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From the Minister of State for Industry

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Lynda

EC INTEGRATED OPERATIONS

The European Commission are working on proposals for "integrated operations" in areas of the Community affected by the decline in the steel industry. They are known to be considering five UK areas in this context, and have asked officials whether we can rank the UK areas in order of priority. We need to consider our attitude towards EC integrated operations in general, and in particular whether to indicate a UK view of priorities as between the UK steel areas under consideration.

I enclose a note which has been prepared by the Official Committee on European Questions, and which sets out the main issues. The Commission have long been interested in developing their ideas for integrated operations, but they have been unclear about how to do this. While forced to question whether the benefits would be worth the work involved we have co-operated to explore the possibilities, and to try to ensure that we do not lose out to other Member States. We have, for example, supported the experimental integrated operations for Belfast, a pilot study of South Wales by the Welsh Office, and a number of studies by consultants jointly financed by the Commission and local authorities in the areas concerned. Some of these studies have not been very practical, and the Commission have not hitherto been ready to move to integrated operations simply because there is a completed study for an area. There is considerable frustration in the areas in question, and a tendency to blame the Government for the lack of progress.

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However the Commission now seem to be on the threshold of a significant advance in respect of integrated operations. Six Member States are likely to be involved. In the UK, the Commission are thinking about Humberside/South Yorkshire, North East England, Clwyd in North Wales, areas in South Wales and Strathclyde in Scotland. If we do not react positively we are likely to lose out to other Member States who will gain priority at our expense. For example France has a system of regional government which lends itself to integrated operations, and is pressing the Commission hard to acknowledge integrated operations in France. However the Commission will probably seek to use integrated operations to press both for clear additionality of the EC receipts involved and for extra UK Government expenditure on the relevant operations. This may prove awkward in the light of our policies on non-additionality and restraint of public expenditure, but the likely advantages are worth the risks.

As regards steel areas the Commission have asked us to indicate our priorities. The Commission's criteria for the most severely affected steel producing areas were published in general terms in their Communication on this problem of last June (COM(85)384 Final), and we have more recently been told by Commission officials of the kind of quantification and thresholds which they have in mind - which in the case of dependency also take account of jobs in the coal industry. In the light of this the attached table ranks the various UK areas according to the various criteria. Any choice would depend on decisions about the relative weights to be given to the criteria, and there is no obvious basis for this. Moreover fairly small changes in definitions - and we have not always been able to use exactly the same definitions or areas as the Commission - could have important implications for the future.

It would obviously be difficult for us to agree to rank these areas in order of priority for integrated operation status, and any expression of preference by the UK Government would be likely to become public, and difficult to defend. I conclude, therefore, that at least for the time being we should press the Commission for all five areas.

We also need to consider what other possibilities there are for integrated operations which we might propose to the Commission so as to maximise our receipts from the structural funds. I understand that colleagues at the Departments of the Environment and Employment are considering whether to press the Commission to agree that inner city areas should be accepted for integrated operation status.

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Finally we need to decide how to handle future possible integrated operations and whether an individual Department should have lead responsibility for policy on integrated operations. The European Regional Development Fund is likely to figure largely in most integrated operations, and the Regional Policy Directorate of the Commission have been the most interested in such operations. I therefore propose that we accept the recommendations in paragraph 16(v to vii) of the report of the Official Committee, and should be grateful if colleagues would indicate that they agree.

As regards integrated operation studies we should continue to keep an eye on existing studies, but before we support new studies in relation to integrated operations we should try to be clear about their likely usefulness, and their relation to our own objectives.

I am copying this to the other members of OD(E) and E(A) and to Malcolm Rifkind, Nicholas Edwards, Peter Walker, David Young, Michael Jopling, Rhodes Boyson, Kenneth Baker and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'P. Morrison', written in a cursive style.

PETER MORRISON

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INTEGRATED OPERATIONS

Note by the Cabinet Office

Introduction

1. The European Commission mean to give more attention in future to integrated operations under the Community's structural funds. Their ideas are not well formulated yet, and may not be so until they put forward proposals (in late 1986 or early 1987) for the co-ordination of the structural funds, as required by the new Treaty articles agreed in December 1985. Meanwhile there is a risk that they will take matters forward in an ad hoc and unsatisfactory way on particular proposals, some of which, such as those for areas affected by steel industry closures, will have a high political profile.

2. We need to consider whether we can capitalize on the Commission's enthusiasm for integrated operations and turn it to our advantage.

3. This note considers the main issues involved and suggests a possible United Kingdom approach. It was agreed that the Cabinet Office should prepare the first paper on the subject, since the interests of many Departments were involved. But further detailed work will need to be carried out by the Departments concerned once an overall approach has been agreed.

Background

4. An integrated operation involves the use of two or more Community instruments, to support national measures aimed at alleviating specified difficult economic and social problems in a particular geographical area within the Community.

5. For the United Kingdom the instruments will normally be the European Regional Development Fund (ERDF) and the European Social Fund (ESF), although FEOGA guidance funds may sometimes be involved, as may ECSC loans for any steel or coal area operations. European

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Investment Bank (EIB) funds could in theory be involved too. There will normally be a Committee with Commission membership overseeing the programme. The Commission may try to insist on further and more transparent additionality than in practice applies to structural fund applications, though we, along with other member states, will seek to resist this. The Government's normal additionality rules can be expected to apply to integrated operations.

6. The following integrated operations have already been adopted :

- i. Belfast Integrated Operation: included extra money to provide support under a special regulation which enables housing needs, which were not eligible for aid under ERDF rules, to be met.
- ii. Naples Integrated Operation: limited to projects eligible under existing ERDF and ESF rules.
- iii. Integrated Development Programme for the Western Isles of Scotland: centred on FEOGA guidance.
- iv. Integrated Mediterranean Programmes (IMPs): a special regulation was agreed by the Council in 1985 which permits integrated programmes for improving the economic structures of the Southern regions of the Community of ten (ie excluding Spain and Portugal). These programmes, which may last between three and seven years, are to help enable those countries to adjust to the consequences of enlargement. They are to be funded by 2,500 mecu from the existing structural funds, plus additional resources of 1,600 mecu. The financing of the IMPs from the structural funds rests on the priority given to Integrated Operations in the texts governing those funds.

7. Integrated operation studies. There have also been several studies of other possible integrated operations, mainly prompted by the Commission. For the United Kingdom these studies have included the Scilly Isles; Humberside, with special reference to Hull and

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Grimsby; Merseyside; Strathclyde; industrial South Wales, and Clwyd. Studies of Bradford and of Dyfed, Gwynedd and Powys are under way. Despite pressure from the local authorities concerned, these studies have not so far led to formal designation of further integrated operations nor will they necessarily do so. In the case of the Scillies, for example, the Commission has decided to proceed under FEAGA guidance alone. In the case of Strathclyde, the Commission suggested, and the Industry Department for Scotland accepted, that in the absence of any mechanism for approving an integrated development operation, an ERDF bid should be formulated as a national programme of Community interest (NPCI) under the new ERDF regulation. An NPCI covering Glasgow District was submitted and an ERDF grant at 55 per cent (the maximum available) was secured in December 1985. Integration with the other Community funds remains outstanding. The Commission have also asked for a NPCI application to be prepared for Clwyd and the Welsh Office have this in hand.

8. Departments are considering how to handle the problems caused by studies which have aroused expectation in local authorities which are unlikely to be fulfilled.

9. Steel Areas. In a communication to the Steel Council in July 1985 the Commissioners announced their intention of introducing stronger Community structural measures to help steel restructuring areas including the use of an an integrated approach in agreement with the member states concerned, in 14 worst hit areas, of which five - Clwyd, South Wales, Strathclyde, Yorkshire/Humberside (possibly including or overlapping with the South Yorkshire coalfield) and North East England are in the United Kingdom. The Commission want to press ahead quickly in a limited number of areas and have asked us to indicate our priorities among the United Kingdom candidates. Departments are considering how best to respond to this.

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United Kingdom objectives

10. There is a strong case for making an effort to maximise our receipts from the structural funds, partly to counteract the shift of fund allocations towards the Mediterranean as a result of enlargement, and partly to offset the adverse effect, particularly on the ERDF, of the abolition of the metropolitan county councils and privatisation. In any event, there would be political difficulty in overtly declining a Commission suggestion that it should designate areas in the United Kingdom as integrated operation areas, with the implied advantages this would bring. These factors argue strongly in favour of our seeking to take advantage of the Commission's interest in integrated operations.

11. It should be possible to do this. The rules of the ERDF and the ESF provide for priority to be given to integrated operations at the discretion of the Commission - a discretion they seem likely to exercise. Provided that we can select and design satisfactory programmes, participation in integrated operations should help us:

i. to reach a higher level of receipts under both the ERDF and the ESF than would otherwise be the case by:

a. securing finance for projects to which we accord a high priority but which, if submitted separately (either under the ERDF or the ESF) would receive a lower priority or be regarded as marginal in accordance with the funds' regulations. (The Manpower Services Commission's (MSC) Community programme, currently eligible for finance under the ESF, but not accorded priority, is an example). As far as the ESF is concerned it would be preferable not to extend the current eligibility criteria, since these accord with our own priorities.

b. attracting higher rates of grant under the ERDF;

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ii. to maximize our receipts from any new money that may be made available for integrated operations. (Current budgetary pressures make it very unlikely that extra money would be available, and it would be inconsistent with our present policy towards the budget if it were).

12. Our ability to maximise our receipts from the funds will be enhanced if we can influence Commission thinking before their paper on co-ordination of structural funds gets cast in tablets of stone. If we move fast we ought to be able to do this by seeking to ensure through contacts with the Commission that:

i. integrated operations (other than IMPs, which are by definition biased towards the Mediterranean) do not discriminate against, and if possible favour, northern states and in particular the United Kingdom - for example, by concentrating on areas, such as areas of urban and industrial decline, on which we would have a strong case for receiving priority;

ii. the framework for integrated operations does not develop in ways which would tell against us - for example, by requiring heavily centralised co-ordination of individual integrated operations;

iii. the basic responsibility for designing individual integrated operations is left as much as possible in the hands of individual member states.

Selection of United Kingdom operations

13. We shall be in a better position to influence Commission thinking if we have a clearer idea of the integrated operations which we would like to see in the United Kingdom. The first priority should be to decide on the relative merits of the steel areas the Commission have in mind (paragraph 9). But we shall also need to consider the merits of other possibilities, including:

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i. Follow-up to integrated operation studies (paragraph 7)
This is now under way.

ii. Inner cities

The Departments of the Environment and Employment are exploring, in consultation with other interested Departments, the option of using existing domestic arrangements in Urban Programme partnerships as a basis for integrated operations.

iii. Further national programmes of Community interest (NPCI)

The United Kingdom was the first member state to exploit this provision in the ERDF Regulation. Of the ten national programmes submitted, six were rejected, one is pending and three (one in Scotland and two in England) have been approved. So far the threat of undue Commission interference has not materialised and the extra administrative load is tolerable. Since NPCIs only involve the ERDF, they are not technically integrated operations, though they could become so if associated subsequently with other structural funds. They may represent a useful first step towards, and possibly an acceptable alternative to, integrated operations.

14. The Commission's capacity for handling integrated operations will be limited. They will want to designate priority steel areas fairly soon, but seem likely to be prepared to consider other areas with problems at least as serious, such as inner cities (paragraph 13 ii.) The selection process will be difficult, and could lead to domestic political controversy. But choices may well have to be made. Difficulties would be substantially reduced if we were able to agree domestically and with the Commission some objective criteria based, for example, on measures of urban deprivation or of structural change. The main criterion should be that the specific operations accord with the Government's own priorities (and in this context it will help if we make clear to local authorities and others that preparing an integrated operation does not necessarily mean it will be designated and followed through). Other factors too will need to be weighed and judged, including:

- i. the likelihood of winning Commission support;
- ii. the desirability of regional balance;
- iii. the intrinsic merit of an integrated operation approach in economic, social and domestic political terms; to include an assessment of the needs of the area, the extent to which an integrated operation will meet them, and the prospect of alternative sources of funding if an integrated operation does not go ahead;
- iv. whether preliminary studies have already aroused local expectations which it will be hard to quench;
- v. the extent of territorial coverage for integrated operation areas;
- vi. the possible advantage of putting forward candidates which fall into more than one of the categories above (for example a steel area or an inner city which was also the subject of an integrated operation study), or which demonstrate a combination of problems (for example, steel and coal closures and urban problems in industrial South Wales or the North East of England).

The characteristics of integrated operations

15. When negotiating individual integrated operations with the Commission, Departments will need to be guided by an agreed set of aims. These might include the following:

- i. to design operations in such a way as to maximise their economic and social benefits;
- ii. to ensure favourable publicity in the United Kingdom for the Community (while avoiding unrealistically high local expectations);

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- iii. to be able to justify publicly the selection of areas covered;
- iv. to overcome the likely Commission request for more transparent additionality (for example by proposing programmes which are already planned or, in the case of new programmes, avoiding clear statements in advance of the amount and source of United Kingdom contributions to them);
- v. to avoid undue Commission influence in the management of each operation;
- vi. to minimise the additional bureaucracy at integrated operation level;
- vii. to avoid tensions between central and local authorities;
- viii. to establish how the Commission propose to handle applications made under different Fund rules and regulations;
- ix. to avoid undue Commission influence over the formulation and execution of domestic regional policy.

Conclusions

16. i. We should respond positively to the Commission's interest in integrated operations and should try to capitalize on it to increase our uptake from the structural funds (paragraphs 10 and 11);
- ii. we should seek to influence Commission thinking, on the lines set out in paragraph 12;
- iii. we should co-operate with the Commission in its wish to designate steel integrated operation areas and should consider how to respond to the Commission's request that we decide our priorities among the areas proposed for the United Kingdom; (this is under way);

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iv. we should decide whether and how to follow-up the studies already carried out;

Departments should consider other possibilities for integrated operations bearing in mind the criteria in paragraph 14. In particular the Departments of the Environment and Employment should continue their consideration of the scope for integrated operations for inner cities;

vi. when discussing individual proposals with the Commission, Departments should be guided by the aims in paragraph 15;

vii. the DTI should co-ordinate policy on integrated operations, and should normally be responsible for the formal submission of Integrated Operations proposals to the European Commission. Individual Departments should, however, take the lead in discussions among Departments and with the Commission on the individual funds and on the specific operations for which they have primary responsibility, keeping the DTI informed of developments;

viii. the Minister of State for Industry should be invited to write to his colleagues setting out the proposed United Kingdom line on further integrated operations.

Cabinet Office

4 April 1986

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TABLE

CRITERIA FOR "MOST SEVERELY AFFECTED STEEL - PRODUCING AREAS"

AREA	Jobs in Coal, Iron and Steel 1978	Production Workers 1978	Dependency rate (1) + (2) as %	Iron and Steel jobs 1977	Iron and Steel jobs 1985	Iron and Steel loss (4) - (5)	% loss of base year ((4-5) as % of 4)	Unemp Apr 83	Unemp Rate Apr 83	Unemp June 83	Unemp Rate June 83	Unemp Apr 84	Unemp Rate Apr 84	Unemp Apr 85	Unemp Rate Apr 85
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
NORTH EAST RANK	63,542 (3)	321,819	19.74 (4)	27,460	8,151	19,309 (3)	70.3 (2)	193,221	18.1	183,542	18.8	189,470	19.4	198,711	20.4 (1)
NORTH WALES (Clwyd) RANK	14,073 (5)	36,839	38.20 (1)	13,009	3,487	9,522 (5)	73.2 (1)	24,300	18.0	22,351	16.7	23,389	17.4	24,188	18.0 (3)
SOUTH WALES RANK	79,621 (2)	236,873	33.61 (3)	46,266	17,136	29,130 (1)	63.0 (4)	*135,249	*15.8	*124,566	*15.3	*129,069	*15.8	*136,570	*16.7 (5)
SOUTH WEST YORKSHIRE & HUMBERSIDE RANK	120,074 (1)	328,298	36.57 (2)	46,700	21,469	25,231 (2)	54.0 (5)	152,351	16.2	140,428	15.6	145,045	16.2	153,620	17.1 (4)
TRATHCLYDE RANK	24,713 (4)	299,118	8.26 (5)	16,164	5,629	10,535 (4)	65.2 (3)	189,632	17.4	184,314	17.6	190,701	18.2	196,881	18.8 (2)
Commission threshold	10,000		15.0				25.0		8.8				9.37		9.91

* Includes figures for the whole of Dyfed rather than just the TTWA of Llanelli. Rates of unemployment would be likely to increase marginally for the South Wales area, but would be unlikely to change its ranking on this variable.



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