

SPECIAL REPORT No 4/2002
on local actions for employment together with the Commission's replies
(pursuant to article 248, paragraph 4(2), of the EC Treaty)
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GLOSSARY

EES	European Employment Strategy: it brings together Member States' national employment policies and provides for the creation of Employment Guidelines, adopted annually by the Council, on proposals from the Commission
ERDF	European Regional Development Fund
ESF	European Social Fund
NAP	National action plan: national action plans are prepared by each Member State in order to implement the employment guidelines that are adopted by the Council
NGO	Non-governmental organisation: organisations with delegated responsibility for managing and implementing government and EU-funded programmes
Objectives	The Structural Funds are based on three objectives:
Objective 1	Development and structural adjustment of regions whose development is lagging behind
Objective 2	Converting the regions or parts of regions seriously affected by industrial decline
Objective 3	Combating long-term unemployment and facilitating occupational integration
Single Programming Document	A document submitted by a Member State and approved by the Commission comprising of a set of priorities and multiannual measures, implemented with national and EU co-financing
Structural Funds	Community funds for the support of programmes of socio-economic development in the 15 Member States
TEP	Territorial employment pact: partnerships consisting of local and regional actors, created with a view to strengthening structural policies for employment and sharing experiences with other regions.
Third system	Economic activity of cooperatives, mutual bodies and associations

SUMMARY

I. Local employment promotes the creation of locally sourced jobs and covers a wide range and typology of actions and activities: some pertaining to the European Employment Strategy (EES), which brings together Member States' national employment policies, some financed under the European Social Fund (ESF), which is administered by the Commission in partnership with the Member States, others directly managed by the Commission. While each of these strands derives from a different legal basis and has its own specific objectives, they each address the overall common objective of furthering a local employment strategy for job creation. The areas also differ in regard to the allocation of responsibilities for their achievement, as in the case of the ESF operational programmes, for which Member States have shared responsibility under the subsidiarity principle, and innovative and preparatory actions, for which the Commission has overall responsibility. In the 1994 to 1999 period, the Commission estimated that local employment accounted for approximately 10 % or 5 000 million euro of the total ESF funding, out of an overall total of approximately 20 455 million euro of Community funding spent on local development.

II. While the Treaty makes provisions for a coordinated strategy, it provides no legally enforceable basis for a European employment policy as such. Thus, the setting of employment priorities and actions, including the importance given to local employment actions in each Member State, remains the sole prerogative of national governments.

III. The Court's audit examined the Commission's (DG Employment) policy formulation and information gathering functions in the area of local employment and also the Commission's management of innovative projects which it directly funded in the period 1994 to 2001. Local employment projects were also visited on the spot in six Member States (Germany, Spain, France, Austria, Finland and United Kingdom).

IV. The following was identified regarding the formulation of Community policy:

- (a) there is no definition of local employment in the policy statements nor are specific details given of the scope and application of the policy in Member States;
- (b) Community policy development in the area of support to local employment through innovative and preparatory measures, has been piecemeal and lacking structure and coherence.

V. A lack of information for the monitoring and assessment of local employment was found in the following instances:

- (a) in respect of ESF funding, there is a lack of information on the extent to which operational programmes approved by the Commission for the period 2000 to 2006, addressed the horizontal theme of local employment;
- (b) the Commission's monitoring of the local employment activities within the European Employment Strategy was curtailed by the lack of information in Member States' annual National Action Plans. The Commission should insist that Member States provide more information on local employment actions.

VI. The Commission's financial management procedures concerning their own innovative and preparatory actions on local employment had shortcomings, notably:

- (a) the financial rules on payments to projects were not adhered to in some cases;
- (b) some grant agreements were signed after the projects concerned had been completed;
- (c) there was a degree of overlap between the innovative Article 6 actions and preparatory measures for local employment in the period 2000 to 2001, thus reducing the cost effectiveness of the limited funding.

VII. The audit also identified obstacles to the effective implementation of local employment actions in Member States:

- (a) there were delays and administrative complexities in some Member States in introducing global grants' mechanisms for the implementation of small grant provisions under the ESF, particularly with regard to requirements of the new financial control regulations and Member States' existing legal and administrative arrangements;
- (b) In some Member States national administrative restrictions prohibited advance payments of ESF to final recipients in the voluntary and community sectors;
- (c) Some Commission-managed local employment actions were restricted to non-profit-making organisations, limiting the capacity-building of the private sector in this area.

VIII. The Court recommends that:

- (a) a comprehensive assessment of the likely added value of a local employment policy should be undertaken on all policy implementation levels;
- (b) the Commission provides more precise guidance to Member States on local employment under the ESF programmes;
- (c) the Commission should insist that under EES, Member States provide more information on local employment actions;
- (d) Commission-managed actions in the area of innovative projects should be rationalised, along with a tightening of financial management procedures to ensure the regularity and cost effectiveness of funding;
- (e) while the primary responsibility for ensuring the effectiveness of the overall local employment strategy rests with Member States, the Commission should ensure that it has adequate information at its disposal, to fulfil its facilitative and coordinating function.

INTRODUCTION

1. Community support for local actions for employment dates back to the Commission's 1993 White Paper on growth, competitiveness and employment which recognised the need to exploit new sources of jobs at local level. This new emphasis on 'local' foresaw development practices in this area being copied throughout Europe, so as to contribute to the overall objective of halving unemployment in and by the Member States up to the year 2000.

2. The European Council of Essen in 1994 further endorsed this policy, following which the Commission carried out a number of studies ⁽¹⁾ in this area. In 1997, the Luxembourg special

summit on employment approved the European Employment Strategy (EES), which provided for the creation of Employment Guidelines, adopted annually by the Council, on proposals from the Commission. These guidelines, which are to be taken into account by Member States in shaping their national employment policies, have increasingly incorporated a local dimension.

3. Under Art 2(2) of the Council Regulation on the European Social Fund ⁽²⁾ (ESF), the Fund shall take account of support for local initiatives concerning employment and in particular initiatives to support local employment and territorial employment pacts. In the 1994 to 1999 period, the Commission estimated that local employment accounted for approximately 10 % or 5 000 million euro of the total ESF funding, out of overall local development Community funding amounting to approximately 20 455 million euro. *Table 1* shows an estimate of total expenditure on local development in the period 1989 to 1999 which includes all three Structural funds.

⁽¹⁾ SEC(1996) 2061 of November 1996: 'First report on local development and employment initiatives'; SEC(1998) 25 'Second report on local initiatives for development and employment', COM(1995) 273: 'A European strategy for encouraging development and local employment initiatives'.

⁽²⁾ Article 2(2) of Parliament and Council Regulation (EC) No 1784/1999 (OJ L 213, 13.8.1999).

Table 1

Total estimated expenditure on local development within Structural Funding 1989 to 1999

(Mio EUR)

	Total amount of Structural Funds 1989 to 1993	Local development 1989-1993		Total amount of Structural Funds 1994 to 1999	Local development 1994 to 1999	
	(1)	(2)	% (3)=(2):(1)	(4)	% (5)	(6)=(5):(4)
Operational Programmes	57 700	2 900	5	127 200	12 700	10
Community Initiatives	3 800	1 140	30	13 450	6 900	51
Innovative Actions	520	334	64	950	855	90
Total	62 020	4 374	7	141 600	20 455	14

Source: SEC(1994) 2199 of the Commission.

4. The Employment policy guidelines ⁽¹⁾ contain indications of the content of regional and local action for employment by specifying that 'all actors at regional and local levels including the social partners, must be mobilised to implement the European Employment Strategy by identifying the potential of job creation at local level and strengthening partnerships to this end'. In particular, 'Member States will take into account, where appropriate, in their overall employment policy, the regional dimension, encourage local and regional authorities to develop strategies for employment in order to exploit fully the possibilities offered by job creation at local level and promote partnerships to this end with all the actors concerned including the representatives of civil society (...) and, strengthen the role of public employment services at all levels in identifying local employment opportunities and improving the functioning of local labour markets'. These actions are either included in Structural Funds programmes or are actions directly financed by the Commission, like innovative projects ⁽²⁾ or employment creation activities under the 'Third system' ⁽³⁾. This 'Third system' refers to the economic activity of co-operatives, mutual companies and associations, estimated to account for almost 7 % of all salaried employment across Member States ⁽⁴⁾.

OBJECTIVES AND SCOPE OF THE AUDIT

5. The Court carried out an audit in 2001 in the area of local employment, which examined the legal and policy framework for local employment, the Commission's information systems for monitoring this policy area, the Commission's financial management of directly funded innovative actions, and the execution of a sample of local employment projects in a selection of Member States.

6. Having regard to the wide nature of the subject and the diverse set of economic and political circumstances on the one hand, and its own limited resources on the other, the Court did not attempt an EU-wide value-for-money assessment in this area, but instead examined issues regarding the adequacy of the regulatory framework and the efficiency and effectiveness of the Commission's role in this area.

7. The audit set out to answer the following principal questions:

- (a) was there a coherent and clear Community policy for the promotion of local employment?
- (b) was there appropriate information for the formulation and implementation of local employment policy?
- (c) were local employment projects adequately managed?
- (d) what were the principal obstacles to the development of local employment in Member States?

⁽¹⁾ Latest edition: Guidelines for the employment policies for the year 2002 (OJ L 60, 1.3.2002, p. 66).

⁽²⁾ Pursuant to Article 22(1) of Council Regulation (EC) No 1260/1999 (OJ L 161, 26.6.1999) and Article 6 of Regulation (EC) No 1784/1999 (OJ L 213, 13.8.1999), the European Social Fund (2000 to 2006) may finance innovative measures such as studies.

⁽³⁾ Budget line B5-5 0 1 in 2000.

⁽⁴⁾ Communication from the Commission 'Acting locally for employment' (COM(2000) 196 final of 7 April 2000).

8. The audit included an analysis of the Commission's published policy statements in this area and an analysis of Member States' employment strategies for 2000 and 2001. In accordance with the audit's main aim of examining the Commission's strategic and operational management, the audit of projects focused on the specific area of innovative projects, funded directly by the Commission (DG Employment) in the period 1994 to 2001, for which a financial audit at the Commission of 50 projects was carried out. Furthermore, an additional 12 projects from both Structural Fund programmes and direct Commission-financed projects were also visited in six Member States (Germany, Spain, France, Austria, Finland and United Kingdom), to ascertain the obstacles existing to the development of local employment.

9. The Court's audit consisted of the examination of three distinct components in respect of 'local employment actions' and the interaction and synergy between them.

- (a) the *policy* requirements of the European Employment Strategy (EES) and national action plans for employment (NAPs);
- (b) the *legal* requirements of the ESF Regulation, and
- (c) the *operational* requirements and rules concerning Commission-managed, innovative and preparatory actions.

While each strand derives from a different legal basis and has its own specific objectives, they each address the overall common objective of furthering a local employment strategy for job creation. The areas also differ in regard to the allocation of responsibilities for their achievement, as in the case of the ESF operational programmes, for which Member States have shared responsibility under the subsidiarity principle, and innovative and preparatory actions, for which the Commission has overall responsibility.

THE NEED FOR A CLEARER COMMUNITY POLICY

10. In accordance with the principles of proportionality and subsidiarity under the Amsterdam protocol, the choice of the level at which action is taken by the Community (from EU to local) and the selection of the instruments used, must be in proportion to the objectives pursued. This obliges the Commission to verify, before launching an initiative, if it is really necessary, whether the European level is the most appropriate one, and whether the measures chosen are proportionate to the objectives. In addition, as the Commission has itself recently recognised ⁽¹⁾, good management practice requires that policies must be timely,

⁽¹⁾ Commission's 'White Paper on European governance' (COM(2001) 428 final of 25 July 2001).

and deliver what is needed on the basis of clear objectives and an evaluation of future impact and where available, past experience.

11. The Court's audit sought to determine whether there was a coherent and clear policy on the promotion of local employment and whether the Commission had developed clear objectives for its role in supporting the development of local employment, within the respective contexts described in paragraph 9.

Regulatory requirements on local employment policy in the absence of a European legal framework

12. The EC Treaty, Title VIII, lays down the principles and procedures for a coordinated European Employment Strategy ⁽²⁾ (EES). The corresponding employment guidelines ⁽³⁾ stipulate that:

- (a) 'all actors at regional and local levels, including the social partners, must be mobilised to implement the European Employment Strategy by identifying the potential of job creation at local level and strengthen partnerships to this end';
- (b) 'Member States will ... take into account, where appropriate, in their overall employment policy, the regional development dimension ... (and) encourage local and regional authorities to develop strategies for employment...'

13. Each Member State produces a 'policy frame of reference' for employment and human resource development, which provides a framework for ESF programming, notably under Objective 3 programmes ⁽⁴⁾. Community Support Frameworks and/or Single Programming Documents set out strategy and priorities for the horizontal Objective 3 programmes and specific programmes for Objectives 1 and 2 areas.

⁽²⁾ The EES is based on four pillars and 19 European employment policy guidelines:

- Pillar 1: Improving employability,
- Pillar 2: Developing entrepreneurship and job creation,
- Pillar 3: Encouraging adaptability of business and their employees,
- Pillar 4: Strengthening equal opportunities.

⁽³⁾ Council Decision 2001/63/EC of 19 January 2001 on Guidelines for Member States' employment policies for the year 2001. This was further reiterated in a proposal for Council Decision on Guidelines for Member States' employment policies for the year 2002 (COM(2001) 511 final of 12 September 2001).

⁽⁴⁾ The National Action Plans are prepared by each Member State in order to implement the guidelines that are adopted by the Council.

14. However, while the Treaty makes provision for this coordinated strategy, it provides no legally enforceable basis for a European employment policy as such. Thus, the setting of employment priorities and actions, including the importance given to local employment actions in each Member State, remains the sole prerogative of national governments.

15. Article 146 of the Treaty Title XI provides the basis for Regulation (EC) No 1784/1999 of the European Parliament and of the Council⁽¹⁾ which required in respect of the 2000 to 2006 programming period for Structural Funds programmes, that the ESF take account of support for local initiatives concerning employment, in particular initiatives to support local employment and territorial impact plans. Similarly, Article 161 of the Treaty, made provision for Council Regulation (EC) No 1260/1999 which, in Article 8 widened the partnership process under which Community actions are designed. Finally, Article 127 of the EC Treaty requests the Community 'to contribute to a high level of employment by encouraging cooperation between Member States and by supporting and, if necessary, complementing their action. In doing so, the competences of the Member States shall be respected.'

Need for Improved policy formulation

16. Depending on the context, the Commission has different objectives in regard to local employment:

- (a) in the context of the EES, to provide the basis on which participants can agree a common framework strategy;
- (b) within the ESF, to ensure that Member States take into account the support of local employment initiatives;
- (c) in relation to self-initiated and directly managed experimental actions, to encourage best practices and their dissemination.

17. In the context of creating a common strategy for local actors to implement, the Commission produced a first Commu-

nication entitled 'Acting locally for employment'⁽²⁾ in April 2000, which formed the basis of a consultation campaign throughout Member States. In February 2001, the Commission services submitted to the European Employment Committee a discussion document for a second Communication⁽³⁾ containing details of its planned follow-up campaign. In line with the Commission's commitment to a more decentralised approach to regional policy⁽⁴⁾, this envisaged the preparation of local action plans by local actors and a timetable for the implementation of the strategy outlined in the document. Its primary focus was to help the actors at the various levels gain better access to the decision-making process.

18. In spite of the efforts described in the preceding paragraphs, the Court found that a framework for a coherent Community policy on local employment has not been established. In particular, objectives for the promotion of local employment were not clearly defined and relevant and measurable criteria by which to evaluate their achievement were lacking. Firstly, insufficient empirical evidence was found to determine the appropriateness of promoting local employment actions on a European-wide scale. While a general comparative study of employment in the services sector in the USA and Europe undertaken by the Commission in 1998 indicated the potential for job creation at local level in the services sector in the EU, no follow-up study at regional or local level was undertaken to determine the actual potential for local job creation.

19. Secondly, the Commission did not define what constituted a 'local employment action' on the basis that such an approach would be incompatible with Community competence and the principle of subsidiarity.

20. Thirdly, the Commission Communications did not provide a common framework for supporting local employment actions from the EU budget, nor a plan of action, containing targeted outputs, in quantitative or qualitative terms. For example, an action plan with a timetable for the preparation of local action plans, while initially proposed by the Commission, was not included in the Commission's Communication of November 2001.

21. Finally, there was a lack of precision in the policy definition in the Communications. No clear distinction was made

⁽¹⁾ Article 2(2)(a), states that, 'within the policy fields the Fund (ESF) shall take account of support for local initiatives concerning employment, in particular initiatives to support local employment and territorial employment pacts'.

Article 3(1)(d), refers to the development of new sources of employment, including the social sector (Third System).

Article 4(2) provides for a reasonable amount of appropriation being available (within Objective 1 and 3 areas) in the form of small grants, with special arrangements for access by non-governmental organisations and local partnerships.

⁽²⁾ Communication from the Commission 'Acting locally for employment' — A local dimension for the European employment strategy' (COM(2000) 196 of 7 April 2000).

⁽³⁾ Internal service document EMCO/07/01 which was the basis for Communication from the Commission 'Strengthening the local dimension of the European Employment Strategy' (COM(2001) 629 final of 6 November 2001).

⁽⁴⁾ Second Report on Economic and Social Cohesion (COM(2001) 24 final of 31 January 2001).

between direct and process benefits ⁽¹⁾ being sought and no clear objective was set, based on targets and specific financial allocations. Furthermore, the lack of distinction between the terms 'regional', 'local' and 'territorial' and the lack of statistical definition of the term local, all created difficulties in defining the scope and application of the policy, for implementation in and/or by Member States.

BETTER INFORMATION AND IMPROVED POLICY IMPLEMENTATION

22. Reliable information is required to ensure that decisions taken are consistent with the objectives of the policy area and are based on quantifiable and accurate data, so as to allow for comparison of actual results with plans. In the context of local employment, this means firstly, that proper and clear *guidance* should be communicated to the implementing authorities; secondly, that the contents of individual action programmes should be *appraised*; thirdly, that actions should be properly *monitored* at an appropriate level resulting in feedback and corrective action, and finally that an *evaluation* should be carried out to determine how actions address the strategic objectives.

23. In the context of the EES and of the ESF implementation, the Commission has, among its principal roles, the complementing of national actions and the encouragement of cooperation between Member States. While Member States are mainly responsible for involving the regional and local actors in the implementation of local employment actions, it is the Commission which must ensure that regional and local conditions are taken into account when developing Community financial support policy, while fully respecting national constitutional and administrative arrangements. This is not an easy task given the varying degrees of local government and decentralised administrations throughout Member States.

24. The Court's audit sought to establish whether sufficient guidance had been provided to Member States in respect of local employment for ESF programmes in the 2000 to 2006 programming period; whether there was sufficient information and monitoring activity to determine fulfilment by Member States of reporting requirements under the EES guidelines and whether appropriate evaluation had been carried out by the Commission in respect of the impact of Community funding on local employment.

⁽¹⁾ Direct benefits are quantifiable and consist, for example of jobs created or persons trained. Process benefits are qualitative and include the creation of partnerships and intermediaries, which bring together different community actors. Both are often included as the stated objectives of Structural Funding in Operational Programmes.

Use of small grants provisions by Member States is limited

25. Pursuant to Article 10(3) of Council Regulation (EC) No 1260/1999, the Commission issued brief policy guidelines ⁽²⁾ to Member States on the priorities for Structural Fund programmes for Objectives 1, 2 and 3 in the 2000 to 2006 programming period, which contained guidance on the local development dimension ⁽³⁾. However, this guidance was too general and insufficiently coherent as it was treated in the context of various chapters of the guidelines. A second guidance note which was a staff working document of questions and answers ⁽⁴⁾ and intended as guidance to Commission staff, contained additional detail regarding information requirements ⁽⁵⁾. This document was issued to Member States, although only through the ESF Committee website.

26. Regulation (EC) No 1784/1999 of 12 July 1999 ⁽⁶⁾ requires Member States to provide a reasonable amount of ESF financing under Objective 1 and 3 programmes, as a small grants provision under a global grants ⁽⁷⁾ mechanism for intermediate bodies, to assist local development initiatives. These intermediaries are responsible for allocating the Community funding to final recipients in the form of individual grants. This administrative structure thus allows bodies familiar with the local situation to make funds available more swiftly and in accordance with individual projects' financing needs.

27. In the Court's Annual Report concerning the financial year 1994, (see paragraphs 4.39 to 4.60), which reviewed the use of global grants as an instrument of local development for the European Regional Development Fund, the Court reported instances where rules for the establishment of intermediary bodies had not been adhered to and situations where a lack of specific provision relating to intermediaries had resulted in poor monitoring and the occurrence of ineligible expenditure.

⁽²⁾ Commission Communication concerning the Structural Funds and their coordination with the Cohesion Fund — 'Guidelines for programmes in the period 2000 to 2006 — Social economy: new employment-creating services' (COM(1999) 344) (OJ C 267, 22.9.1999, p. 13).

⁽³⁾ Part I, Section II 'Competitive enterprises for employment creation'; Part II 'The European employment strategy', in particular, the enhancement of ESF support to territorial pacts in Objective 3 areas and the local or regional assessment of needs arising from a bottom-up programming arrangements and the integration of ESF with activities supported by other funds.

⁽⁴⁾ 'ESF 2000: Questions and Answers'.

⁽⁵⁾ While the regulation and official guidelines only required programmes to include the summary content of the intended measures, this additional guidance document required much further detail to be provided in the programmes.

⁽⁶⁾ Article 4.

⁽⁷⁾ Articles 9(i) and 27 of Council Regulation (EC) No 1260/1999 (OJ L 161, 26.6.1999).

28. The Court's current audit found similar difficulties in the establishment of these global grants mechanisms for the 2000 to 2006 programming period. Two Member States ⁽¹⁾ who experienced difficulties in the interpretation and implementation of the Global Grant mechanisms either declined or postponed a decision to select an intermediary body, due mainly to the uncertainty about the division of liabilities between the parties in the case of financial corrections and in regard to the practical application of the Commission Regulation (EC) No 438/2001 on financial control of the Structural Funds ⁽²⁾.

29. Differences were also found in the setting of limits on administration costs of these intermediary bodies. In comparison with the Commission's own directly financed contracts, which limit administration costs to 7 % of the total grant budget amount ⁽³⁾, in the case of two intermediary bodies ⁽⁴⁾ funded by Structural Funds in the United Kingdom and France, the funding programmes provided for an upper limit of 20 % of budget. In the case of the United Kingdom intermediary, the regional government office subsequently set a lower limit of 12 %. In the case of one German intermediary body ⁽⁵⁾, administration costs of 30 % of the grant funding were awarded.

Insufficient information on local actions for employment under the ESF

30. The Commission assessed through *ex ante* evaluation how Member States had taken into account the horizontal priority of local employment actions in the programmes for the period 2000 to 2006, as set out in Article 2(2) of Regulation (EC) No 1784/1999. Member States were not required to include indicators for measuring performance on this priority although they were expected to define, in the text of the programmes, how they would achieve the requirements.

31. The Court found that the Commission did not have specific information on the extent to which operational programmes approved by it addressed the horizontal theme of local employment.

⁽¹⁾ Germany and Austria.

⁽²⁾ Commission Regulation (EC) No 438/2001 of 2 March 2001 laying down detailed rules for the implementation of Council Regulation (EC) No 1260/1999 as regards the management and control systems for assistance granted under the Structural Funds (OJ L 63 of 3.3.2001, p. 21). This regulation requires a clear separation of functions between managing and paying authorities and an independent audit of at least 5 % of eligible expenditure based on a representative sample of operations approved.

⁽³⁾ 'Vade-mecum of Commission grants', financial provisions, paragraph 11.3 DG-Budget, 15 July 1999.

⁽⁴⁾ Objective 3 SPD Yorkshire and Humber, United Kingdom and Objective 3 in France.

⁽⁵⁾ The intermediary appointed in respect of the Germany Objective 3 SPD (federal level).

Insufficient information on local employment actions in the context of the EES guidelines

32. The Treaty ⁽⁶⁾ provides for the preparation of annual guidelines drawn up by Council on the basis of which, Member States must prepare and submit annual reports (National Action Plans for Employment — NAPs) detailing progress in implementing the employment strategy. These reports are examined by the Commission and result in recommendations by Council to Member States, and the production of a Joint Employment Report ⁽⁷⁾. While the NAPs form the main tools used by the Commission in monitoring Member States policies on local employment, they do not however, unlike Community operational programmes, have a legally enforceable basis.

33. The Court's examination of the NAPs for 2000 and 2001 showed that, in respect of local employment, key information necessary for effective monitoring of the policy was not present. In over one-third of the key criteria ⁽⁸⁾ identified by the Court, the information provided by Member States in the NAPs, was either incomplete or of poor quality.

34. The Court also noted little improvement in the inclusion of quantified targets and indicators in the NAPs, with which to assess local employment impact. While some NAPs were found to contain general budgetary data, these were mainly confined to ESF operations. This point was previously made by the Court ⁽⁹⁾ and also highlighted by the Commission ⁽¹⁰⁾, which also subsequently noted ⁽¹¹⁾ that the descriptions of ESF operations in the NAPs were detached from the Employment Strategy, making it difficult to specify the genuine innovative contribution of the ESF.

35. In relation to information about progress achieved in local employment, the Court observed that:

- (a) in the vast majority of cases ⁽¹²⁾ there was little indication of involvement of local actors in the preparation process of NAPs ⁽¹³⁾. In cases where regional plans did exist, this did not

⁽⁶⁾ Article 128 of the Treaty.

⁽⁷⁾ The Joint Employment Report is prepared by the Council and the Commission for submission to the European Council.

⁽⁸⁾ Local knowledge of NAP; local participation in NAP preparation; new sources of jobs; social economy; local partnerships; Public Employment Services and participation of social partners.

⁽⁹⁾ Annual Report for the financial year 1999, paragraph 3.134.

⁽¹⁰⁾ Commission Communication to Cardiff European Council 1998.

⁽¹¹⁾ SEC(2001) 1398 of 16 November 2001, Commission working paper on assessment of the implementation of the 2001 employment guidelines (supporting document to the Joint Employment Report (COM(2001) 438 final of 12 September 2001).

⁽¹²⁾ Except for two Member States (France and Netherlands in 2000).

⁽¹³⁾ As confirmed in the Joint Employment Reports for 2000 (paragraph 4.4) and 2001 (paragraph 3.3).

always constitute a true 'local needs-based approach' to planning, as the regional plans did not feed into the preparation of the NAPs, but existed apart;

- (b) only one-third of Member States ⁽¹⁾ reported initiatives targeted at new sources of local jobs;
- (c) wide variations of understanding existed about the meaning of 'social economy' among Member States ⁽²⁾;
- (d) there continued to be a considerable lack of coordination and synergy between the ESF and ERDF in strategy-planning documents in this area, as previously mentioned by the Court ⁽³⁾ in 2001. Coordination and synergy are important given that the Funds support different types of activity; infrastructure and partnership building in the case of ERDF and support for training in the case of ESF;
- (e) a lack of coordination and monitoring of developments between the Commission services in respect of territorial employment pacts was noted. While DG RÉGIO assumed the lead role, only one coordination meeting was held between the services in 2001, with little monitoring information on TEPs available in DG Employment.

Improved evaluation of local actions

36. The Commission carried out a large number of studies in the area of local employment, in the period 1996 to 2001. The results of these studies and evaluations, principally in the area of Article 6 innovative projects indicate that there have been positive impacts both in qualitative and quantitative terms, depending on the type of actions and the size of the territory.

37. The most noticeable advances in the area of local employment creation have been predominantly ERDF supported actions, because the ESF's principal function has been generally to support national measures in the balancing of supply and demand for work and professional re-training rather than addressing thematic objectives.

38. While certain Member States (e.g. the Netherlands and Finland) have a long tradition of local employment actions, in others (e.g. France and Spain), this approach is relatively new and

only recently incorporated into the NAPs. Thus some projects of a local character found in the operational programmes can be regarded as local employment actions by chance and not design, as they do not derive from a visible systematic structure based on a 'local needs-based approach' and an institutionalised local partnership.

39. Nevertheless, there is an increased interest by most Member States in the regional dimension of their employment policies and strategies, with some national programmes being designed in a more flexible way to allow for regional specificities, and some regions developing their own programmes to complement parts of national programmes. In the United Kingdom under Objective 3, each region had a Regional Action Plan, which was based on the priority in the NAP deemed most relevant for the region.

40. One difficulty of impact assessment however, as indicated in the evaluations of pilot projects and employment pacts, is in the apportioning of accountability for jobs created. This must be divided between the partnerships which implemented the actions, the national programme for job creation, the regional programme which financed the project, and the local public employment service, which supported the creation of the company or association. Furthermore, little empirical evidence exists as to the displacement effect of local job creation actions and whether this results in real added economic value, particularly in the public sector area.

41. The Court notes however, that under the Commission's guidelines for innovative measures in 2001 ⁽⁴⁾, research is being supported to promote methods to benchmark the application of local employment strategies and to develop methodological tools to assess local development performance. However, development work on the preparation of employment impact indicators for the social economy is difficult due to the lack of relevant statistics in the majority of Member States.

42. While evaluations have been carried out on specific individual areas of local employment, a clear overview or inventory of the current state of affairs in Member States, so as to put into context the objectives set and the progress of their implementation, does not exist. Nor does information exist on the level of Community expenditure on local employment in the Member States.

⁽¹⁾ Belgium, Spain, France, Netherlands and Portugal in the NAPs for 2000.

⁽²⁾ Joint Employment Report 2001, paragraph 3.3.

⁽³⁾ The Court's Special Report No 12/2001, paragraph 17 concerning certain structural measures to improve the employment situation, the impact of ERDF aid on employment and ESF measures to combat long-term unemployment, referred to the fact that the EES employment guidelines, the NAPs and the Joint Employment Reports, made no explicit mention of the European Regional Development Fund (ERDF), although its impact on employment was considerable (JO C 334, 28.11.2001).

⁽⁴⁾ Communication from the Commission on the implementation of innovative Measures under Article 6 of the European Social Fund Regulation for the programming period 2000 to 2006 (COM(2000) 894 of 12 January 2001).

NEED FOR IMPROVEMENT IN THE COMMISSION'S PROJECT MANAGEMENT

43. The Commission directly manages a range of local employment actions, principally through innovative projects under Article 6 of Regulation (EC) No 1784/1999 ⁽¹⁾ and 'Preparatory actions for a local commitment for employment'.

44. The Court's audit sought to establish the extent to which the Commission had ensured that funding was only allocated to projects which met the legal, financial and regulatory requirements of the grant schemes and which provided good value for money.

Financial controls on innovative projects require tightening

45. In the period 1994 to 1998, the Commission funded 201 innovative projects under Article 6(1)(a) of Regulation (EC) No 1784/1999, amounting to an annual average amount of 20,7 million euro, with an average subsidy by project of 55,5 % of the total costs (Table 2). The Court noted that the subsidy rate increased substantially (from 50 % to 83 %) between 1997 and 1998.

Table 2

Article 6 Projects Funded 1994 to 1998

(Mio EUR)

Year	Number of projects	Total cost	ESF participation	Average funding rate (%)
1994	32	32,1	18,0	56,1
1995	54	54,3	23,0	42,4
1996	50	43,9	23,5	53,5
1997	34	23,6	11,8	50,0
1998	31	32,8	27,1	82,6
1994-1998	201	186,6	103,5	55,5

Source: Court of Auditors.

46. The Court selected and examined 13 projects approved in 1996 and 1997 and completed in 1999 and 2000, in order to establish how they had been managed and what contribution they had made to the development of new and innovative approaches.

⁽¹⁾ Pilot and demonstration projects and exchanges of experience, subject to a ceiling of 0,4 % of the ESF annual funding.

47. The following was observed:

- (a) there were significant delays in the monitoring and follow-up by the Commission in 6 of the 13 projects. In one case ⁽²⁾, which was awarded 288 200 euro, a recovery procedure was only instigated nearly two years after the project failed to submit a final report;
- (b) the project *ex ante* evaluations did not always explain the reason for the grant rate awarded, as in the case of one project ⁽³⁾ for improving coordination and exchange of experience, which received a one million euro grant representing 100 % of total project costs;
- (c) in six of the 13 cases examined, the project promoters were given a period of six months after the contract expiry date, to finalise expenditure and a full year to submit to the Commission their final report and claim. This additional delay period made more difficult the Commission's evaluation and utilisation of results within a reasonable period after the actual completion of projects.

48. Furthermore, only 34 of the 201 Article 6 projects approved were audited by the Commission in the period 1994 to 2001, thus reducing the probability of detecting ineligible or irregular expenditure in this high risk area of direct contracts. The analysis by the Court of a sample of audit reports showed that the Commission auditors had found in the great majority of cases, serious weaknesses and important errors, requiring many recovery actions of funds unduly paid. In the light of these results, a more active control strategy would have been justified in this area.

Better focusing of preparatory actions needed

49. The Court also examined the total of 37 projects amounting to 5,6 million euro from the Commission's 'Preparatory actions for a local commitment for employment' ⁽⁴⁾ measure in the year 2000. This pilot measure, which commenced on 1 January 2000, had as its objective the support of local actors in creating local employment plans based on the Employment Guidelines. An examination of the financial execution of the budget for 2000 and 2001 ⁽⁵⁾ (Table 3), showed that there was a slow rate of take-up of funding, in regard to commitments in 2000 (46,6 %). For payments, only 1,6 % of available credits for 2000 were paid, the remaining amount being cancelled. While 99,8 % of funds were

⁽²⁾ Project No 970751 ATO.

⁽³⁾ Project No 960019B 0.

⁽⁴⁾ Budget line B5-5 0 3 — 12 million euro in 2000.

⁽⁵⁾ Data as of 31 December 2001.

committed in 2001, 96,3 % of this funding was committed in November and December 2001. In fact, despite the introduction of this new measure, overall funding for innovative actions actually decreased in the period 1998 to 2001 ⁽¹⁾.

Table 3

Budget line B5-5 0 3: Preparatory actions for a local commitment for employment

(Mio EUR)			
2000	Commitments budgeted	12,0	100,0 %
	Commitments executed	5,6	46,7 %
	Credits cancelled	6,4	53,3 %
2000	Payments budgeted ⁽¹⁾	11,4	100,0 %
	Payments executed	0,2	1,8 %
	Credits cancelled	11,2	98,2 %
2001	Commitments budgeted	11,9	100,0 %
	Commitments executed	11,9	100,0 %
2001	Payments budgeted ⁽²⁾	3,8	100,0 %
	Payments executed ⁽²⁾	3,3	86,8 %

⁽¹⁾ 12 million euro voted — credit virement of 0,64 million euro.

⁽²⁾ 6 million euro voted — credit virement of 2,3 million euro.

Source: Court of Auditors.

50. The low budgetary execution in 2000 was partly due to the fact that all funds had to be committed and spent before the end of 2001. Hence, the maximum duration of projects was limited to nine months, with a deadline for presentation of applications of only seven weeks. This restriction discouraged many potential applicants particularly in the social economy area. Furthermore, few of the proposals in 2000 requested the maximum amount of co-financing available.

51. The following weaknesses were found in the operational management of the measure:

- (a) many projects overlapped thematically with the existing Article 6 innovative actions and the pilot projects funded in the framework of the 'Third System' and the 'Employment Market' ⁽²⁾.

⁽¹⁾ Commitments from 53 million euro in 1998 to 47 million euro in 2001, payments from 39 million euro in 1998 to 23 million euro in 2001.

⁽²⁾ Budget line B5-5 0 2.

- (b) 17 grant agreements for the projects (amounting to 2,6 million euro or 46 % of total commitments) were only approved by the Commission on 30 December 2000, for actions starting on the same date and ending on 30 September 2001. As these agreements were only signed by the beneficiaries in January 2001, the expenditure should have been charged to the 2001 budget. Furthermore, agreements were approved by the Commission for the co-financing of conferences after the conferences had been held ⁽³⁾.

52. Despite the above weaknesses and the fact that this is an innovative area, which inherently attracts higher than normal risk, no preparatory projects were audited by the Commission in either 2000 or 2001.

OBSTACLES TO THE DEVELOPMENT OF LOCAL ACTIONS

53. The Court examined the implementation of various local employment actions in Member States including territorial employment pacts, organisations receiving global grants and the role of the voluntary and private sectors in promoting local employment in order to assess the obstacles to achieving efficient and effective results in this area.

Lack of follow-up support for territorial employment pacts

54. The Court visited three territorial employment pacts ⁽⁴⁾, whose goal was to coordinate local employment activities and spread good practice through the 'local needs-based' approach to employment development. In the case of the United Kingdom pact it was found that:

- (a) there was no common overall strategy document to which all pact partners were signatories;
- (b) the pact board of senior partner representatives never convened, but was replaced by a management team consisting of only local authority representatives and the pact coordinator, which reduced the local representativity of the project;

⁽³⁾ For example, in the case of Glasgow City Council, the grant agreement was signed two months after the conference.

⁽⁴⁾ Three-Cities TEP, United Kingdom; Tampere, Finland and Catalunya Objective 2.

- (c) the TEP failed to establish a link with operational programmes and accordingly was unable to obtain project-funding from such programmes, after having used its initial funding to carry out preliminary studies. As a result the optimum benefit was not obtained from these studies. Furthermore, the target of creating 30 000 jobs, which was approved by the Commission, proved unrealistic, which was unsurprising considering the nature of the pact and the limited funds provided (200 000 euro).

55. In line with the Commission's intention ⁽¹⁾ to move local development initiatives away from individual initiatives towards a more strategic form of support, it encouraged Member States to maintain funding of existing territorial employment pacts (TEPs) and to support new pacts within operational programmes (see paragraph 54(c)). Nevertheless, in some Member States ⁽²⁾ there was a lack of support for the continued funding of TEPs by national administrations.

Delays in the use of global grants by Member States

56. The introduction of global grants' mechanisms to manage small grants (see paragraph 26), in the 2000 to 2006 ESF programming period, resulted in significant delays in the execution of local employment actions. This was due to the necessity to obtain approval and conclude legal agreements with managing authorities at many different levels and due to difficulties in appointing experienced intermediate organisations. In two instances ⁽³⁾ delays of 15 to 18 months were recorded, which was considerably longer than in the case of other measures of the programmes.

57. Similarly, in the case of the Objective 3 programme for France, the requirement that the establishment of global grant intermediaries await formal adoption of operational programmes by the Commission, meant that the selection process for intermediaries was not started until November 2000.

58. Furthermore, the possibility of using global grants was also found to be statutorily restricted in some cases. In Austria,

the use of global grants was postponed, and in Finland, national legislation prohibited the State bodies from delegating their financial management functions to non-governmental organisations.

Obstacles to the participation of the voluntary sector in ESF programmes

59. The 'Third System', which refers to the economic activity of cooperatives, mutual bodies and associations, is an approach to local economic development which brings together diverse strands of development in local communities. The potential added value of these actions derives from their ability to combine economic and social purpose, through matching local needs with local resources.

60. There were a number of obstacles to the participation of voluntary organisations in this sector. Firstly, unpaid volunteer time by individuals in such organisations makes an important contribution to ESF projects ⁽⁴⁾. However, in cases where the programme measure foresees only public and ESF funding, it would reduce the public contribution to the programme, reducing thereby the rate of matching funding. This is so, even though volunteer organisations are often non-profit-making bodies funded from public and charity sources. This situation thus limits the attractiveness, to small voluntary groups of participating in such actions.

61. Secondly, while the voluntary and community sector ⁽⁵⁾ need advance payments to be able to fulfil their functions, this was not always possible ⁽⁶⁾, because national rules prohibit the payment of advances to final recipients. This restriction, along with these organisations' own lack of resources, meant that in the case of Spain no activity took place in 2000 and part of 2001.

⁽¹⁾ Communication from the Commission on the implementation of Innovative Measures under Article 6 of the European social Fund Regulation for the programming period 2000 to 2006, paragraph 27 (COM(2000) 894 of 12 January 2001).

⁽²⁾ United Kingdom (East Midlands Objective 2 SPD 2000 to 2006 made no allocations to TEPs) and Finland (OECD report stated that several partnerships, which were heavily dependent on national funding would cease to exist in their current form as a result of the discontinuance of support).

⁽³⁾ Spain (Objective 3 OP) and also the territorial employment pact for Catalunya Objective 2.

⁽⁴⁾ Yorkshire and the Humber Objective 1, 2 and 3 SPDs, United Kingdom and Spain Objective 3 OP.

⁽⁵⁾ For example, with the Objective 2, 2000 to 2006 draft plan, Yorkshire and the Humber, United Kingdom, the Commission advised that such a financial mechanism was needed to enable the sectors to fulfil their functions. The Commission Interpretation of Article 32(1) subparagraph 3 of Council Regulation (EC) No 1260/1999 (OJ L 161 of 26.6.1999), also support this position.

⁽⁶⁾ For example, in the United Kingdom there was a central government ruling to regional offices prohibiting the payment of advances and in the German Objective 3 (Bavaria) SPD and Spain objective 3 SPD, the payment of advances to final grant recipients was also prohibited.

Lack of commercial financing for local actions

62. A further obstacle to the development of effective local employment was the lack of commercial financing for such actions. Many non-governmental organisations (NGOs) and intermediaries do not have a mandate to seek commercial funding. This sometimes adds to the exclusion of both the voluntary sector and private companies in the development of local employment. In the case of one large project funded by the Commission entitled the 'Local Social Capital' project ⁽¹⁾, the Court noted that the participating intermediary structures were restricted to non-profit-making organisations and consortia.

63. Furthermore, given the almost exclusive public character of partnerships and the fact that other innovative funding also predominantly targets the local government and NGO sector, there is a risk that the participative capacity of the private sector is not being equally developed in this area, thus limiting the capacity building of local players. In addition, the resulting perceived competitive advantage which the public sector has, as regards ESF funding, is a further limiting factor to the local development of employment actions.

64. As one of the principal aims of Community policy in this area is to increase local access to the decision-making process, a fundamental change cannot solely be legislated for, but must be obtained through a defined agreed strategy, which includes guidance on methodologies, the networking of organisations and most importantly, a common political agreement for change on the part of Member State authorities.

CONCLUSION AND RECOMMENDATIONS

65. Although the EC Treaty has laid down European employment policy, there exists no clear and comprehensive Community-wide policy on local employment creation. While advances have been made by the Commission in the area of policy development and dissemination of best practice, given the dearth of empirical evidence available on job creation in this area, any future policy must be based on an analysis which focuses on making labour market interventions more effective in job creation (see paragraphs 10 to 15).

⁽¹⁾ Local Social Capital is defined by the Commission in the document 'Evaluation of Local Social Capital Pilot Project' (contract VC/2000/0220) as backup provided by an intermediary organisation, operating at regional or local level, for people who pool their resources with a view to carrying out micro-level projects which promote employment and social cohesion. The guiding principle is to mobilise indigenous potential to find local responses to local need.

66. While the European Employment Strategy and the 2000 to 2006 programming regulations have given recognition to and provided a legal framework for such developments by Member States, Community policy development in the area of local actions for employment has been piecemeal and lacking structure and coherence. The adoption of the existing broad-scope approach has, due to an already complex intervention 'playing field', the potential to both confuse and dilute the efforts and the impact of actions undertaken (see paragraphs 16 to 21).

67. Information for monitoring and assessing progress in the field of local employment through the EES and ESF funding, is insufficient (see paragraphs 22 to 42).

68. Weaknesses also exist in the Commission's management of direct funding of innovative actions concerning local employment (see paragraphs 43 to 52).

69. While progress has been made in the area of local employment in many Member States, obstacles still exist to the full participation of both volunteer and private sectors in local employment actions (see paragraphs 53 to 64).

70. Difficulties also exist regarding the implementation of devolved management structures in some Member States. These derive from a conflict between the detailed requirements of the new financial regulations and Member States' existing legal and administrative arrangements (see paragraphs 25 to 29 and 56 to 58).

71. In political and legal terms, the European Employment Strategy consists of coordinated national strategies, the realisation and effectiveness of which is primarily the Member States' responsibility. It is the Commission's difficult but vital role to facilitate and support the coordination element. To fulfil this function of guiding the national employment policies, it is essential that Member States provide and that the Commission collects, processes and disseminates, adequate information. This applies particularly in the area of local employment actions, for which there exists a specific legal basis under the ESF Regulations.

72. The Court recommends that:

- (a) a comprehensive assessment of the likely added value of local employment policy should be undertaken on all policy implementation levels ⁽²⁾;

⁽²⁾ Commission's 1993 White Paper on growth, competitiveness and employment, chapter 8, paragraph 8.2.

- (b) the Commission provides more precise guidance to Member States on local employment under the ESF programmes;
- (c) the Commission should insist that under the EES, Member States provide more information on local employment actions;
- (d) Commission-managed actions in the area of innovative projects should be rationalised, along with a tightening of financial management procedures to ensure the regularity and cost effectiveness of funding;
- (e) while the primary responsibility for ensuring the effectiveness of the overall local employment strategy rests with Member States, the Commission should ensure that it has accurate management information at its disposal, to fulfil its facilitative and coordinating function.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 17 and 18 July 2002.

For the Court of Auditors

Juan Manuel FABRA VALLÉS

President

THE COMMISSION REPLIES

SUMMARY

I and II. The Commission endeavours to provide a more favourable framework for local employment within the different components of this policy area, on the assumption that the effectiveness of policy development and implementation can be improved by broadening the basis of the persons and institutions involved. The Commission must take into account the principles of proportionality and subsidiarity, as well as the open method of coordination established in Lisbon, which are particularly relevant in the field of local development, notably by fully respecting the national administrative and constitutional arrangements of the Member States.

IV. The Commission, while naturally recognising the need to improve Community policy formulation, wishes to underline the following points:

- (a) due to the great variety of activities, and above all of situations, among Member States (size, competence, resources at the infra-regional level), a single Community-wide definition of a local employment policy or action would not be feasible or desirable, and would not be within the remit of the ESF Regulation or the European Employment Strategy (EES);
- (b) the Commission provides policy guidance and promotes exchange of experiences through innovative and preparatory measures, including for local actors themselves, as shown in its November 2001 communication ⁽¹⁾.

V. Information for policy monitoring and assessment is, in general, useful. However, there are different requirements and responsibilities within the components of local employment policy. In this respect:

- (a) the fact that the Member States do not provide specific information on local employment actions as such in their Operational Programmes is normal, given the nature and objectives of these programmes under the ESF Regulation;
- (b) the Commission considers that the information on local employment provided by Member States in their national action plans (NAPs) allows an assessment of basic trends concerning the development of the territorial dimension of the European Employment Strategy. However, the Commission will naturally continue to advocate the development of the local dimension of the EES.

VI.

- (a) and (b) As regards directly managed projects, the Commission would point out that the official requests for EU financing had reached the Commission long before the beginning of the projects, and that accounting commitments had been validated before the launch of the actions and grant agreements sent to the promoters on time.
- (c) The Commission agrees with the analysis of the Court on the overlap between Article 6 actions and preparatory measures since the creation in 2000 by the budget authority, in spite of the Commission's reservations, of budget line B5-5 0 3. It has, however, undertaken to implement these budget lines in the best possible way with the human resources available and has tried to limit the possible overlap, notably by means of joint selection of projects gathering all the services concerned.

⁽¹⁾ 'Strengthening the local dimension of the European Employment Strategy' – COM(2001) 629 final, 6 November 2001.

VII.

- (a) and (b) As regards small grants, the complexities and restrictions mentioned by the Court should be dealt with individually by the Member States and/or managing authorities concerned. The Commission has pleaded for more simplification in this domain, but has no authority over national mechanisms or administrative arrangements.
- (c) Considering the fact that some local employment actions were restricted to non-profit-making organisations, the Commission points out that local employment actions cannot possibly address all the stakeholders all the time. Non-profit-making organisations are a legitimate priority and target group for local employment development.

VIII. As regard the Court's recommendations, the Commission wishes to make the following points:

- (a) a thematic evaluation of local development was announced by the Commission in its November 2001 communication, and is currently being launched. However, while the Commission acknowledges the need to evaluate the value added and effectiveness of labour market measures, an in-depth analysis of labour market interventions would be a rather narrow method of assessing the results of local employment policy;
- (b) the Commission considers that the reporting requirements imposed on the Member States by the ESF and Structural Fund Regulations are generally adequate, as these must be in line with the principles of enhanced partnership and simplification enshrined in the Regulations, and must avoid overburdening Member States with additional obligations;
- (c) the Commission considers that the information on local employment provided by Member States in their national action plans (NAPs) allows an assessment of basic trends concerning the development of the territorial dimension of the European Employment Strategy. The Commission will continue to advocate the development of the local dimension of the EES;
- (d) the Commission agrees with the Court's general recommendation to rationalise budgetary support and improve financial management procedures;
- (e) the Commission will continue to play its facilitating and coordinating function, while respecting the principles of proportionality and subsidiarity, which are particularly relevant in the field of local employment actions.

INTRODUCTION

1. Local actions for employment have developed over decades in the Member States. Since the 1993 White Paper, the Commission endeavours to provide a more favourable framework for local action, on the assumption that the effectiveness of policy development and implementation can be improved by broadening the basis of the persons and institutions involved. However, progress in this policy area relies mainly on decisions taken within the Member States.

2. Within the European Employment Strategy (EES), guideline 11 now states that Member States, as opposed to the Commission or local actors themselves, will 'take into account, where appropriate, in their overall employment policy the regional development dimension' and will 'encourage local and regional authorities to develop strategies for employment'. However, the guidelines do not include any local employment action for the Commission to take or manage.

3. The European Social Fund (ESF) Regulation states that, within its five policy fields, the Fund shall 'take into account', among others, 'support for local initiatives concerning employment' (Article 2(2)).

4. Local employment policies and actions cover a very wide range and type of actions, mostly included in ESF programmes and managed by the Member States. For example, a high proportion of funding within the five ESF policy fields, such as lifelong learning or equal opportunities, has a direct or indirect impact on locally-based employment creation. Thus, activities within this large domain would be impossible to quantify or to include in a coherent, clear Community framework at all policy levels.

OBJECTIVES AND SCOPE OF THE AUDIT

6. Local employment actions and the set of economic, political and administrative circumstances within the Member States

are of a very wide and diverse nature indeed. This does not allow a value-for-money assessment, or a strict definition, of all local employment-related activities, particularly as regards ESF programmes. Limited human resources are also a factor for the Commission.

9. Local employment actions include three components that, while all aiming at local employment, have distinct legal bases and specific objectives and therefore involve different requirements and responsibilities: the policy process of the European Employment Strategy (EES), the legal requirements of the ESF Regulation, and the operational rules concerning innovative and preparatory actions. Community policies and actions must necessarily adapt to each of these three components.

THE NEED FOR A CLEARER COMMUNITY POLICY

10. The principles of proportionality and subsidiarity under the Amsterdam Protocol, as well as the open method of coordination established in Lisbon, are particularly relevant in the field of local development. As stated in its November 2001 communication, the Commission, when establishing its policy, guidelines and measures, takes these principles into account, notably by fully respecting the national administrative and constitutional arrangements of the Member States; the Commission must also naturally avoid a prescriptive approach vis-à-vis national, regional and local actors.

14. The Commission's ability to ensure that regional and local conditions are taken into account when developing policy proposals and operations is limited by the absence of an enforceable legal basis and by the ESF Regulation itself (see point 3); essentially to non-prescriptive advocacy, guidance, and experimental actions in the framework of innovative actions and preparatory measures.

15. Structural Funds are financial instruments aiming at reinforcing social and economic cohesion. The related regulations define the scope of their intervention but not the regulatory framework of the national and/or Community policies they co-finance. Article 2 of the ESF Regulation defines the scope of the activities of Member States, addressing the development of labour market and human resources, which the ESF supports and complements. The rules applicable to these policies and operations and their implementation are the sole responsibility of the Member States. Article 8 of Council Regulation (EC) No 1260/1999 reinforces this approach, namely in paragraph 1 where it states that action will be taken in partnership 'with the authorities and bodies designated by the Member State *within the framework of its national rules and current practices, ...*'. The partnership principle referred to in Article 8 aims at reinforcing the role of regional and local partners in the definition, management, follow-up and evaluation of Structural Fund co-financed activities at Member State level; it is complemented by the subsidiarity principle referred in point 2, which strongly reduces the role of the Commission in the implementation of actions.

However, the horizontal priority of local employment was taken into account in the negotiations with Member States, and will be

the subject of particular attention by the Commission in the mid-term evaluation.

17. Discussions in the Employment Committee on the Commission document showed that Member States are staunchly opposed to a Commission action plan and timetable for the preparation of local action plans. The Commission therefore, in order to respect Member States' competencies, reviewed its preliminary position and produced the November 2001 communication on local employment.

18. Several other factors limit the desirability and ability of the Community to formulate a comprehensive, Europe-wide policy for promoting local employment actions with measurable objectives, criteria and target outputs. Firstly, employment policies are national, and the degree of local government and decentralised administration in the Member States varies greatly. Secondly, it is mainly for Member States to decide how specifically to take account of regional and local conditions in accordance with the ESF Regulation and with their constitutional and administrative arrangements. More generally, the Member States are best able to adapt to their own local realities and needs.

However, the Commission does provide policy guidance and promotes research within its area of competence, including for local actors themselves, as shown in the November 2001 communication and noted by the Court (point 41). It draws on experimental actions, and on many relevant contributions other than the studies mentioned by the Court in point 18, for example, the OECD's Local Employment and Economic Development Programme, of which the Commission has been a founding and active member since its inception in 1982.

19. Due to the great variety of activities, and above all of situations, among Member States (size, competence, resources at the infra-regional level), a Community-wide definition of a 'local employment action' or territory would not be feasible or desirable and would not be within the remit of the ESF Regulation or the EES. The term 'local employment action' encompasses radically different activities such as innovative measures and ESF operational programmes.

20 and 21. The main objective of the Commission communication of November 2001 was to contribute to the strengthening of the local dimension of the EES by analysing the recent trends in the NAPs of the Member States, as well as the results of

the consultation of local actors, and by building on experience and making better use of existing instruments. The communication also proposed a series of non-prescriptive guidelines for local employment strategies, - in line with the subsidiarity principle, rather than an action plan. It has been welcomed by the European Parliament, the Committee of the Regions and the Economic and Social Committee⁽¹⁾. A more interventionist approach by the Commission was staunchly opposed by Member States.

Due to the very nature of local employment actions, to the fact that local employment is not one of the policy fields of the ESF Regulation, and to the lack of statistical data highlighted by the Court, the quantifiable direct benefits referred to in footnote 15 (jobs created, persons trained) cannot be objectively determined, especially as regards Structural Fund operational programmes, which represent the bulk of Community funding for the benefit of local employment.

BETTER INFORMATION AND IMPROVED POLICY IMPLEMENTATION

22. The Commission shares the general concern for good management referred to by the Court. Apart from such general principles which indeed apply to the implementation, monitoring and assessment of any policy, it is pointed out that, where local measures are concerned, the content, procedures and responsibility for actually implementing the principles vary depending on which component of the local measures listed by the Court in point 9 of this Report is concerned.

25. The Commission's negotiation mandates with all Member States made clear and coherent guidance provisions for this new horizontal priority, and this was followed through by the Commission while respecting the principle of subsidiarity and the terms of the Structural Fund Regulation.

The ESF *ex ante* evaluation guidelines (30 April 1999) also provided extensive policy guidance, underlining in particular the need to assess, for each policy field, how and in which type of activities the horizontal priorities had been integrated. The guidelines also cover the integration of local employment creation initiatives and territorial employment pacts in national/regional strategies.

As regards the policy guidelines issued to Member States on Structural Fund priorities, the guidance provided by the Commission on local development was sufficient and does not need to be overly specific. The first guidance note referred to by the Court was a necessarily brief policy guideline for Member States, and

concerned the Structural Funds as a whole. The second note was a more detailed working document to assist Commission staff in bilateral negotiations, and concerned only the ESF; it was duly circulated to Member States in the interests of transparency.

27. As stated in the replies to the 1994 annual report and confirmed by its practice in recent years, the Commission has endeavoured, with the approval of the Member States, to improve the rules for the implementation of global grants and to increase the mechanisms needed for appropriate monitoring and control of these forms of aid.

28. Certain Member States have encountered difficulties in the application of the small grants provisions. The ESF Regulation (Article 4(2)) states that small organisations should have 'special arrangements for access' to ESF funds to reduce the difficulties encountered by these organisations in obtaining ESF funding. Greater participation by small organisations depends on the Member States concerned setting up these simplified access conditions. Furthermore, the ESF Regulation provides for an exception to the general co-financing rules that allows small grants schemes to be financed by the ESF at the rate of up to 100 %. Finally, the Commission launched pilot projects under ESF Article 6, (Local Social Capital), and has regularly informed Member States through the ESF Committee of the progress made and the evaluation of results.

29. The provisions for contracts managed directly by the Commission contained in the 'Vade-mecum of Commission grants' referred to by the Court (footnote 24) are distinct from the Structural Funds' provisions on small grants: as explained in paragraph 1.2, the Vade-mecum applies to non-regulated grants i.e. those that fall either under a Regulation containing no provisions on the award/management procedures or under no specific regulation at all: '*The Vade-mecum is not concerned with financial aid granted via States or via bodies designated by them, as for instance under the CAP and the Structural Funds*'. The Structural Funds' own provisions on small grants concern funds managed by intermediate bodies in the Member States in accordance with national procedures.

As to substance, a comparison of the two ceiling levels does not seem entirely adequate as the costs of the intermediate bodies are closely and directly linked to the measure itself. The bodies are in fact also directly responsible for implementing and managing the measure (information, operation, assistance with setting-up, processing, selection, financial management, monitoring of progress, controls, assessment, etc.). The ceiling of 20 % of implementation costs referred to stems from the testing relating to Article 6 of the ESF Regulation in the period 1994 to 1999, which reveals the extent of the administrative costs incurred by the intermediary bodies.

⁽¹⁾ Employment and Social Affairs Committee, A5-0214/2002 final, 31/5/2002. ECOSOC: CES/518/2002 final, 24 April 2002. Committee of the Regions: CdR/453/2002 final, 14 March 2002.

In the case of the German intermediary body referred to by the Court, the possibility to go up to 30 % in justified cases was accepted, at the request of the BMA (Federal Ministry of Employment), on the ground that coordination of the complex measure 'Local Social Capital' for the whole of Germany could be regarded as justified.

30. While the ESF *ex ante* evaluation guidelines provided extensive policy guidance for the establishment of programmes, the Commission will assess how Member States have taken account of the horizontal priority of local employment actions as part of the 2003 mid-term evaluation, in accordance with the Structural Fund Regulation.

31. The operational programmes of the Member States are not meant to include specific or statistical information on individual actions. The Regulation requires the ESF to 'take into account' local employment, but since this is not one of the ESF policy fields it does not require the collection of specific information on local employment as such. However, during the annual meetings with the management authorities, the Commission systematically underlines the importance of including in operational programmes relevant information on how horizontal priorities, including local employment, have been taken into account by the Member States.

33. On the whole, both the Commission and Member States have considered that the information provided in the NAPs is sufficient for an assessment of basic trends concerning the development of a territorial dimension of the EES. The territorial dimension in the guidelines has been developed over time, and Member States and the Commission are consequently searching for the most appropriate reporting practice in this area. In this respect, the impact evaluation of the EES launched by the Commission should provide useful information and guidance for the future. The Commission endeavours to improve the territorial dimension of the EES and the knowledge of regional and local employment policies through the NAPs process; the evolution of the local employment guideline since 1997 shows the progress made in this area. However, the analysis of NAPs should not cover detailed management information: they are policy documents, of a maximum of 25 pages altogether; furthermore, the Barcelona European Council recently underlined the need to simplify the EES process and NAPs.

34. It has not yet been possible to agree on quantified targets for the impact of local action for employment, as is also the case for other aspects of the EES. However, the Commission has recently launched a study to identify the scope and limits of indicators in the area of local action for employment in shorter and more focused analytical documents.

35.

(a) and (b) The Commission has acknowledged that Member States do not indicate in the NAPs to what extent there is a coordinated approach in terms of ERDF-

ESF interventions. However, the potential for synergies between the two Funds is limited by the nature of their respective interventions.

(d) and (e) Coordination between the ESF and the ERDF takes place at various levels during the programming and monitoring procedures. Most Objective 1 and 2 programmes and SPDs, and their assessment, involve at least the two Funds and the departments that manage them. The lead department systematically consults the associated departments when preparing the decisions approving programmes and participation in Monitoring Committees and annual meetings with the managing authorities. The policy documents, information memos and other documents for Member States or beneficiaries are always drafted with the departments concerned. In addition, each territorial employment pact had a Monitoring Committee on which the four Funds (sometimes three) were represented.

36. An overall strategic evaluation of local development actions was announced in the 2001 Commission communication on local development; it is being launched and will be implemented this year. The Commission actively supports the development of methodological instruments. Several evaluations are under way: local social capital projects, evaluation of preparatory measures for 2000, evaluation of territorial employment pacts. The Commission provided general guidance to interested promoters and other stakeholders through awareness-raising activities and other tools.

38. The preliminary findings of a Commission study on the local and regional dimension of the NAPs in the period 1998 to 2001 highlight the fact that the EES and the Structural Funds appear to have strengthened the role of regional and local actors in promoting employment. However, the need for a more strategic approach in developing employment at local level seems widely accepted, and this is increasingly reflected in the NAPs.

39. The Commission has analysed the increased interest in the regional dimension of employment in the Member States in its ongoing NAPs evaluation and in its November 2001 communication.

40 and 41. The Commission is indeed developing methodological tools with a view to improving understanding and measurement of the impact of local employment strategies: several projects under Article 6 (Local Social Capital) are seeking to develop indicators, and evaluation results are expected by the end of 2002. Several projects funded under the B5-5 0 3 call for proposals for the year 2000 have provided interesting results in this respect; the evaluation results are expected in 2002. Further data

are expected from the 2001 projects on monitoring, benchmarking and evaluation. The OECD's Leed Programme, in which the Commission actively participates, will also further contribute to progress in this field. The Commission fosters discussions and exchanges of experiences on how to evaluate the ESF local development horizontal priority. Last but not least, in the spring of 2002 the Commission launched a study for the development of local employment performance indicators; results should be available in 2003. However, the difficulties mentioned by the Court in point 41 concerning the lack of relevant statistics should be taken into account.

42. The way in which policy priorities, including local development, have been implemented by the Member States will be appraised in the Structural Fund mid-term evaluation.

Member States do not provide details, and are not obliged to, of actual expenditure on local actions, or performance indicators; the Commission is accordingly unable to establish the inventory suggested by the Court. More importantly, an inventory of all expenditure listed as 'local action for employment' within the programmes and measures of Member States would not necessarily be a determining factor for improving Community policy, or give a clear overview of the 'current state of affairs'. For example, many ESF interventions and expenditure that have a great impact on local employment are listed under other priority programmes and measures (i.e. equal opportunities, inclusion, etc.). See also reply to point 31.

NEED FOR IMPROVEMENT IN THE COMMISSION'S PROJECT MANAGEMENT

45. The increase in Community co-financing to which the Court refers is justified by the special nature of the 1998 call for proposals and the projects financed as a result. Since the aim was to test the approach to small grants, it was difficult to ask the intermediary bodies for large amounts of co-financing, with the result that the ESF co-financing rate was high.

47. The Commission would make the following points:

- (a) the delay in following up the projects was due to technical problems and does not reflect a systematic deficiency;
- (b) under the ESF Regulation, innovative measures can be wholly financed if the Commission so decides. In general, for operational reasons, it is desirable for the promoter and the local, regional or national actors to be involved financially. However, in certain cases, the nature of the measures calls for full financing.

The fact that the Commission decided to grant full financing for project 960019B0 is due to the nature of the project, which involved creating a transnational network of NGOs with resources that were strictly earmarked for national activities and were accordingly unable to release any financing at European level. The Commission, at the time referred to by the Court, had adopted the decisions governing the contributions on the basis of the standard model used in 1994 and 1995;

- (c) with regard to the 1998 call, the period between the end of the measures, last payments and submission of the final report was reduced to two periods of three months, which means the Commission receives the final report no later than six months after the end of the project.

In the new programming period, the final report must be submitted three months after the end of the contract period.

48. The Commission does not underestimate the importance of appropriate monitoring and the need for on-the-spot checks. In the case of the projects resulting from the 1998 call for proposals, most of the promoters were contacted in person by the Commission representatives during the contract period.

The Commission, on the basis of its own risk analysis and in view of the limited human resources at its disposal, considered that the audit of ESF mainstream actions needed to be given priority over the Article 6 innovative measures, notably in the light of the amount of funds involved.

In the case in question, the auditing of 17 % of all projects seemed to be largely in line with good management practice.

However, the findings of the Commission's auditors in the 34 cases referred to in point 48 have been properly followed up and amounts paid unduly are being recovered when necessary.

49 and 50. The Commission agrees with the Court's findings on preparatory measures for 2000. Late commitments were due to the regulatory and administrative provisions on calls for proposals and to the short time for presenting applications.

It should be noted, however, that, as of 2001, the management situation improved dramatically. Of the available funds, 99,8 % were committed in 2001; all the selected projects are under way and the first instalment of funds for all the projects was disbursed by July 2002. The deadline for submission was extended by the Commission to 15 weeks in 2002, and 130 applications were received.

51.

- (a) The Commission agrees with the remark of the Court on overlapping. This is why it had repeatedly expressed to the budgetary authority its disagreement with the establishment of budget line B5-5 0 3 0. However, once the line was created, the Commission had a duty to implement it as diligently as possible; 99,8 % of the funds available were committed in 2001.
- (b) It should be noted that committing funds at the end of the year is allowed by the principle of annuality; it means that agreements are signed by the beneficiary in 2001 for obvious technical reasons. Although this practice is not advisable, it is used exceptionally and corresponds to the efforts to implement what was decided by the budgetary authority in December 1999 where there is very little time to apply the procedures (call for proposals, analysis of proposals, commitment process).

The Commission accepts the remark of the Court on the late signature of some agreements concerning conferences, but also draws its attention to the fact that these events were organised with the Council Presidency or with the Member States' administrations.

52. The Commission can devote only a limited amount of human resources to audits of this type of project that are extremely small in comparison with ESF programmes. Nevertheless, a sample of four projects approved in 2000 (out of 37) has been established for on-the-spot controls in 2002. Moreover, the Commission is currently planning several audit missions concerning 2001 projects.

OBSTACLES TO THE DEVELOPMENT OF LOCAL ACTIONS

54. The administration of the pacts at local level necessarily had to allow the pact partners a wide margin of discretion. A by-product of this local empowerment process was that the prevailing conditions in a given pact area were not always conducive to the attainment of some of the objectives established by the Commission at the outset. Many lessons have been learnt both by the Commission and indeed by local actors from the operation of what were essentially 'test beds' for an all-embracing strategic approach to employment creation.

55. From an economic point of view it is not always desirable automatically to continue funding the old structures. Local projects (including TEPs) with prospects for further added value have nevertheless received funding from new programmes in Finland.

58. The introduction in France of the new 'small grants' system provided for in Article 4(2) of the ESF Regulation was delayed

by the need on the part of the management authority for a period of preparation and reflection essential for the drawing-up of the specifications and the model agreement for the 'small projects facility' under the Objective 3 SPD.

This preparatory phase, inherent in an innovative and derogatory financial mechanism, did not affect approval of the SPD. The circular of the French Employment Ministry, agreed by all the ministerial departments concerned, was thus signed and forwarded to the regional Prefects last March.

59. It is true that national legislation in Finland prevents the State bodies from delegating their financial management functions to NGOs, but this does not necessarily prevent the chosen intermediary bodies from making an active and useful contribution to project selection.

In Austria, the establishment of a mechanism of small grants to support the Local Social Capital has been postponed (see programming complement for Objective 3, chapter 8) as the Austrians wanted to wait for the evaluations of Article 6 projects and a special Austrian programme called 'Newstart'.

62. The Commission is aware of the difficulties experienced by some NGOs. This is why some projects restrict participation to non-profit-making organisations, as noted by the Court. The Local Social Capital call for proposals required the intermediary bodies to seek the involvement of all relevant actors in the territory concerned, including the private sector. One of the main outcomes of this call for proposals was that the private sector, notably banks, has decided to start micro-enterprise financing.

One aspect to be taken into consideration when advocating the granting of funds directly to the private sector is that this additional income might be regarded as breaching the competition rules.

63. The participating capacity of the private sector would depend mostly on the commercial attractiveness of projects.

CONCLUSION AND RECOMMENDATIONS

65 to 71. In order to assess Community policy on 'local actions for employment', a distinction must necessarily be made between three different elements which, while sharing the same broad policy objectives, belong to completely separate processes and therefore involve different requirements, activities and

monitoring: (1) the process of the European Employment Strategy (EES); (2) the legal requirements of the ESF Regulation, and (3) the administrative rules concerning innovative and preparatory measures. In particular, the EES and the Structural Funds Regulations do not provide a legal framework for local actions for employment.

(1) The EES and the NAPs are not a management instrument such as innovative or preparatory measures. Thus the local dimension of the employment strategy does not have a management aspect for the Commission to coordinate: the Commission's role is to advocate certain policies and partnerships, and to monitor the policies adopted by the Member States. To this effect, the guidelines on local employment have been gradually adjusted and geared to a more strategic form of support, while respecting the subsidiarity principle. Member States are solely responsible for the realisation and effectiveness of their national strategies: they are required to report on the implementation of broad policy priorities, not on actions on the ground.

(2) As for the ESF, the present reporting requirements are considered by the Commission and the Member States as being generally adequate, as they must be in line with the enhanced partnership and simplification enshrined in the current Structural Fund Regulation, and must avoid overburdening Member States. Indeed, one of the main criticisms by the Member States of the current programming period is the excessive number of reporting requirements in the implementation of the Funds. The ESF Regulation does not require Member States to provide in their programmes any specific information on local employment actions, and therefore Commission guidance on the national employment policies implemented through the ESF does not require detailed information on local employment actions. Finally, national rules or administrative arrangements for which Member States have sole competence may constitute an obstacle to the participation of voluntary or other organisations in ESF projects.

(3) As for innovative actions and preparatory measures, Community objectives essentially consist of research, promotion and dissemination of best practice rather than global monitoring and management of local employment. In this respect, the Commission welcomes the Court's recognition of the advances made as

regards both policy development and dissemination of best practice. In the calls for proposals launched in 2000 and 2001, the Commission emphasised cross-sector integration, partnership, strategic approaches, and closer linking-up with other decision-making levels. The new financial circuits adopted in the context of the reform, combined with targeted action plans on specific pending files, will certainly contribute to further improvement of project management. (See points 15 to 21).

72.

- (a) An overall thematic evaluation of local development was announced by the Commission in its November 2001 communication, and is currently being launched. However, while the Commission acknowledges the importance of evaluating the added value and effectiveness of labour market measures, an in-depth analysis of such measures would be a rather narrow method for assessing the results of local employment policy.
 - (b) The Commission believes that the reporting requirements imposed on the Member States by the ESF and Structural Fund Regulations are generally adequate, as they must be in line with the principles of enhanced partnership and simplification enshrined in the Regulations, and must avoid overburdening Member States with additional obligations.
 - (c) The Commission considers that the information on local employment provided by Member States in their national action plans (NAPs) is sufficient for an assessment of basic trends concerning the development of the territorial dimension of the European Employment Strategy. The Commission will continue to advocate the development of the local dimension of the EES.
 - (d) The Commission agrees with the Court's general recommendation to rationalise budgetary support and improve financial management procedures.
 - (e) The Commission will continue to play its facilitating and coordinating function, while respecting the principles of proportionality and subsidiarity, which are particularly relevant in the field of local employment actions.
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