which will be over eight months after the receipt of most of the SPDs. As a consequence, the Government has announced that all the full Objective 2 and transitional programmes for which documents were submitted by the end of April will be able to backdate funding of projects to the beginning of this year.<sup>42</sup>

The English **Objective 3** programme for 2000 to 2006 was launched in London on 5 June 2000<sup>43</sup> and that for Wales was launched on 5 July.<sup>44</sup> Since then, the European Commission has adopted the UK Objective 3 Community Support framework on 13 July, and the Operational Programmes for England, Scotland and Wales, on 17 July.<sup>45</sup>

## VI Administration in the UK

### A. Introduction

The Regional European Funds Directorate of the DTI is responsible for co-ordinating and presenting UK policy on the Funds. UK policy is developed in consultation with other Government departments. The DTI also co-ordinates the administration of the Funds throughout the UK, whilst day-to-day administration is delegated to the Scottish

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<sup>38</sup> The Committee for the Development and Conversion of the Regions, the Committee pursuant to Article 147 of the EC Treaty (ESF), the Committee on Agricultural Structures and Rural Development, and the Committee for Fisheries and Aquaculture

<sup>39</sup> European Commission press release IP/00/793 dated 17 July 2000

<sup>40</sup> HC Deb 15 February 2000 c466W

<sup>41</sup> HC Deb 18 April 2000 cc451-2W

<sup>42</sup> HL Deb 26 June 2000 WA56-7

<sup>43</sup> *Source*: Government Office for the East of England *European Unit News Update* at <http://www.go-eastern.gov.uk/eunews2.htm>

<sup>44</sup> *Source*: Welsh European Funding Office news release *Objective 3 programme launched*, 5 July 2000, at <http://www.wepe.co.uk/latest/releases/00-07-05.htm>

<sup>45</sup> *Source*: ESF 2000-2006 web-site at [http://europa.eu.int/comm/employment\\_social/esf2000/index-en.htm](http://europa.eu.int/comm/employment_social/esf2000/index-en.htm)

Executive, the National Assembly for Wales and the Northern Ireland Executive, and in England to DETR, currently via the Government Offices for the Regions (GORs), which provide the secretariats for Programming Monitoring Committees, which approve and monitor programmes and individual projects funded by the Structural Funds. From 1 January 2001, the regional development agencies (RDAs) in England will take on the strategic role for the delivery of the 2000-2006 Structural Funds programme.<sup>46</sup>

## **B. The use of Structural Fund assistance in Wales, Scotland and Northern Ireland**

There has been extensive debate recently on whether there is enough public expenditure provision to permit the use of all the money available to Wales and, to a lesser extent, Scotland and Northern Ireland, from the Structural Funds. In the case of Wales, this has arisen largely from the announcement that West Wales and the Valleys has been allocated in the region of £1.2 billion for Objective 1 over the period 2000 to 2006<sup>47</sup> and the fact that there is no automatic guarantee that the UK public expenditure system will allow full use to be made of this money.

Before looking at the details, it should be noted that two flows of public expenditure are involved in the use of money from the European Structural Funds:

- **‘Public expenditure cover’** is needed for money received from the EU by HM Treasury to be passed to another UK Government department; and
- For Structural Fund projects to go ahead, **‘match funding’** needs to be provided from within Member States. Although some of this can be provided by the voluntary and private sectors, significant contributions are also required from the public sector and, unless there is adequate public expenditure provision, such funding can either not be provided in full, or can be provided in full, but only at the expense of other public services, from which compensating savings would be needed.

The devolved administrations for Wales, Scotland and Northern Ireland differ from the other UK Government departments in the way in these extra spending needs are taken into account in Departmental Expenditure Limits (DELs). Whereas for the UK Government departments, amounts for specific items can be added directly to the relevant department’s DEL, the Barnett Formula is used to allocate changes in the amounts available for spending to Wales, Scotland and Northern Ireland. Rather than taking explicit account of specific pressures or underlying needs, the formula allocates to each

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<sup>46</sup> Source: DETR Annual Report 2000, Cm 4604, April 2000, p160

<sup>47</sup> National Assembly for Wales News Release *Rhodri Morgan welcomes the European Commission’s approval of Wales’ Objective 1 plans*, 26 June 2000

country's DEL a proportion of the relevant 'English' DEL, taking account only of population figures and the extent to which programmes in Wales, Scotland or Northern Ireland are comparable with those in England. In other words, extra money for Objective 1 in Wales – whether for public expenditure cover or match funding – will not automatically find its way into the Welsh DEL.

The issue was addressed in the recent Comprehensive Spending Review (CSR), when the following amounts given in **Table 5** were announced for Wales:

**Table 5**  
**Welsh spending plans**

	£ million		
	2001/02	2002/03	2003/04
Departmental Expenditure Limit	8,447	9,140	9,788
<i>Of which:</i>			
<i>Objective 1</i>	80	90	102
<i>European Social Fund in Wales</i> <sup>(a)</sup>	33	58	58

(a) The European Social Fund is to finance spending under Objectives 1, 2 and 3

Sources: HM Treasury SR200/Wales *Investing in public services: Wales spending plans*, 18 July 2000

HM Treasury *Spending Review 2000: New Public Spending Plans 2001-2004*, Cm 4807, July 2000, pp 99-100

The Welsh DEL has been increased by more than its Barnett allocation to at least the extent of the amounts provided for Objective 1 in Table 5. Whether this provides an adequate amount for **public expenditure cover** for all Structural Fund receipts is not yet certain. It depends on the extent to which instalments of the overall Structural Fund allocation for the 2000 to 2006 period will be paid in the early years of the programme period.

If one assumes, crudely, that payments will be spread evenly over the seven years of the programme period, receipts from Objective 1 alone would equal around £170 million each year, or about £500m over the three year period between 2001/02 to 2003/04 covered by the CSR. In practice, delays in projects getting off the ground, however, are likely to mean that smaller amounts than these will be needed, with greater annual amounts being needed towards the end of the period (and with some amounts may not be received until after the end of the period).

A more sophisticated estimate of the actual receipts also needs to reflect that, in line with the Regulations, Wales will receive at least a 'payment on account', or cash advance, of 7% of the total European funding available, divided over the first two years. This equals around £43m in each of the first two years.<sup>48</sup>

<sup>48</sup> Sources: Council Regulation (EC) No 1260/1999 of 21 June 1999, article 32 and Welsh Affairs Committee *European Structural Funds*, 46, February 2000, paragraph 13

The Welsh Affairs Committee looked into this issue in some depth in late 1999 and early 2000. It concluded that an extra £70m per year was likely to be needed for Objective 1 in each of 2001/02, 2002/03 and 2003/04, noting that the extent to which Objectives 2 and 3 would add to this requirement was unclear.<sup>49</sup> It also expressed concern at whether there was sufficient public expenditure cover for the present financial year, 2000/01, which was not covered by the latest CSR, and during which some £50m was expected to be payable as ‘ERDF overhang’ from the previous programme period.<sup>50</sup>

So far, there has been no indication that anything above the Barnett allocation for Wales has been provided for **match funding** for Structural Fund projects. It therefore appears that any match funding for Objective 1 (or other Structural Fund) projects from the National Assembly would need to be found from elsewhere in the Barnett-allocated part of the DEL. The most relevant Government statement so far was a reply given by the Chancellor of the Exchequer in the Commons after announcing the results of the CSR on 18 July (authors’ italics):<sup>51</sup>

The settlement also increase funding for Wales by a total of 5.4 per cent a year in real terms, *and allows for match funding.*

Whether this is adequate will depend upon the speed with which Objective 1 and other Structural Fund projects in Wales get up and running over the next three years, and the extent to which match funding is required from the Welsh DEL.

Finally, the National Assembly for Wales has confirmed that the **ESF money in Wales** (shown in Table 5 and announced as part of the CSR<sup>52</sup>) is not new, but has been transferred from DfEE, which previously managed ESF projects in England, Scotland and Wales. This transfer has, in fact, been under discussion within Government for some time. The Government could presumably argue that the new arrangements make the money available for European Structural Funds projects in Wales more transparent.

### C. Information on eligibility for Structural Fund assistance

Information on eligibility for Structural Fund assistance in any particular part of the UK is available from the relevant Government Office (in England) or devolved assembly. Contact details are given in **Appendix 2**.

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<sup>49</sup> Welsh Affairs Committee *European Structural Funds*, 46, February 2000, paragraph 19

<sup>50</sup> Welsh Affairs Committee, *ibid* paragraph 18

<sup>51</sup> HC Deb 18 July 2000 c225

<sup>52</sup> *Source*: HM Treasury *Spending Review 2000*, Cm 4807, p99

## Appendix 1: Objective 1 regions in the period 2000-2006

(Information is taken from the Inforegio web-site at [http://www.inforegio.cec.eu.int/wbpro/prord/20002006/obj1\\_en.htm](http://www.inforegio.cec.eu.int/wbpro/prord/20002006/obj1_en.htm))

### a) Eligible regions in the period 2000-2006 (Commission Decision of 1 July 1999) are:

- **Germany:** Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhaly and Thuringia
- **Greece:** East Macedonia, Thrace, Central Macedonia, West Macedonia, Thessaly, Epirus, Ionian Islands, western Greece, continental Greece, Peloponnese, Attica, North Aegean, South Aegean and Crete (in other words, the whole country)
- **Spain:** Galicia, Principado de Asturias, Castille-Leon, Castille-La Mancha, Extremadura, Valencia, Andalusia, Murcia, Ceuta-Melilla and the Canary Islands
- **France:** Guadeloupe, Martinique, French Guiana and Reunion
- **Italy:** Campania, Apulia, Basilicata, Calabria, Sicily and Sardinia
- **Ireland:** Border Midlands and Western
- **Austria:** Burgenland
- **Portugal:** North, Centre, Alentejo, Algarve, Azores and Madeira
- **Finland:** East Finland, Central Finland (parts of) and North Finland (parts of)
- **Sweden:** North-Central (parts of), Central Norrland (parts of) and Upper Norrland (parts of)
- **United Kingdom:** *South Yorkshire, West Wales and the Valleys, Cornwall and Isles of Scilly* and Merseyside

The regions in italics were not eligible under Objective 1 or 6 in the 1994-1999 period.

## b) Transitional Support

Under the new Regulations, regions that were eligible for Objective 1 funding during the 1994-1999 period but have lost this entitlement in 2000 will benefit from transitional assistance. This system of support is designed to avoid an abrupt ending of European funding and to consolidate the achievements of the previous structural assistance.

Among the areas no longer eligible for Objective 1, a distinction should be made between:

1. Those areas which meet the basic eligibility criteria for the new Objective 2. These areas are entitled to transitional assistance from the four Structural Funds until 31 December 2006.
2. Other areas, which will benefit from transitional support from the ESF, the EAGGF-Guidance section and the FIFG until 31 December 2006. ERDF funding for these areas will, however, be stopped on 31 December 2005.

Areas eligible for Objective 1 transitional assistance (Commission Decision of 1 July 1999):

- **Germany:** East Berlin
- **Belgium:** Hainaut
- **Spain:** Cantabria
- **France:** Corsica and the *arrondissements* of Valenciennes, Douai and Avesnes
- **Italy:** Molise
- **Ireland:** Southern and Eastern
- **Netherlands:** Flevoland
- **Portugal:** Lisboa e Vale do Tejo
- **United Kingdom:** Northern Ireland and the Highlands and Islands.

## c) Special Programmes

Two special programmes will also be financed with Objective 1 resources:

- The PEACE programme, which will support the peace process in Northern Ireland and the border regions of Ireland (period 2000-2004)
- The special assistance programme for certain NUTS II level Swedish regions that meet the criteria of low population density stipulated in Protocol No 6 to the Swedish Act of Accession (period 2000 to 2006).

## Appendix 2: Contacts in Government Offices and devolved assemblies<sup>53</sup>

### a) Government Office for the East of England

Heron House, 49-53 Goldington Road, Bedford MK40 3LL

Tel: 01234 796 332

Fax: 01234 796 252

Web site: [www.go-east.gov.uk](http://www.go-east.gov.uk)

Structural Funds Contact: **Anne Stanford**

Tel: 01234 792 157

### b) Government Office for the East Midlands

The Belgrave Centre, Stanley Place, Talbot Street, Nottingham NG1 5GG

Tel: 0115 971 9971

Fax: 0115 971 2404

Web site: [www.go-em.gov.uk](http://www.go-em.gov.uk)

Structural Funds Contact: **Mike Meech**

Tel: 0115 971 2570

### c) Government Office for London

Riverwalk House, 157-161 Millbank, London SW1P 4RR

Tel: 020 7217 3456

Fax: 020 7217 3450

Web site: [www.open.gov.uk/glondon](http://www.open.gov.uk/glondon)

Structural Funds Contact: **Franc Sullivan**

Tel: 020 7217 3316

### d) Government Office for the North East

Wellbar House, Gallowgate, Newcastle upon Tyne NE1 4TD

Tel: 0191 201 3300

Fax: 0191 202 3744

Structural Funds Contact: **Robin Fallon**

Tel: 0191 201 3808

### e) Government Office for the North West (Liverpool)

Cunard Building, Pier Head, Water Street, Liverpool L3 1QB

Tel: 0151 224 6300

Fax: 0151 224 6470

Web site: [www.go-nw.gov.uk](http://www.go-nw.gov.uk)

Structural Funds Contact: **Jo Lappin**

Tel: 0151 224 6327

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<sup>53</sup> Based on information given in DTI & other departments *Match funding for European structural Funds: Potential sources from central government and national organisations*, URN00/742, March 2000, Annex 3, at <http://www.dti.gov.uk/europe/mf1.htm>



**f) Government Office for the North West (Manchester)**

Washington House, New Bailey Street, Manchester M3 5ER

Tel: 0161 952 4000

Fax: 0161 952 4169

Web site: [www.go-nw.gov.uk](http://www.go-nw.gov.uk)Structural Funds Contact: **John Kelly**

Tel: 0161 952 4378

**g) Government Office for the South East**

Bridge House, 1 Walnut Tree Close, Guildford, Surrey GU1 4GA

Tel: 01483 882 255

Fax: 01483 882 259

Web site: [www.go-se.gov.uk](http://www.go-se.gov.uk)

Structural Funds Contacts:

**Anna Colban** Tel: 01483 882 316**Jim Pritchard** Tel: 01483 882 296**h) Government Office for the South West**4<sup>th</sup> Floor, The Pithay, Bristol BS1 2PB

Tel: 0117 900 1700

Fax: 0117 900 1900

Web site: [www.gosw.gov.uk](http://www.gosw.gov.uk)Structural Funds Contact: **Philip Johnson**

Tel: 01752 635 010

**i) Government Office for the West Midlands**

77 Paradise Circus, Birmingham B1 2DT

Tel: 0121 212 5000

Web site: [www.go-wm.gov.uk](http://www.go-wm.gov.uk)Structural Funds Contact: **John Bedingfield**

Tel: 0121 212 5069

**j) Government Office for Yorkshire and the Humber**

PO Box 213, City House, New Station Street, Leeds LS1 4US

Tel: 0113 280 0600

Fax: 0113 283 6394

Web site: [www.goyh.gov.uk](http://www.goyh.gov.uk)Structural Funds Contact: **Isobel Mills**

Tel: 0113 233 8340

**k) Northern Ireland**Department of Finance and Personnel, Rosepark House, Upper Newtownards Road,  
Belfast BT4 3NR

Tel: 028 90520400

Fax: 028 90485711

Structural Funds Contact: **Jack Layberry**

Tel: 028 90523 707

**l) National Assembly for Wales**

Cathays Park, Cardiff, CF10 3NQ

Tel: 029 2089 8200

Web site: [www.wales.gov.uk](http://www.wales.gov.uk)

Structural Funds Contact: Welsh European Funding Office

Tel: 029 2082 5111 and web site [www.wepe.co.uk](http://www.wepe.co.uk)

**m) Scottish Executive**

Scottish Executive Development Department, Victoria Quay, Edinburgh EH6 6QQ

Web site: [www.scotland.gov.uk](http://www.scotland.gov.uk)

Structural Funds Contact: Tel 0131 244 0763