

## I

*(Information)*

## COURT OF AUDITORS

## SPECIAL REPORT No 1/2001

concerning the URBAN Community initiative, together with the Commission's replies

*(submitted pursuant to Article 248(4), second subparagraph, EC)**(2001/C 124/01)*

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## INTRODUCTION

1. In June 1994, the Commission decided to adopt, pursuant to Article 11 of Regulation (EEC) No 4253/88 <sup>(1)</sup> (Regulation on the coordination of the Structural Funds), a Community initiative in favour of urban areas, called URBAN. This initiative complements the urban pilot projects co-financed by the European Regional Development Fund (ERDF) concerning 33 urban areas for the period 1989 to 1993 and 26 areas for the period 1994 to 1999 <sup>(2)</sup>. In two communications published in the Official Journal in July 1994 (initial allocation of 600 million euro) <sup>(3)</sup> and July 1996 (supplementary allocation of 157 million euro) <sup>(4)</sup> the Commission set guidelines for the operational programmes (OPs) which Member States are invited to establish under the URBAN initiative. The guidelines set by these two communications are the same as regards the scope and objectives of the URBAN initiative, the eligible areas and measures and their implementation. A vademecum designed to simplify the drawing up of OPs was prepared by the Commission in September 1994.

2. The strategy defined by the Commission <sup>(5)</sup> consists of providing Community aid, deriving simultaneously from the ERDF and the European Social Fund (ESF) 'in favour of integrated development programmes for a geographically defined and limited part of a city. The integrated approach should address in a comprehensive way the economic, social and environmental problems of the deprived urban area. The integrated programme should comprise a balanced and coherent set of economic development, social integration and environmental measures based on

local partnership proposals. Priority will be given to integrated programmes which are of an innovative character, which have a demonstrable added value and help create employment'.

3. The objectives for the initiative <sup>(6)</sup> are set out in rather general terms: 'URBAN aims to act as a catalyst in a broad-based approach, by undertaking key schemes to help deprived urban areas achieve a lasting improvement in living standards for their inhabitants'.

4. The Court has already examined the Community initiatives Interreg, SME, Leader and PEACE <sup>(7)</sup>, as well as Community interventions in the spheres of the urban environment and local development <sup>(8)</sup>. The Court concluded, among other things, that some ill-assorted measures had been implemented in the urban environment, and that they were marked by major fragmentation <sup>(9)</sup>. The Court decided to examine the URBAN Community initiative because of the large number of Community measures specifically targeting the urban question. URBAN is also one of the four Community initiatives to have been renewed for the period 2000 to 2006 <sup>(10)</sup>.

5. The aim of the Court's audit was to examine the consistency of the regulatory framework and appraise the quality of the programming, implementation, financial management and evaluation of URBAN. Audits were carried out at the Commission and in nine Member States (Italy, Spain, France, Greece, the United Kingdom, Germany, Ireland, the Netherlands and Portugal) <sup>(11)</sup>. The programmes for these nine Member States account for more than 90 % of URBAN expenditure.

<sup>(1)</sup> Regulation (EEC) No 4253/88 laying down provisions for implementing Regulation (EEC) No 2052/88 as regards coordination of the activities of the different Structural Funds between themselves and with the operations of the European Investment Bank and the other existing Financial Instruments, as amended by Council Regulation (EEC) No 2082/93, OJ L 193, 31.7.1993. Article 11, entitled 'Community initiatives', provides that the Commission may, on its own initiative, decide to propose to the Member States that they submit applications for assistance in respect of measures of significant interest to the Community.

<sup>(2)</sup> The urban pilot projects are co-financed by the ERDF pursuant to Article 10 of the Regulation governing it (Council Regulation (EEC) No 4254/88, as amended by Regulation (EEC) No 2083/93 laying down provisions for implementing Regulation No 2052/88 as regards the ERDF). The general objective of the urban pilot projects is that of exploring and using innovative resources and designs as regards urban policy and programming with a view to promoting sustainable economic and social cohesion.

<sup>(3)</sup> Notice to the Member States laying down guidelines for operational programmes which Member States are invited to establish in the framework of a Community initiative concerning urban areas (OJ C 180, 1.7.1994, p. 6).

Even though amounts were specified in ecus at the time when the notice was adopted, the word euro has been used throughout the report and applies for both euro and ecus.

<sup>(4)</sup> Communication to the Member States laying down guidelines for operational programmes which Member States are invited to establish in the framework of a Community initiative concerning urban areas (URBAN) (OJ C 200, 10.7.1996, p. 4).

<sup>(5)</sup> Paragraph 14 of the communications from the Commission.

<sup>(6)</sup> Paragraph 7 of the communications from the Commission.

<sup>(7)</sup> Annual Report concerning the financial year 1994, paragraphs 4.61 to 4.73 (Community initiative for interregional and transfrontier cooperation — Interreg). Annual Report concerning the financial year 1995, paragraphs 7.9 to 7.60 (Leader Community initiative 1990 to 1993) and Annual Report concerning the financial year 1996, paragraphs 6.86 to 6.91 (SME initiative) and Special Report No 7/2000 concerning the International Fund for Ireland and the Special Support Programme for Peace and Reconciliation in Northern Ireland and the border counties of Ireland (1995 to 1999) (OJ C 146, 25.5.2000).

<sup>(8)</sup> Special Report No 4/94 on the urban environment (OJ C 383, 31.12.1994). Annual Report concerning the financial year 1994, paragraphs 4.39 to 4.60 (Global subsidies as an instrument for local development). Annual Report concerning the financial year 1995, paragraphs 5.71 to 5.87 (Exchanges of experience between local and regional authorities).

<sup>(9)</sup> See, in particular, paragraphs 6.1 to 6.7 of Special Report No 4/94 on the urban environment.

<sup>(10)</sup> Only four of the 13 Community initiatives from the period 1994 to 1999 received extensions for the period 2000 to 2006.

<sup>(11)</sup> The following are examples of the types of project most frequently co-financed by URBAN: enterprise centres and centres for assisting unemployed people; aid for SMEs (especially commercial and craft enterprises); refurbishment of public spaces (roads, pavements, parks, etc.); renovation of buildings; sociocultural facilities; welfare services for the underprivileged; vocational training courses.

## ALLOCATION OF RESOURCES AND FINANCIAL SITUATION

6. The Court has already examined the procedure for allocating available Structural Fund resources, by objective <sup>(1)</sup>, Member State and Community initiative for the period 1994 to 1999 <sup>(2)</sup>. The *Annex* presents in detail the process for allocating the URBAN resources between Member States and shows that it was subject to numerous adjustments. The Commission communications provided for indicative global allocations between the Objective 1 regions and other areas. However, they did not define the criteria for allocating resources between the various Objective regions, and the other areas within the Member States and between beneficiary areas.

7. One of the Commission's objectives was to concentrate resources on a maximum of 50 urban areas initially, and then, following the extension of the initiative <sup>(3)</sup>, on 70 areas. The Commission also intended there to be a high ratio of Community funding to population for each of the selected communities, so as to achieve a high degree of concentration that would ensure that the measures were more effective and visible. In the end, however, 118 urban areas received funds under URBAN. An analysis of the beneficiary areas reveals very wide differences: 34 areas have less than 10 000 inhabitants, whilst 17 have more than 50 000. This results in very significant differences with regard to the overall programme contribution per head of population.

8. The *table* presents the initial financial plans and the financial plans at 31 December 1999, and gives a breakdown of overall costs, with details of the contributions from the ERDF and ESF, as well as public and private expenditure. The Structural Funds contribution resulting from the financial plans in the programmes at 31 December 1999 stands at 898,32 million euro (49,5 % of the total cost), comprising 750,06 million euro from the ERDF and 148,26 million euro from the ESF, which represents an average of 7,61 million euro per beneficiary area, 6,35 million euro of it from the ERDF and 1,26 million euro from the ESF. National public expenditure and private-sector expenditure respectively account for 45,1 % and 5,4 % of the total cost. Of the 61 programmes adopted, 18 initially made provision for a private-sector

contribution of more than 10 %. For the programmes as a whole the private-sector contribution was eventually reduced by 63 %. *Diagrams 1 and 2* present Community commitments and Community payments, respectively, for the financial years 1994 to 1999. For the period 1994 to 1999 as a whole, the commitments and payments made represent 858,17 million euro and 469,88 million euro, or 95,53 % and 52,31 % respectively of the approved Structural Funds contribution.

9. The URBAN OPs generally have made very slow progress when compared with the initial forecasts in the financial plans. An analysis of the changes to these plans shows a final concentration of expenditure in the last year (see *Diagram 3*). The Court has already observed <sup>(4)</sup>, firstly, that the procedure for drawing up financial plans within the framework of the Structural Funds is not based on the needs of the measures concerned, and, secondly, that the primary objective of the changes made to the financial plans at the end of 1999 was to make it possible to commit all of the Community aid. In the case of the programmes committed in annual instalments, the mechanism for the Community commitments would only have allowed the 1999 instalment to be committed if the actual expenditure incurred by the final beneficiaries represented 100 %, 80 % and 40 % of the expenditure relating to the instalments for 1994 to 1996, 1997 and 1998 respectively <sup>(5)</sup>. In view of the implementation delays, the financial plans were therefore brought into line with the real situation (substantial cuts to the annual instalments for the period 1994 to 1998), so as to make it possible for the balance on the programmes to be committed in full.

10. Moreover, the changes that were made to the financial plans in the last months of 1999 are not all reflected in the accounts as at 31 December 1999. In consequence, the commitments made were for the previous plans instead of the current ones, so that, for several programmes, the commitments entered in the accounts are higher than the legal commitments. This anomaly also appears in the advances paid, because they are effected in proportion to the commitments entered in the accounts. As a result some payments were in excess of the totals given by the new financial plans. For one programme, the advances paid were greater than the total amount of Community aid granted.

<sup>(1)</sup> The Structural Funds contribute towards attaining six priority objectives, with Objective 1 consisting of promoting the development and structural adjustment of areas lagging behind in terms of development, and Objective 2 consisting of converting regions, border regions or parts of regions seriously affected by industrial decline.

<sup>(2)</sup> Special Report No 16/98 on the implementation of appropriations for structural operations for the programming period 1994 to 1999 (paragraph 3.1 and Annex 1) (OJ C 347, 16.11.1998, p. 48), and Annual Report concerning the financial year 1995 (paragraphs 5.32 and 5.33).

<sup>(3)</sup> Paragraph 12 of the communications from the Commission.

<sup>(4)</sup> Annual Report concerning the financial year 1997 (paragraphs 3.24 to 3.34) and Annual Report concerning the financial year 1999 (paragraph 3.3 and paragraphs 3.18 to 3.22), as well as Special Report No 16/98 on the implementation of appropriations for structural operations for the programming period 1994 to 1999, paragraph 6.19.

<sup>(5)</sup> Financial implementing provisions applicable to interventions. Mechanisms for Community commitments and payments. Standard annex to Community support frameworks, single programming documents and operational programmes.

Table

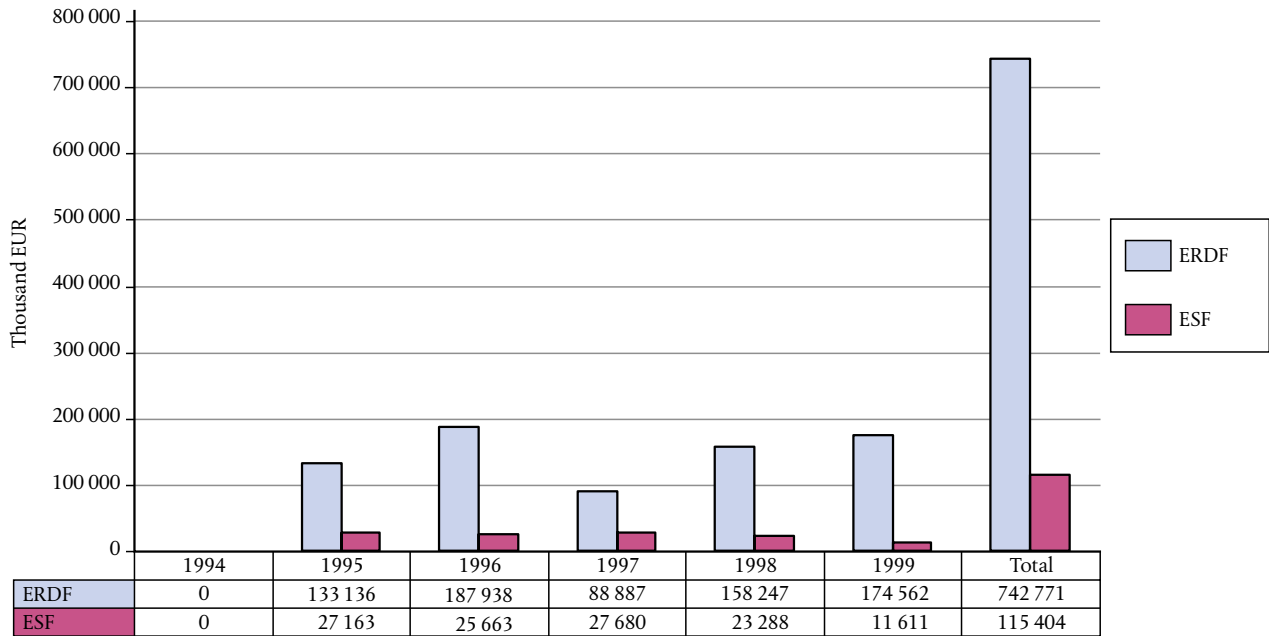
## Position of the URBAN programmes as at 31 December 1999

(thousand EUR)

Type of programme	ERDF No	Programme Name	Date of presentation	Date of adoption	Time (in years)	Initial financial plan						Financial plan at 31 December 1999							
						Total cost	Public expenditure				Private expenditure	Total cost	Public expenditure				Private expenditure		
							Total	Structural Funds					National	Total	Structural Funds			National	
								ERDF	ESF						ERDF	ESF			
URBAN Round one (1) single commitment	941010005	Charleroi (B)	21.12.1994	10.7.1995	0,55	11 326	11 326	5 663	4 221	1 422	5 663	0	11 772	11 772	5 886	4 306	1 580	5 886	0
	941010007	Brussels (B)	3.11.1994	14.3.1996	1,36	11 053	4 964	2 200	1 771	4 29	2 764	6 089	6 094	5 388	2 200	1 771	4 29	3 188	706
	941010008	Antwerp (B)	28.10.1994	24.7.1995	0,74	15 234	15 234	2 582	2 021	561	12 142	510	17 638	3 499	2 937	361	13 629	510	
	940110001	Denmark (DK)	31.10.1994	30.11.1995	1,05	3 042	3 042	1 521	1 341	180	1 521	0	3 131	1 562	1 226	336	1 569	0	
	940210018	Magdeburg (D)	4.11.1994	28.7.1995	0,73	19 943	19 395	12 880	12 205	675	6 515	548	20 389	19 808	13 077	12 402	675	6 731	581
	940210019	Halle/Saale (D)	4.11.1994	9.12.1996	2,10	5 152	5 152	2 732	2 732	0	2 420	0	5 241	5 241	2 773	0	2 468	0	
	940210020	Rostock (D)	4.11.1994	21.12.1995	1,13	16 016	16 016	12 000	9 884	2 116	4 016	0	18 015	16 946	12 432	10 071	2 361	4 514	1 069
	940210021	Chemnitz (D)	4.11.1994	28.9.1995	0,90	141 312	12 584	9 200	8 035	1 165	3 384	128 728	14 817	12 973	9 532	8 343	1 189	3 441	1 844
	940210022	Erfurt (D)	4.11.1994	27.7.1995	0,73	17 180	17 180	12 888	12 693	1 95	4 292	0	17 815	17 815	13 364	13 169	195	4 451	0
	940210023	City of Brandenburg (D)	4.11.1994	27.11.1995	1,06	9 611	9 611	7 200	5 940	1 260	2 411	0	10 049	10 049	7 459	6 199	1 260	2 590	0
	940210024	Berlin (D)	4.11.1994	6.11.1995	1,01	31 048	30 008	16 100	12 706	3 394	13 908	1 040	29 053	28 953	16 761	13 367	3 394	12 224	68
	940210048	Bremen (D)	4.11.1994	6.11.1995	1,01	16 310	15 795	8 000	6 520	1 480	7 795	515	16 886	16 371	8 288	6 808	1 480	8 083	515
	940210049	Saarbrücken (D)	4.11.1994	6.11.1996	2,01	22 574	20 458	8 001	5 618	2 383	12 457	2 116	24 755	24 599	8 288	5 905	2 383	16 211	156
	940210050	Duisburg (D)	31.10.1994	18.12.1995	1,13	18 650	16 200	8 100	6 811	1 289	8 100	2 450	19 279	16 782	8 391	6 748	1 643	8 391	2 497
	940310042	Amiens (Picardie) (F)	8.11.1994	12.3.1996	1,34	20 478	14 000	7 000	5 297	1 703	7 000	6 478	19 048	15 744	7 000	5 297	1 703	8 744	3 305
	940310043	Mulhouse (Alsace) (F)	8.11.1994	12.3.1996	1,34	20 897	18 048	7 000	6 043	957	11 048	2 849	20 897	18 048	7 000	6 043	957	11 048	2 849
	940310044	Les Mureaux (Île-de-France) (F)	8.11.1994	12.3.1996	1,34	17 036	15 821	7 000	6 512	488	8 821	1 215	17 444	17 242	7 000	6 069	931	10 242	202
	940310045	Aulnay-sous-Bois (Île-de-France) (F)	8.11.1994	12.3.1996	1,34	22 760	20 302	8 881	7 795	1 086	11 421	2 458	25 356	22 426	9 003	7 029	1 277	13 423	2 930
	940310046	Est-Lyonnais (Rhône-Alpes) (F)	8.11.1994	20.5.1996	1,53	26 616	24 003	7 000	6 432	568	17 003	2 613	34 583	29 956	7 762	7 421	341	22 194	4 627
	940310047	Valenciennes (Nord-Pas-de-Calais) (F)	8.11.1994	24.10.1996	1,96	9 731	9 701	4 866	4 478	388	4 836	30	9 731	9 731	4 866	4 780	86	4 866	0
	940310048	Marseille (F)	8.11.1994	12.3.1996	1,34	17 583	17 583	7 000	3 938	3 062	10 583	0	14 816	14 495	7 077	4 015	3 062	7 418	321
	940310049	Roubaix-Tourcoing (Nord-Pas-de-Calais) (F)	8.11.1994	23.7.1996	1,71	17 613	17 613	7 000	5 416	1 584	10 613	0	17 500	17 500	7 000	6 101	899	10 500	0
	940410001	Ireland	22.12.1994	30.7.1996	1,61	21 091	21 091	15 817	7 909	7 909	5 274	0	28 276	28 276	21 207	12 575	8 632	7 069	0
	940610001	Luxembourg	31.10.1994	20.11.1995	1,05	1 033	1 033	507	429	78	526	0	865	865	420	307	113	445	0
	940710002	Amsterdam (NL)	5.12.1994	18.9.1995	0,79	19 683	18 766	4 650	3 674	977	14 116	917	21 292	20 275	4 804	3 828	976	15 471	1 017
	940710009	The Hague (NL)	5.12.1994	18.9.1995	0,79	18 629	37 497	4 650	4 219	431	32 847	30 732	27 753	25 383	4 805	4 359	446	20 578	2 371
	951310001	Vienna (A)	17.7.1995	21.12.1995	0,43	31 926	25 890	9 770	6 838	2 932	16 120	6 036	39 302	33 266	12 345	9 413	2 932	20 921	6 036
	951410002	Joensuu (FIN)	22.11.1995	30.7.1996	0,69	5 279	3 958	3 148	810	1 321	1 321	0	5 397	5 397	4 048	2 962	1 086	1 349	0
	961510002	Malmö (S)	12.6.1996	9.12.1996	0,49	11 920	9 940	4 970	3 140	1 830	4 970	1 980	12 229	10 228	5 114	3 284	1 830	5 114	2 001
	940910001	Northern Ireland (UK)	31.10.1994	24.2.1995	0,32	24 516	24 138	16 950	8 117	8 833	7 188	378	28 383	27 942	19 808	10 707	9 101	8 134	441
	940910008	Merseyside (UK)	31.10.1994	30.7.1996	1,75	35 666	31 850	17 296	14 808	2 488	14 554	3 816	40 142	36 186	19 496	16 575	2 921	16 690	3 956
	940910009	Birmingham (UK)	31.10.1994	6.11.1996	2,02	20 637	16 072	8 036	6 429	1 607	8 036	4 565	20 709	16 144	8 072	6 465	1 507	8 072	4 565
	940910026	Hackney (London) (UK)	31.10.1994	6.11.1996	2,02	17 294	16 429	8 036	6 429	1 607	8 036	865	17 366	16 501	8 072	6 465	1 607	8 429	865
	940910027	Manchester (UK)	31.10.1994	30.7.1996	1,75	17 743	16 072	8 036	5 842	2 194	8 036	1 671	17 815	16 144	8 072	5 878	2 194	8 072	1 671
	940910028	Nottingham (UK)	31.10.1994	30.7.1996	1,75	14 890	13 839	6 786	5 563	1 223	7 053	1 051	14 950	13 899	6 816	5 593	1 223	7 083	1 051
	940910029	Sheffield (UK)	31.10.1994	30.7.1996	1,75	14 827	14 317	6 786	5 089	1 697	7 531	510	14 887	14 377	6 816	5 119	1 697	7 561	510
	940910030	Scotland (UK)	31.10.1994	30.7.1996	1,75	32 736	28 309	13 648	9 988	3 660	14 661	4 427	37 146	32 719	15 610	11 677	3 933	17 109	4 427
	940910031	Swansea (UK)	31.10.1994	6.11.1996	2,02	11 732	11 498	5 612	4 377	1 235	5 886	234	13 734	13 460	6 593	5 358	1 235	6 867	274
	940910036	Park Royal (London) (UK)	31.10.1994	6.11.1996	2,02	16 326	15 306	7 653	6 122	1 531	7 653	1 020	16 396	15 376	7 688	6 157	1 531	7 688	1 020
	URBAN Round two (2) single commitment	971010001	Mons-La Louvière (B)	15.1.1997	17.3.1998	1,17	14 000	14 000	7 000	5 706	1 294	7 000	0	14 343	14 343	7 172	5 878	1 294	7 171
981010001		Anderlecht (B)	30.9.1998	26.3.1999	0,48	1 320	1 320	660	660	0	660	0	3 884	3 884	1 418	1 418	0	2 466	0
970210001		Sachsen (Zwickau) (D)	9.12.1996	26.3.1997	0,29	19 684	19 668	9 779	8 701	1 078	9 889	16	13 815	13 799	10 176	9 098	1 078	3 623	16
970210002		Schleswig-Holstein (D)	17.12.1996	15.4.1997	0,33	14 987	14 263	7 110	3 657	3 453	7 153	724	17 024	16 139	7 480	3 847	3 633	8 559	885
970310001		Clichy-Montfermeil (Île-de-France) (F)	10.1.1997	1.8.1997	0,56	18 504	15 688	5 320	5 320	0	10 368	2 816	21 267	18 721	5 320	0	13 401	2 546	
970310002		Châlons-sur-Saône (Bourgogne) (F)	10.1.1997	4.8.1997	0,56	14 008	13 950	5 331	3 848	1 483	8 619	58	14 063	11 053	5 321	3 948	1 373	5 732	3 010
970310003		Saint-Etienne (Rhône-Alpes) (F)	10.1.1997	1.8.1997	0,56	15 112	12 738	5 320	3 936	1 384	7 418	2 374	6 978	5 203	2 576	2 412	1 642	2 628	1 775
970310004		Bastia (Corse) (F)	10.1.1997	12.12.1997	0,92	6 514	6 514	3 500	3 008	492	3 014	0	6 562	6 562	3 500	3 008	492	3 062	0
970310005		Mantes-la-Jolie (Île-de-France) (F)	10.1.1997	8.12.1997	0,91	16 371	15 414	5 299	4 264	1 035	10 115	957	16 657	15 782	5 299	4 264	1 035	10 483	875
960710001		Rotterdam (NL)	27.8.1996	11.4.1997	0,62	23 550	18 374	6 500	6 500	0	11 874	5 176	26 198	20 575	7 048	7 048	0	13 527	5 623
960710002		Utrecht (NL)	27.8.1996	11.4.1997	0,62	25 971	25 371	6 500	6 500	0	18 871	600	20 281	20 281	6 500	6 500	0	13 781	0
961310001		Graz (A)	15.7.1996	24.10.1996	0,28	23 410	11 680	3 590	2 890	700	8 090	11 730	25 855	14 125	4 255	3 555	700	9 870	11 730
971410001		Helsinki/Vantaa (FIN)	10.1.1997	26.5.1997	0,37	10 201	9 054	3 933	2 547	1 386	8 121	1 147	10 475	9 328	4 044	2 650			

Diagram 1

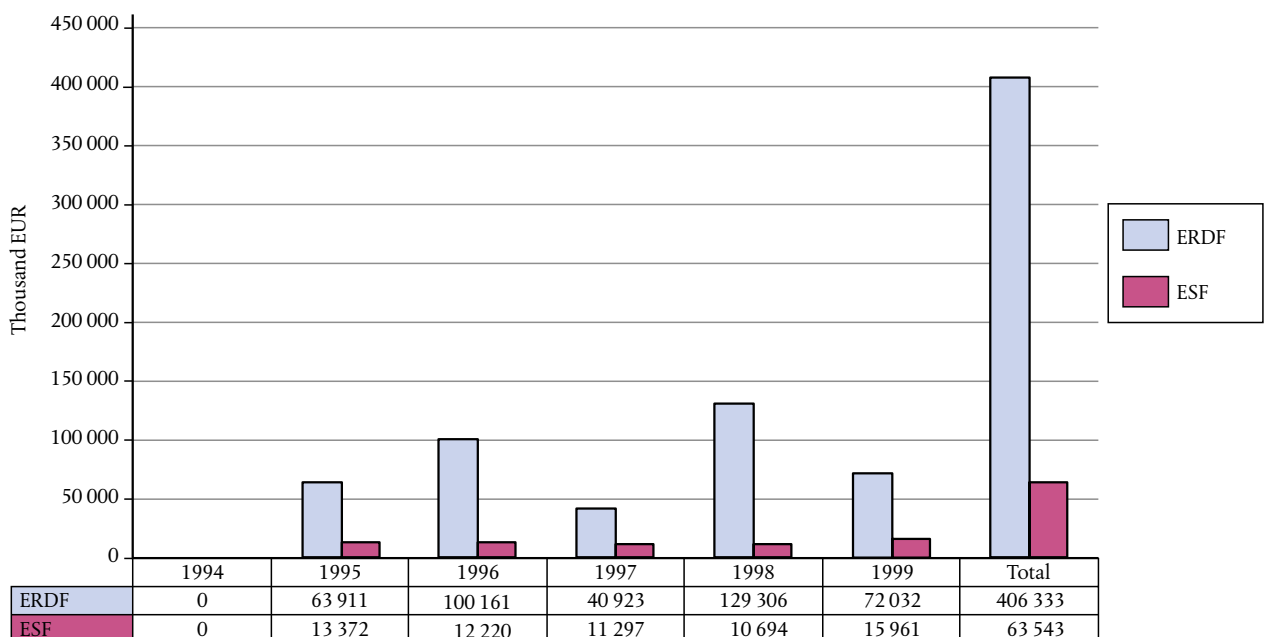
## Situation of the URBAN programmes at 31 December 1999 — Commitments 1994 to 1999



Source: Commission revenue and expenditure account.

Diagram 2

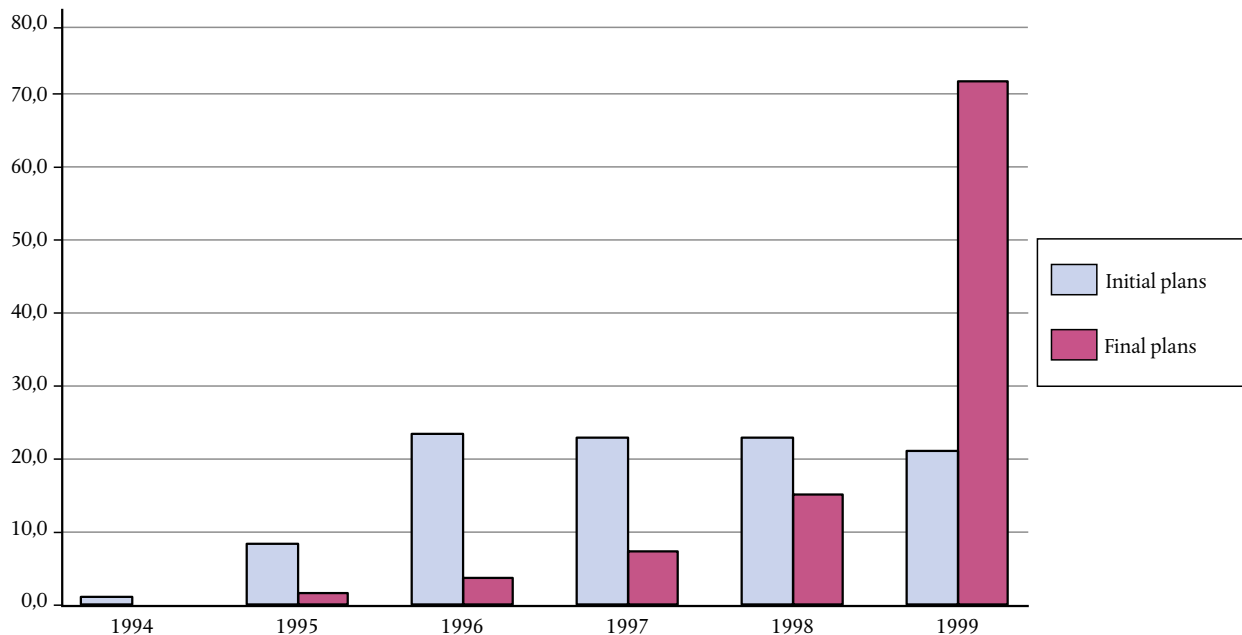
## Situation of the URBAN programmes at 31 December 1999 — Payments 1994 to 1999



Source: Commission revenue and expenditure account.

Diagram 3

Comparison between the initial and final financial plans (at 31 December 1999) for the eight URBAN single programmes for all the beneficiary areas in a Member State (%)



Source: Aid decisions for the eight URBAN national programmes (Nos ERDF 940110001, 940810002, 941110003, 940410001, 940510001, 940610001, 941210004, 961510002) adopted pursuant to the Commission communication of July 1994. These programmes represent around half of the financing granted by URBAN. Note, the difference of approximately 10 % between the extent of the initial financial plans and the final financial plans is due to indexing and the increase in the total budgets for some of these programmes.

## SELECTION OF ELIGIBLE URBAN AREAS

11. The Commission has not defined precise criteria for determining which urban areas are eligible. In principle, urban areas in cities and conurbations with over 100 000 inhabitants are eligible: 'Target areas could be urban neighbourhoods geographically identifiable, either an existing administrative unit such as a borough, a commune or even smaller entities, within a densely populated zone, with a high level of unemployment, with a decayed urban fabric, bad housing conditions and a lack of social amenities. In addition and in duly justified cases, support could be provided for operations in medium-sized or smaller cities suffering from overall economic decline' <sup>(1)</sup>.

12. In the explanatory memorandum to the first communication concerning the URBAN initiative <sup>(2)</sup> it was proposed that the final selection of the programmes should be based on the advice of a group of independent experts, nominated by the Commission in cooperation with the Member States, using criteria established in advance. In the end, however, the Commission did not take this option. The division of responsibilities between the Commission and the Member States was not clearly defined. The Commission, which adopts the decisions to grant assistance,

intervened by means of informal discussions, in a manner which was not very transparent, in order to reduce the excessive number of beneficiary urban areas proposed by the Member States, but, for all that, did not reach the target number of 70 (see paragraph 7).

13. The following example illustrates the problems associated with the selection procedure. The Italian authorities invited 24 cities to submit projects. Nine cities which had not been invited to do so, but which were aware that the URBAN initiative had been launched, also submitted projects, on their own initiative and outside the procedure established by the national authorities. Faced with this situation, the Member State sent all these very different proposals to the Commission for it to take a decision. In the end the selection was negotiated jointly by the Commission and the Member State since, despite all its efforts, the Commission found it impossible to make a positive assessment of the proposals submitted, for want of a methodology and the appropriate information.

14. The Member States had to implement their ad hoc selection mechanisms swiftly. In practice this consisted of first shortlisting certain cities and then leaving the relevant local authorities to select the beneficiary urban areas. In several cases no formal shortlisting procedure was used to select the beneficiary cities and areas, and the relevant authorities were unable to supply any documentation in support of their choices. In cases where Member States did attempt to select cities and areas in an objective manner, the end result was altered in order to redress geographical imbalances and prioritise certain cities, and capital cities in

<sup>(1)</sup> Paragraph 10 of the communications from the Commission.

<sup>(2)</sup> COM(94) 61 final/2 of 20 April 1994, 'Community initiative concerning urban areas (URBAN)'.

particular, or to compensate areas not selected for other Structural Funds measures. In practice, selection was based not on a comparison of predetermined, quantifiable, objective factors but on criteria which varied from one Member State to another and were difficult to compare, which also resulted in fragmentation of the objectives targeted.

15. The lack of relevant statistical data and indicators that would allow evaluation and comparison of the situation in the 350 or 400 cities with over 100 000 inhabitants and in other cities faced with widespread economic decline makes it impossible to assess the merits of the selection process. The same applies to the selection of the beneficiary urban areas within cities. The Commission communications list some socioeconomic indicators that can be used to identify the most deprived areas <sup>(1)</sup>. However, these indicators are so diverse that almost every area of any large or medium-sized European city is, on the basis of one or more of these indicators, disadvantaged in comparison to the average for that city. Moreover, the indicators may sometimes be available for a city as a whole, but hardly ever for the individual areas of it. What is more, the areas selected do not always correspond to geographical, statistical or administrative units and, in some cases, cover parts of a city that are not adjacent to one another.

16. Due to the fact that the selection process lacked transparency, it was difficult for the national authorities concerned to justify decisions to exclude many of the applicant areas. After disputing these decisions, several of the cities concerned were compensated by being included in new URBAN programmes or in other Community or national measures.

## PROGRAMMING

### *The integrated approach*

17. A strategy based on the integrated approach envisaged by the Commission (see paragraph 2) is highly ambitious and presupposes the existence of long-term integrated urban development plans in which the public administrations and local and social partners are involved. Such a scenario is very rare, however, and depends on the institutional characteristics of the Member States. In some cases municipal plans exist, but they are usually oriented towards fields that are traditionally the preserve of the boroughs (e.g. urban development plans) or towards sectors of economic activity (transport, highway and traffic improvement plans, etc.).

<sup>(1)</sup> Paragraph 5 of the communications from the Commission. The indicators are: unemployment rate, levels of education, the level of crime, quality of housing, the percentage of social service providers, the social and ethnic mix, the extent of urban decay, deterioration of public transport and the mediocrity of local amenities, etc.

18. Even though the communications provided that 'the Structural Funds could be used to finance the designing of global urban strategies at the request of the Member States or local and regional authorities concerned' <sup>(2)</sup>, no applications of this type were made. URBAN made no contribution towards improving planning instruments at city level. URBAN did, however, make it possible for a number of local authorities to coordinate the planning and implementation of various actions in particular areas of cities for the first time.

### *Selection of measures*

19. The areas selected have very different problems: high unemployment, heavy traffic, run-down historic centres, crime, drug abuse, prostitution, economic decline, low-quality housing, etc. Nevertheless, the measures included in the programmes are identical or very similar. Some national authorities have taken the categories of measures proposed in the communications as the content of a model programme and their proposals follow this format to the letter. While the programmes should have been centred on the problem which justified the city or area being selected, they usually comprise a wide array of operations, thus mirroring regional measures financed by the Structural Funds.

20. The result of this is that Community finances are deployed too thinly, in a way that is very awkward to manage and to monitor, given not only the number and diversity of the projects, but also the relatively low level of Community financing (an average of 7,61 million euro per area). The Member States and the Commission have not succeeded in using the partnership framework to focus measures more closely on the basic problems of the urban areas concerned. Interviews with managers in the field confirmed that, as a general rule, they would have preferred simpler programmes comprising only a few operations. They would also have preferred programmes to be financed from a single source (ERDF or ESF) in order to avoid the complexities of dealing with two structural funds at the same time (see paragraph 2), each governed by different rules and with different methods of implementation. Moreover, the contribution made by the ESF is too small to have any significant impact. It should be noted that the URBAN II initiative (2000 to 2006) will be financed by the ERDF only.

### *Programme approval*

21. Even though the Commission communications allowed very little time for the preparation of programmes (four months in the first communication and six months in the second) <sup>(3)</sup>, the Commission approved the majority of the programmes well behind schedule <sup>(4)</sup>, and in some cases not until two years after the submission date. The average time required to adopt an URBAN

<sup>(2)</sup> Paragraph 15 of the communications from the Commission.

<sup>(3)</sup> Paragraph 20 of the communications from the Commission.

<sup>(4)</sup> Article 14(3) of the Coordinating Regulation stipulates that provided that all the requirements are fulfilled, the Commission shall, as a general rule, reach a decision within six months of receipt of the application.

programme following the first communication was 15 months, but this was reduced to seven months for programmes submitted after the 1996 extension of URBAN. Some of the delays can be explained by the poor quality of the programmes submitted and the lengthy discussions linked with the final selection of beneficiary areas, the determination of the individual financial packages and the reworking of programmes. The number of beneficiary areas and the financial packages awarded to them were not determined until after the programmes had been submitted. Other delays can be explained by the unwieldiness of the Commission's internal procedures for adopting decisions, which involve around 20 departments. The *Table* lists the dates on which the programmes were submitted and the dates on which they were adopted.

22. Although the regulatory provisions and the communications from the Commission stipulate that proposals for programmes should include an appraisal of the situation setting out the objectives to be attained, the programme proposals submitted went no further, with a few exceptions, than describing the areas in question and their social and economic characteristics, and repeating the objectives set out in the communication. Almost all the programmes examined were characterised by a lack of clear objectives and of appropriate physical and impact indicators. Efforts were made to rectify this situation in some of the programmes during their implementation, but these belated initiatives cannot be expected to yield satisfactory results.

23. The lack of appropriate *ex ante* appraisals can be ascribed to the very short deadlines set for drawing up the programmes, which left no time for thorough analysis. It was also due to a lack of reliable data of a statistical or social and economic nature on the areas concerned, and to the shortage of overall information on the status of current and scheduled Community, national, regional and local operations and financing. In most cases, the appraisals performed were aimed at justifying choices already made. It should be noted that improvements were found in the programmes submitted from 1996 onwards.

24. The Commission took various approaches when it examined the programmes. In some Member States a programme was approved for each area, while in others a single programme was adopted for all the areas, even, in some cases, when the Member States had proposed the opposite. The files give no clear reasons for the choices. The reworking of programmes, which became necessary whenever one approach was preferred to another, led to unjustifiable delays in the adoption of the programmes.

25. The choice of format can have significant consequences. In the case of programmes centring on individual cities, the whole financial package may be committed when the decision is adopted, in view of the small size of the programme. The beneficiaries are also entitled to advances of up to 50 % of the overall sum. In single programmes, the payment of advances from the Community follows another pattern, which is based on the declarations of expenditure submitted for the relevant urban areas as a whole. Since single declarations of expenditure are made, it only takes one city to fall behind schedule for all the others to pay the price.

The need to coordinate all the participants makes negotiations on adopting programmes and the drawing-up of declarations of expenditure and annual reports more difficult. On the other hand, single programmes enable a smoother coordination of measures and improve the exchange of valuable information.

## INTEGRATION WITH OTHER COMMUNITY POLICIES

26. Numerous interventions in the field of urban development are currently in progress within the ambit of the Community's main policies. The existence of a large number of direct or indirect operations targeting cities and their development (covering such fields as competitiveness and employment, economic and social cohesion, sustainable development, research and technological development, the European spatial development perspective, education, training and youth, culture, transport and the information society) calls for major efforts in terms of coordination in order to guarantee a smooth integration of approaches and ensure maximum efficiency.

27. The Commission therefore undertook, in 1997 <sup>(1)</sup>, to look into ways of adapting its internal structures in order to set up mechanisms that focused on closer integration of approaches in the urban field. In 1998, for the first time, it drafted a 'framework for action for sustainable urban development in the European Union' <sup>(2)</sup>, the aim of which was to enhance coordination and to better target Community actions in urban areas. The document envisaged a range of initiatives for enhancing coordination and integration, given that one of the fundamental challenges that this document mentioned, for every layer of authority involved, was that of preventing the various bodies concerned from working in an uncoordinated fashion when addressing urban problems. However, only a few tangible initiatives have been implemented thus far.

28. The Commission has stipulated <sup>(3)</sup> that, where possible, and appropriate, operations receiving funding under this initiative should be planned and implemented with due regard to other actions under the Structural Funds and Community programmes, such as Poverty IV and Leonardo, as well as actions supported by the Cohesion Fund and the European Free Trade Association (EFTA) and loans from the European Investment Bank (EIB).

29. However, it is unrealistic, given the current circumstances, to expect the planning and implementation of operations to take other Community actions into account. The fact is that the management of Community actions continues to be marked by their

<sup>(1)</sup> COM(97)197 final of 6 May 1997. Communication from the Commission 'Towards an urban agenda in the European Union'.

<sup>(2)</sup> COM(98) 605 final of 28 October 1998. Communication from the Commission 'Sustainable urban development in the European Union: a framework for action'.

<sup>(3)</sup> Paragraph 19 of the communications from the Commission.



compartmentalisation at every level, whether Community, national, regional or local, and by the lack of up-to-date, comprehensive and reliable information on the implementation, and even the existence, of operations which often form part of framework programmes. As yet, there has been no inventory of all the Community operations, such as those targeted under the URBAN initiative, that take place in a particular borough or urban area. Such a survey would require the cooperation of all the managers and potential beneficiaries, which would be a very ambitious task. This situation has significant consequences for monitoring and control.

30. As concerns the ERDF more particularly, the Commission has conducted a study<sup>(1)</sup> of the financial impact of the Fund on cities, which are defined as being urban areas with a population of at least 100 000. The study shows that approximately 40 % of the total ERDF budget for Objective 1 (1994 to 1999) and Objective 2 (1994 to 1996) is devoted to urban development (some 21 000 million euro). Apart from this summary evaluation of the purely financial impact, and despite the scale of the financing granted to urban development, there has been no evaluation of its impact in terms of development.

31. In the special case of cities in Objective 1 regions, where the operations targeted under the URBAN initiative often constitute only a fraction of the Community operations being implemented (especially those implemented via the Structural Funds), it makes little sense to study URBAN operations outside the general context of Community support frameworks (CSFs) or single programming documents (SPDs)<sup>(2)</sup>. The aid per capita from the Structural Funds solely for the CSFs relating to Objective 1 regions and the period 1994 to 1999 exceeded 1 000 euro<sup>(3)</sup>, while the aid granted under the URBAN initiative was not more than 280 euro per head of population.

32. Furthermore, the URBAN pilot projects and numerous Structural Fund interventions specifically target urban issues<sup>(4)</sup>. Since the measures which the URBAN initiative targets are similar to

interventions which already exist, they could have been more cohesively and efficiently implemented within the original framework, thus avoiding the long and costly procedures of drafting, appraisal and management. Local authority involvement in the SF regional measures that target local development was quite insignificant in most of the countries. URBAN has enabled local authorities to access Community co-financing.

33. Moreover, national programmes frequently exist within the Member States with the aim of supporting measures similar to those envisaged under the URBAN initiative. The extent to which there is coordination and integration between these programmes and the URBAN initiative varies greatly. In several cases, new actions have been established and implemented, instead of taking existing national urban redevelopment actions as the basis for further measures, mainly because of slight differences in scheduling and approach between the national measures and the communication on URBAN. The result is a proliferation of interventions which target similar objectives, and an increase in management costs<sup>(5)</sup>.

## MANAGEMENT AND MONITORING STRUCTURES

### *At the decision-taking level*

34. The Treaty does not provide for the implementation of a Community policy in the field of urban affairs, and Community action must therefore be based on the principle of subsidiarity<sup>(6)</sup>. Even though this principle was incorporated into the text of the communications from the Commission, a clearer definition was needed, in order to prevent confusion with the principle of partnership: 'In accordance with the principle of subsidiarity, the measures to be included in an integrated programme should be drawn up by the local partnership, taking into account the diversity of problems faced by cities'<sup>(7)</sup>. The practicalities of applying the subsidiarity principle in the context of the URBAN initiative have presented numerous problems, some of which are described below.

35. Substantial differences in approach coexist within the Commission. For some programmes (in the United Kingdom, for example), and in line with its interpretation of the principle of subsidiarity, the Commission considered that it should not intervene in the project selection procedure. As a result there is no reference to individual projects in the programmes. In the case of other programmes, however, the Commission has been closely

<sup>(1)</sup> Estimate of the financial impact of the European Regional Development Fund and the Cohesion Fund on cities — Annex III to COM(97) 197 final of 6 May 1997.

<sup>(2)</sup> The CSF is a document approved by the Commission, in agreement with the Member State concerned, after assessing the plan submitted by the Member State, containing the strategy and the priority actions of the Structural Funds and the Member State, their specific objectives, the contribution from the Funds and the other financial resources. The operational programme is a document approved by the Commission which targets the implementation of a CSF. The SPD is a single document, approved by the Commission, which combines all the items contained in a CSF and in an operational programme.

<sup>(3)</sup> 1995 Annual Report, Table 5.3 'Community aid, population and GDP per region for Objective 1'.

<sup>(4)</sup> By way of example, the 'Environment and urban renewal' OP (Portugal), which was adopted before the URBAN initiative was planned, already provided for subprogrammes aimed at rehabilitating deprived areas in the conurbations of Lisbon and Oporto. The same situation has arisen in Ireland as concerns the 'Local urban and rural development' OP.

<sup>(5)</sup> This was the case in Italy with the national urban redevelopment programme and in the United Kingdom with programmes such as the SRB (single regeneration budget) and City Challenge. In France and the Netherlands, on the other hand, some URBAN programmes are based entirely on 'city challenges' and large-scale national urban projects, and on the 'Grote Stedenbeleid' (big cities policy) respectively.

<sup>(6)</sup> Article 5 (ex Article 3b) of the Treaty establishing the European Community and the Protocol on the application of the principles of subsidiarity and proportionality.

<sup>(7)</sup> Paragraph 17 of the communications from the Commission.

involved in defining and selecting projects. This has led to discussions on somewhat marginal aspects of individual projects and to very detailed programmes. In Greece, for example, the implementing procedures for the projects only take effect once the relevant Commission departments have given authorisation for each individual project.

36. According to the Commission communications, the local partnership is the preferred means of deciding on the measures to be carried out and the management of them. This approach has come up against a lack of legal structures on which to build, and these have thus had to be thought through and created. In the United Kingdom, as a result of a wholesale change in the approach originally proposed, new local partnership structures were improvised, without the appropriate legal framework, leading to numerous discussions which significantly affected the implementation of the programmes. In general, the programmes were designed and implemented by public authorities (central, regional or local) and the part played by the social partners in drawing up the programmes was small or, even, non-existent. They were, however, able to assist in the implementation of a number of measures.

#### ***At the level of implementation and monitoring***

37. The URBAN initiative is implemented, at the Commission, by a horizontal department in the Regional Policy Directorate-General (DG). This department is responsible for urban issues and framed the guidelines for the initiative. Other departments in the Regional Policy DG and the Employment DG are responsible for examining and managing programmes. There was a need for better coordination between the managing departments and the horizontal department in order to ensure that all the programmes received equal attention during the search for solutions that would enable objectives to be achieved, and to prevent too much variation in approach as regards the monitoring of the initiative. Moreover, the management of the multifund programmes (see paragraph 2), and of small programmes in particular, is highly cumbersome and it is difficult to coordinate the various Community and national departments, given the human resources available and their individual priorities. The Employment DG's participation in the management and appraisal of URBAN programmes is thus mainly formal and focuses primarily on decision-making and budgetary procedures.

38. Since the wording of the communication is so vague and the numerous departments involved, both at the Commission and in the Member States (central, regional and municipal administrations, etc.), are not always familiar with the Community rules, rapid and efficient information exchange networks should have been established. The dissemination of information and the resolution of the many problems that arose during the implementation of highly complex Community programmes hinged to a large

extent on informal contacts between the various levels of management, and thus upon the personal qualities of the managers.

39. Due to their composition and the intervals at which they meet, monitoring committees <sup>(1)</sup> are not always the most appropriate forum in which to address technical problems relating, among other things, to the implementation of measures and the eligibility of expenditure; they tend to concentrate on more general subjects and on formalising changes to the programmes <sup>(2)</sup>. Besides this, the approval of large numbers of small programmes on a per area basis makes the Commission's participation in the monitoring committees problematic. A high staff turnover, both at Commission and at Member State level, in circumstances where many discussions are carried on informally at the various administrative levels, has also hampered effective management.

40. The success of the measures implemented depends to a large extent on the beneficiaries' remits. Indeed, the majority of the programmes were not designed on the basis of urban development strategies, but around the beneficiaries. Once the beneficiary has been pinpointed (in many cases the beneficiary is simply the borough council), the measures are skewed towards this council's spheres of intervention. Several councils tried to implement measures in fields that they were not used to managing, such as State aid or vocational training. This resulted in inefficiency and the duplication of tasks, due to the fact that the councils had to create new implementing mechanisms in addition to those that already existed.

41. The areas of intervention for the ERDF and the ESF and the eligibility of the measures are determined on the basis of different Structural Fund objectives. This means that the measures which are potentially eligible vary according to the location of the urban areas concerned, even when they belong to the same programme. A total of 66 urban areas are located in Objective 1 or 6 regions, 33 in Objective 2 areas, and around 20 in areas not covered by Objectives 1, 2 or 6. The infrastructure investment targeted by the ERDF Regulation <sup>(3)</sup> varies according to the objective, while investment in the fields of health and education is possible only in Objective 1 regions. Investment in these fields has nevertheless been co-financed, under the URBAN initiative, in non-Objective 1 regions. Furthermore, the implementing provisions (in particular the evaluation, follow-up and powers of the Monitoring Committees and financial implementation) for the CSFs and SPDs are not exactly the same for each objective and evidently do not exist for areas not covered by any objective. In view of this, the provisions governing the measures should have been clearly defined to ensure there are no blanks or grey areas

<sup>(1)</sup> As provided for in Article 25 of Regulation (EEC) No 4253/88 as amended by Council Regulation (EEC) No 2082/93 of 20 July 1993 (OJ L 193, 31.7.1993, p. 20).

<sup>(2)</sup> Special Report No 16/98 on the implementation of appropriations for structural operations for the programming period 1994 to 1999, paragraphs 6.12 and 6.13.

<sup>(3)</sup> Regulation (EEC) No 4254/88 as amended by Regulation (EEC) No 2083/93 laying down provisions for implementing Regulation (EEC) No 2052/88 as regards the European Regional Development Fund (OJ L 193, 31.7.1993, p. 34).

and to facilitate the task of managers, who are not always accustomed to working with Community rules <sup>(1)</sup>.

42. The coordinating Regulation for the Structural Funds <sup>(2)</sup> cites annual implementation reports as being priority monitoring instruments. However, the Commission only requests annual reports when a commitment account is being closed. The annual reports thus become, in effect, reports on the closure of annual instalments, and in cases of single commitments (i.e. in all cases except Italy, Greece, Spain and Portugal), the annual reports coincide with the final, and only, reports. In some of these cases, the text embodying the decision stipulates that a report is to be drawn up each year, but this provision has not always been respected. In the case of many single-commitment programmes, no annual report had been drawn up at 31 December 1999. In the case of commitment-by-instalments programmes, progress reports were drawn up belatedly. For example, the first annual reports on the Greek OP were only submitted in November 1999.

### **At the level of technical assistance**

43. An examination of the financing plans for the URBAN programmes revealed that expenditure on technical assistance, including management, monitoring, evaluation and control, was markedly higher than that generally envisaged in the CSFs or SPDs (around 2 %). Although the nature of the Community initiative programmes is such that additional requirements in terms of technical assistance may be justified, there were some instances where this expenditure amounted to more than 10 % of the financial package for the programmes.

44. It was noted on several occasions, in connection with technical assistance, that new offices and even new development companies had been set up, simply to meet the needs of the URBAN Initiative. The nature of the measures carried out and the scale of the programmes do not warrant the creation of new managerial bodies.

45. The creation of these new bodies was justified, in the Member States, by the complexity and unwieldiness of Community management procedures and the need to coordinate the various managers concerned, as well as by the weaknesses of local departments. But the sums spent on technical assistance could have had more long-lasting effects if these financial packages had been used to reinforce and upgrade existing structures, given that the new structures created are supposed to be dismantled once the programme is over.

<sup>(1)</sup> Anomalies have nevertheless been detected. As regards the first Spanish URBAN programme, Article 8 of the Decision establishes as the implementing provisions those annexed to the text of the programme, which are not very detailed. At the same time, the Annex to this Decision includes standardised implementing provisions. In consequence there are, for example, two sets of rules governing the operation of the Monitoring Committees and their responsibilities. In the case of the second Spanish programme, the only provisions that exist are those set out in the text of the OP, and the standard provisions are missing, which means that important aspects of the implementation of the programme are not covered, and that of financial implementation in particular.

<sup>(2)</sup> Article 25 of Regulation (EEC) No 4253/88 as amended by Council Regulation (EEC) No 2082/93 of 20 July 1993 (OJ L 193, 31.7.1993, p. 20).

46. In some cases, the structures created were disproportionate in terms of their composition or location. In other cases, the management of the programmes had been entrusted to companies in the private sector, which can result in conflicts of interest. Indeed, in Greece, one of the programme management companies was also a programme beneficiary. In addition, the cost of the consultancy services it supplied to the small and medium-sized companies (SMEs) that were beneficiaries of the URBAN programme was also met by the programme in question. In several cases (Spain and Greece), management companies were, contrary to the Community VAT Directives, treated as public authorities and not as taxable persons, so that there were no invoices for the works and services supplied by these companies. In Portugal, a foundation was set up to manage one programme. This resulted in a significant increase in infrastructure costs, since the applicable rate of VAT for infrastructure work commissioned by a body such as a foundation is higher than that applied where the main contractor is a local authority (17 % instead of 5 %).

47. Despite the considerable funding provided for technical assistance, URBAN programmes showed the same types of weakness (pointed out by the Court on a number of occasions <sup>(3)</sup>) as the other programmes co-financed by the Structural Funds with regard to financial management (expenditure accounting and declarations of expenditure), monitoring and evaluation. Furthermore, little was done to promote information exchanges between beneficiary cities, despite the fact that this objective <sup>(4)</sup> was used to justify increasing the funds envisaged in order to include technical assistance.

48. The Commission itself enlisted the assistance of a consultant. Despite the title of the tasks to be performed by the selected consultant ('Coordination and reporting on Urban Community Initiative'), the results were modest: creation of an Internet site, preparation of 'programme summary' sheets and preparation of case studies on around 20 neighbourhoods covered by URBAN. This was due in particular to the vague description of the tasks that the consultant was to perform. Furthermore, the Internet site, which simply describes the URBAN initiative and its programmes, has not been updated since November 1999.

## **IMPLEMENTATION OF THE PROGRAMMES**

### **Financial management**

49. The final date for legal and financial commitments at national level was set at 31 December 1999 and the Commission did not

<sup>(3)</sup> Most recently in the Annual Report concerning the financial year 1999, 'Specific appraisal in the context of the Statement of Assurance', paragraphs 3.38 to 3.81, and 'Financial management of structural measures', paragraphs 3.100 to 3.127.

<sup>(4)</sup> Paragraph 16 of the communications from the Commission.

authorise any extensions of that deadline. The final date for payments was set at 31 December 2000 (unless an extension was allowed). In view of the slow progress of the OPs (see paragraphs 8 and 9), some of which did not actually get under way until 1999, the managers of them were obliged to look for techniques that would make it possible to enter commitments for the actions quickly, in order to avoid underimplementation of the OPs and the cancellation of the corresponding Community funding.

50. The Monitoring Committees had until 31 December 1999 to propose or make adjustments to the programmes that came within their terms of reference. They made ample use of this option. The content of the programmes was therefore adjusted to bring them into line with what had been done, thereby calling into question the quality of the programming. The series of changes made to the programmes in the last months of 1999 created uncertainty among managers and beneficiaries, as they often had to work on the basis of three different texts and financial plans: those in force, those being examined by the Commission and those that were probably going to be adopted at the last Monitoring Committee meeting for the year.

51. Some of the techniques used to facilitate the commitment of measures, although not necessarily irregular were open to question. They included:

- (a) the original operations and measures were replaced by others that could be carried out more rapidly or had already been completed. Actions that were to have been carried out in conjunction with the private sector and innovative measures, which are more difficult to implement, were replaced by more traditional measures (see paragraph 8);
- (b) the rate of Structural Fund co-financing was increased, so that programmes could be finalised more rapidly, but for the same amount of expenditure. Analysis of the financial plans for programmes shows substantial reductions in the national contributions for some programmes (see the *table*);
- (c) agreements concerning the conduct of actions were concluded between the authority responsible for implementing the OP and other public or part-public authorities or companies, with the object of treating as final beneficiary a party that was, in the final analysis, only the manager;
- (d) goods and services were ordered well in advance of the date on which they would usually have been ordered. Several cases were detected where beneficiaries had already purchased equipment or contracted for services in connection with activities that were to take place in buildings which were still under construction or, even, at the design stage;
- (e) funds were set up, ostensibly for the purpose of implementing certain measures. The mere act of setting up a fund was regarded by the responsible authorities as a legal and financial commitment. This practice does not comply with the imple-

menting provisions and makes it possible for measures to be closed in terms of commitments even if no action or project has been launched.

52. Furthermore, amendments were made to the financing plans for the programmes and to the actual content of the measures at the end of the period. These amendments should have been accompanied by changes in the objectives, in the indicators and in the conclusions of the *ex ante* evaluations, which is not the case.

53. The slow progress of the programmes resulted in a concentration of contracting procedures in the final months of 1999. Furthermore, many infrastructure projects will only be completed after the end of the commitment and payment periods. The provision of services and the execution of the activities for which this infrastructure was intended, and which were the main reasons for funding it, will not therefore be carried out under URBAN. Steps must therefore be taken to ensure that the investments made are actually geared towards achieving the intended objectives. In fact, the areas targeted by URBAN II (2000 to 2006) are mainly new ones and there is a real risk that, in the absence of suitable monitoring, the proposed activities will be abandoned.

54. Measures that were planned as being spread over the lifetime of OPs were carried out over a much reduced time span. Several cases were noted where training courses that had initially been intended to be spread over a period of five or six years were provided in a matter of months. Moreover the systems of aid for SMEs did not get under way until the end of the period, in view of the difficulty of defining a legal framework for a small population.

### ***Selection and implementation of actions***

55. At the programming stage, for most interventions, the beneficiary, the type of action and often, even, the individual projects had already been defined, either implicitly or explicitly. It was, therefore, only rarely that selection procedures took place for individual projects.

56. For most of the audited programmes, the financing of administrative expenditure for some public services, including the field of social welfare <sup>(1)</sup>, was permitted. Moreover, the same services

<sup>(1)</sup> Crèches and childcare centres; drugs rehabilitation centres (syringes and methadone have also been co-financed); advisory centres for families in difficulty or the elderly; combined library and swimming pool complexes; sporting and cultural activities; dance classes, fishing lessons; cafeterias; a centre for the integration of ethnic minorities; public showers; educational support for children; health centres; free buses; attendance at football matches as a means of relaxation for local children.

were, in some URBAN programmes, funded by the ERDF and in others by the ESF. However, neither the ERDF Regulation nor the ESF Regulation <sup>(1)</sup> permits the financing of such services.

57. The justification that managers gave for introducing this type of action into the URBAN programmes was the ambiguity of the communication, which, they claimed, gave the impression that the initiative sought to promote measures aimed at social integration in cities <sup>(2)</sup>, and the development of the inherent potential available within neighbourhoods. However, a communication is simply a document that sets out the Commission's guidelines and it may never depart from Community regulations.

58. The eligible area should be a geographically defined and limited part of a city. On this point, the Court's audit revealed the following problem cases:

- (a) in the case of several programmes, the eligible area was not accurately defined. This gave rise to uncertainty and debates which, in the case of the Netherlands (The Hague), were not resolved until 1998, when the neighbourhood was redefined;
- (b) several areas were redefined along the way, in order to make particular projects eligible and there was even a case where one area was substituted for another (Madrid);
- (c) in other cases, programme managers were under the impression that interventions in areas other than the eligible area were not excluded, provided that most of the actions were concentrated in the area in question (Greece);
- (d) projects were found to have been carried out outside the eligible area, e.g. a bridge sited in another part of the local authority area in question (Spain-León), or a drugs rehabilitation centre (Greece) situated in another local authority area.

59. More commonly, projects to construct or renovate buildings in order to provide accommodation for welfare services or for use by SMEs are physically located in eligible neighbourhoods, but the potential beneficiaries that they are targeting are resident throughout the borough, or even the region. For example, in Peristeri (Greece, population 140 000), the eligible area, which has a population of approximately 5 000, is an industrial neighbourhood where infrastructure is to be sited for the benefit of the entire borough. Given the large scale of the investment involved, restricting access to these services to those resident in the neighbourhood would constitute a waste of resources. Actions of this type should have found a place as part of other, broader measures.

<sup>(1)</sup> Article 1 of Regulation (EEC) No 4254/88 as amended by Regulation (EEC) No 2083/93 laying down provisions for implementing Regulation (EEC) No 2052/88 as regards the European Regional Development Fund (OJ L 193, 31.7.1993, p. 34).

Article 1 of Regulation (EEC) No 4255/88 as amended by Regulation (EEC) No 2084/93 laying down provisions for implementing Regulation (EEC) No 2052/88 as regards the European Social Fund (OJ L 193, 31.7.1993, p. 39).

<sup>(2)</sup> Point 14 of the Commission communications.

60. Other actions that caused problems are the following:

- (a) the actions in favour of SMEs are mainly concerned with the construction of new infrastructure in support of SMEs, but suitable studies were not always carried out beforehand in order to check that there was a real need;
- (b) given that the whole of the Community territory is eligible either under Objective 1 or under Objectives 3 and 4 and a substantial range of training courses is already available, the organisation of new training schemes which sometimes overlap with those that already exist at regional or local level, is hard to justify. Furthermore, the training schemes were not always confined to residents of the qualifying neighbourhood, and urban areas were sometimes redefined in order to increase the eligible population. Had there been a real, identified need in the selected neighbourhood, the scheme could have targeted the residents of that neighbourhood alone. If, on the other hand, the scheme was of a general nature, it should have formed part of broader municipal or regional interventions;
- (c) housing is not eligible for URBAN funding <sup>(3)</sup>, although the communication provided that poor-quality housing was one of the criteria to be applied in selecting neighbourhoods. In Utrecht, the local authorities thought that actions in the area of housing came within the scope of the principal measure of the 'Quality of life' programme, and launched the first projects. When they realised that these operations were ineligible, the programme had to be completely revised in order to reduce significantly the funding that had been allocated to the measure in question (from 78 % to 40 % of the OP). Lastly, projects in this field have been co-financed indirectly, for example, the restoration of façades (Spain), the renovation of dwellings with a view to possibly letting rooms to tourists (Italy) or the co-financing of communal areas and commercial premises in new social housing complexes in proportion to the habitable area (Portugal).

### Evaluation

61. Repercussions of the shortcomings detected in the *ex ante* evaluations (see paragraphs 22 and 23) were apparent at the monitoring and interim evaluation levels. The lack of relevant physical indicators and impact indicators and the absence of precise, quantifiable objectives limited the validity and comparability of subsequent evaluations.

62. Few interim evaluations were carried out in time for their results to be taken into account when the last amendments to programmes were made before the deadline for commitments (31 December 1999). Even though the few evaluations that were conducted did produce some interesting facts, their utility was limited by the lack of a benchmark by which to gauge comparisons. In several cases, they may be described as *ex ante* appraisals

<sup>(3)</sup> Point 15 of the Commission communications.

and they did have the merit of establishing systems of indicators, albeit of a very limited value since the interventions were already at a very advanced stage. In some countries, there is no provision for any interim evaluation and in most cases the interim evaluation is carried out for the sake of formal compliance with the regulations, rather than as a way of obtaining worthwhile results. Indeed, interim evaluations carried out after the end of the commitment period can have no effect on the current programmes and they come at too early a stage for them to be able to assess the impact. There is also a risk that they will be made redundant by the *ex post* evaluations.

63. The Commission communications include, by way of illustration, an indicative list of measures <sup>(1)</sup> that could be included in the integrated programmes. However, the Court has already noted <sup>(2)</sup> on several occasions that the Commission does not yet have comprehensive, reliable information systems for identifying, for each homogeneous category of measures, the actions that are in progress and their expected and actual impact. This is an obstacle to appropriate evaluation of the overall effects of Community funding.

#### CONCLUSIONS AND RECOMMENDATIONS

64. The URBAN Community initiative has supported the implementation of many urban development projects in 118 areas of the European Union and has provided local authorities with access to Community co-financing. However, these projects could, in the Court's view, equally well have been carried out under existing Community measures, thus avoiding the creation of new procedures and expensive management structures. In future any new Community intervention should be preceded by in-depth analysis of needs, taking into account the Court's observations, as well as previous experience, so as to ensure that the added value which they generate is real.

65. The Commission communications laying down guidelines for the URBAN initiative set numerous ambitious targets, but they are vague. The programmes adopted also lack precise, specific objectives. This has resulted in a dissipation of effort, which makes it very difficult to assess the impact of the programmes and of the initiative as a whole. The new Commission communication <sup>(3)</sup> also sets ambitious objectives for the period 2000 to 2006. If it is really going to be possible for *ex ante* appraisal, monitoring and

evaluation to influence the design and implementation of interventions, precise objectives must be assigned to the interventions in advance.

66. The lack of clear procedures for determining eligible urban areas on the basis of a comparison of objective, preset parameters has yielded a questionable selection of areas. The number of beneficiary areas (118) is higher than that envisaged (70) and the beneficiary areas are often too extensive for the funding granted to have any significant impact (see paragraphs 7 and 11 to 16). Responsibilities for the selection of eligible areas have been specified for the new period. In future, it will be the Member States that are responsible for identifying areas and breaking down the funds by area according to certain criteria which are mentioned in the new communication <sup>(4)</sup>. The Commission is to ensure that precise criteria and transparent, competitive selection procedures are laid down by the Member States in accordance with the national rules for allocating public subsidies.

67. The allocation of Community funds among Member States, regions, cities and urban areas lacked clarity and the final decisions on the number of beneficiary zones and their respective levels of financing were only taken after the programmes had been drawn up and submitted, which resulted in delays and in awkward internal reworking of programmes (see paragraphs 6 and 21). The process of allocating resources should take place at the earliest possible stage, in order to avoid too much persistent uncertainty about the financial resources for which the various interventions may qualify.

68. Although the problems affecting urban areas differ greatly in type, the measures proposed in the OPs with a view to remedying them are very similar. Given the scale of the programmes, this strategy has resulted in scattershot financing, which is extremely difficult to manage (see paragraphs 19 and 20). The new interventions, which from now on will be financed by the ERDF only, should be simpler and better tailored to the main problems of the areas concerned.

69. The implementation of URBAN was characterised by very long delays, so that operations were concentrated at the end of the period. This was the consequence of superficial, or even non-existent, *ex ante* appraisals of the programmes, unrealistic programming and poor monitoring. Moreover, the techniques used to facilitate the commitment of interventions before the deadline of 31 December 1999 were questionable (see paragraphs 49 to 54). Reinforcing the programming and *ex ante* appraisal instruments is essential in order to improve monitoring and evaluation of interventions. Furthermore, financing plans should not simply reproduce the annual allocations provided for by the financial perspective. They should be accompanied by realistic forecasts of how the actions are expected to progress.

<sup>(1)</sup> These include measures which are intended to promote new economic activities, employment at local level, the improvement of amenities in the areas of health, welfare and safety, or the improvement of infrastructure and the environment.

<sup>(2)</sup> Annual Report concerning the financial year 1999, paragraphs 3.23 to 3.28.

<sup>(3)</sup> Communication from the Commission to the Member States of 28 April 2000 laying down guidelines for a Community initiative concerning economic and social regeneration of cities and of neighbourhoods in crisis in order to promote sustainable urban development (URBAN II) (OJ C 141, 19.5.2000, p. 8).

<sup>(4)</sup> Point 16 of the new Commission communication.

70. The URBAN programmes ran independently of the other Community and national interventions that were being implemented at the same time in the areas concerned. The lack of reliable, up-to-date information systems at the Commission meant that it was impossible to access tangible information on the actions which, in urban environments, are co-financed by the Structural Funds. Tangible initiatives should be taken, in order to obtain information about intervention in urban areas and whether it is consistent and well integrated (see paragraphs 26 to 33). In addition, the Commission's recommendation concerning the reinforcement of the actions to benefit urban development <sup>(1)</sup> as regards Structural Funds intervention for the period 2000 to 2006 should help to reduce the special instruments in support of cities that are already covered by the priority objectives of the Structural Funds.

71. The weaknesses of the indicators, and of impact indicators in particular, and the delays in, and even absence of, annual implementation reports are evidence of weak monitoring of the intervention, despite the scale of the cofinancing granted for technical assistance (see paragraphs 22 and 23, 42 and 61). Improvements in statistical data at local level are necessary and the efforts that are already being made, for example, under *Audit urbain* <sup>(2)</sup>,

should continue. The Commission should also, as part of the partnership, establish paths for the exchange of operational information, in order to avoid delays in examining files and prevent uncertainty in dealing with the technical problems associated with implementation (see paragraphs 37 to 41). Very little has been obtained by way of tangible results from the measures which aim to promote the exchange of know-how. The Commission should, therefore, reflect how it can effectively foster the spread of good practice in the urban environment, without confining itself to operations that are co-financed by URBAN.

72. The Court's main findings concerning the implementation of URBAN are similar to those already expressed in previous inquiries on Structural Funds measures, and the Community initiatives in particular. The new regulations and the start of the 2000 to 2006 programming period represent a fresh opportunity for the Commission and the Member States to introduce tangible initiatives rapidly, with the aim of simplifying and improving the programming, management, monitoring and evaluation of structural actions.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 21 and 22 February 2001.

*For the Court of Auditors*

Jan O. Karlsson

*President*

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<sup>(1)</sup> The Structural Funds and their coordination with the Cohesion Fund. Guidelines for programmes in the period 2000 to 2006, COM(1999) 344 final of 1 July 1999.

<sup>(2)</sup> *Audit urbain* is a pilot project financed by the ERDF. It aims at compiling an inventory of cities in the European Union.

The results of the first phase cover 58 cities, including the main cities in each of the Member States, and were published in 2000.

(Ref: Vol. 1 — ISBN 92-828-9242-5 and Vol. 2 — ISBN 92-828-9244-1.)

Note that, in view of the new priorities for URBAN II (2000 to 2006), only a few of the cities examined by *Audit urbain* will receive finance under URBAN.

## ANNEX

**ALLOCATION OF RESOURCES FOR THE URBAN COMMUNITY INITIATIVE**

1. The initial allocation of 600 million euro (400 million euro for Objective 1 regions and 200 million euro for other regions) was as follows:

*C(94) 1818 of 5 July 1994*

												<i>Mio EUR (1994 values)</i>	
B	DK	D	EL	E	F	IRL	I	L	NL	P	UK	Total	
10,5	1,5	96,8	45,2	130,4	55	15,5	115,3	0,5	9,9	43,7	75,6	600	

2. According to the Commission, the principal criterion for the allocation of these resources was the population concerned by Objectives 1, 2 or 5b, but some adjustments were made (increments in favour of Spain and the United Kingdom and deductions in the case of France, Germany and Italy).

3. Following the apportionment of the 600 million euro, further adjustments were made for Spain (30 million euro), the United Kingdom (21,6 million euro) and the Netherlands (-0,7 million euro). After the transfer of the Textile Portugal programme to heading 3 of the financial perspective, a further adjustment of 50 million euro was made in favour of Spain.

4. The first apportionment of Community initiatives among the new Member States was as follows:

*COM (95) 123 final of 4 April 1995*

			<i>Mio EUR (1995 values)</i>	
Austria	Finland	Sweden	Total	
9,77	3,89	3,37	17,03	

5. Following the allocation of the Community initiatives reserve and the second URBAN communication, an additional 157 million euro became available (61 million euro for Objective 1 regions and 96 million euro for other regions). The allocation of resources, per Member State, for which no objective criterion was set, was as follows:

*SEC(96) 851*

															<i>Mio EUR (1995 values)</i>	
B	DK	D	EL	E	F	IRL	I	L	NL	P	UK	A	FIN	S	Total	
8,43		16,89	5,31	26,93	24,77	4,82	18,21		13,00	5,12	24,75	3,50	3,77	1,50	157	

6. The breakdown for all these apportionments and adjustments, at 1995 values, is as follows:

																<i>Mio EUR (1995 values)</i>	
B	DK	D	EL	E	F	IRL	I	L	NL	P	UK	A	FIN	S	Total		
19,07	1,52	115,02	51,13	240,22	80,53	20,53	135,10	0,51	22,33	49,42	123,29	13,27	7,66	4,87	884		



7. Following the sixth meeting of the Management Committee for Community initiatives on 22 September 1998, the Commission approved a change to the allocations concerning the various Community initiatives on 16 December 1998. As regards URBAN, the adjustments decided upon amounted to – 18,7 million euro (– 2,6 for France; – 7,4 for Greece; – 3,2 for Italy; – 0,2 for Luxembourg and – 5,3 for the United Kingdom). Since these were funds that had already been programmed, notably for national OPs, the new allocations could not be reprogrammed in their entirety unless the Member States concerned gave their agreement to the reductions in funding, which is far from being the case. Moreover, the table of allocations per Member State and per initiative, which was the subject of the Commission's Decision, is expressed in million euro and has thus been rounded.

8. On 29 March 1999, the Italian Republic brought an action (C 107/99) against the Commission for annulment of the Decision of 16 December 1998 concerning the allocations. The application for suspension of enforcement of that decision formed the subject of a summary procedure before the President of the Court of Justice on 29 June 1999. Some of the evidence submitted during this summary procedure and the necessity of waiting for the Court judgment created fresh uncertainty about the definitive apportionment of the allocations of resources for Community initiatives.

9. The final result, at 1999 values, taking into account the various adjustments mentioned above, is as follows:

		<i>Mio EUR (1999 values)</i>														
	B	DK	D	EL	E	F	IRL	I	L	NL	P	UK	A	FIN	S	Total
Objectives 1 and 6	13		86	45	194	9	21	107			51	39		4		570
Non-Objectives 1 and 6	6	2	32		53	72		29	0	23		86	14	4	5	327
Grand total															897	

10. The last months, and even the final weeks, of 1999 saw a considerable reorganisation of Community initiatives on the Commission's decision. Transfers were made to the URBAN initiative from other initiatives and the allocations provided for URBAN were reduced in favour of other programmes.

## THE COMMISSION'S REPLIES

### INTRODUCTION

3. The Commission would point out that the scope and objectives of the Community initiative URBAN I are defined in the guidelines. <sup>(1)</sup>

The initiative is intended to support a number of flagship schemes designed to show that, even in neighbourhoods considered to have intrinsic structural problems, a sense of hope can be instilled in local residents and the economy revived.

This initiative was not intended as a comprehensive remedy for what is a major problem in modern societies. Instead the aim was to help the authorities responsible for these areas to create a climate conducive to investment and a sense of confidence and security for the local residents by reintegrating them into the economic and social mainstream.

Clearly, therefore, URBAN I is fully in line with the principles of subsidiarity and cohesion.

### ALLOCATION OF RESOURCES AND FINANCIAL SITUATION

6. The task of allocating Structural Fund assistance to Objectives, Community initiatives and Member States posed considerable technical and political hurdles and the Commission believes it handled the operation effectively and in accordance with the Regulations. The process was carried out on the basis of objective criteria, supplemented by input from negotiations with the Member States.

7. This Community initiative was notable both for the heavy demand it stimulated among beneficiaries and the resolute backing it has received from the European Parliament.

Overall, the initiative was responsible for some EUR 1 800 million worth of investment benefiting 3,2 million people (equivalent to EUR 560 per head of population in the communities covered — similar to the ratio achieved by the Objective 2 programmes).

9. Any changes to the financing plans for the programmes are subject to the financial management rules annexed to each programme. Point 18 of these rules states that, 'In the event of

amendments to the financing plan which are outside the competence of the Monitoring Committee, the amounts entered in the amended financing plan under previous years must correspond to actual expenditure in these years, as certified and set out in the annual reports on implementation'. For the years following an amendment, the financing plan is a projection and must keep to the implementation timetable.

As regards the programmes for which funding is committed in annual instalments, the Commission has, in accordance with the implementing rules and procedures, amended the decisions on the programmes to adapt them to the realities of implementation and thus ensure that all the funding is committed as planned.

10. The Commission issued instructions to the Member States to the effect that they avoid as much as possible transferring resources between Funds where this involved adjustments to the Community accounts. Where such transfers proved unavoidable, the Member States were instructed to give the Commission sufficient notice (i.e. no later than 31 July 1999) to be able to enter them in its accounts before the year end. These instructions expressly stated that all proposed amendments involving reductions in commitments and payments were inadmissible.

However, in exceptional cases for very special reasons, exceptions to this rule were permitted. For example, for programmes where the final instalment of funding (for 1999) had been committed in 1998, or for certain programmes where all the funding was committed in a single instalment.

The Commission would point out that the discrepancies highlighted by the Court in the Commission accounts for year end 1999 are simply a reflection of certain temporary circumstances likely to occur at any point of the financial year and which can be rectified by adjusting the accounts once the programme amendment procedures have been completed. This was the purpose of the adjustments, decommitments and recoveries carried out in 2000 (based on decisions adopted towards the end of 1999), in response to the downward revision of contributions from one of the participating Funds.

### THE SELECTION OF ELIGIBLE URBAN AREAS

11 to 16. The process used to select urban areas for funding was in keeping both with the arrangements laid down in the guidelines for the initiative and, more generally, with the Structural Fund Regulations.

Under these arrangements, the proposals for the operational programmes were to be made jointly by the Member States and the local authorities, working together and each in accordance with the relevant procedures.

<sup>(1)</sup> See points 3 to 8 of the guidelines.

The Member States were required to put forward their shortlists of areas for the URBAN initiative, based on the criteria suggested by the Commission (high unemployment, decaying infrastructure, poor housing stock, lack of social amenities, etc. <sup>(1)</sup>) and taking account of their domestic situation, in particular the existence of any other national urban regeneration programmes.

For these reasons, the idea of consulting a group of experts on the final choice of areas (see point 12 of the report) was dropped and is not in the final guidelines for URBAN adopted by the Commission on 15 June 1994.

In the light of our experience with URBAN I, in devising URBAN II a considerable effort was made to improve the procedure for selecting eligible areas, mainly by establishing a set of nine standard indicators. Each selected area will now have to be justified by reference to at least three of these indicators.

To prevent the deliberations on the number of selected areas becoming unwieldy and delaying the programme negotiations, the selection procedure for URBAN II comprises the following steps:

- firstly, the number of areas each Member State is allowed is confirmed, with any increase requested by the Member State having to be approved in advance,
- the areas are then identified and the funding for each is set, using the criteria laid down by the Commission under point 11 of the new guidelines.

The lack of statistical data referred to by the Court under point 15 is an undeniable problem that cannot be remedied in the short term. This will require the Commission to sit down together with the Member State and look at the real situation in the areas concerned, where necessary basing their assessment on qualitative factors and/or other indicators.

## PROGRAMMING

### *The integrated approach*

18. None of the Member States took up the option of backing up the projects in the selected urban areas with more ambitious overall strategies addressing the urban environment as a whole.

<sup>(1)</sup> See point 10 of the guidelines.

The Commission attributes this to the complexity of the current institutional and legislative arrangements surrounding urban planning and feels that, under the principle of subsidiarity, Member States' choice of whether or not to pursue all the possible accompanying measures is their own affair.

The Court does however recognise that, for a number of local authorities, URBAN was the first opportunity to become involved in programming and implementing a coordinated package of diverse measures in certain areas of their cities.

As regards the submission of the new URBAN II programmes, the Commission will be encouraging the cities to employ a uniform structure for their programmes, in so far as is possible.

### *Selection of measures*

19. The Commission does not share the view that the programmes ought to have been targeted exclusively on the core problem(s).

While it is true that the problems experienced by the different areas vary in seriousness, they generally all have broadly similar socioeconomic consequences: economic decline, a deterioration in transport networks and the environment, insecurity for local residents, etc.

The principal advantage of the URBAN initiative is its integrated approach, which gives priority to a multisectoral strategy which, rather than addressing symptoms, tackles the root causes of urban decay.

20. The Court reports that the managers of the schemes on the ground would have preferred simpler programmes, where possible financed from a single Fund only (either the ERDF or the ESF).

While it shares this view, which has been incorporated into the new URBAN II initiative (which will be financed solely from the ERDF), and agrees that the management of the programmes should be simplified, the Commission is against oversimplifying the initiative to the detriment of the value added by its integrated strategy, as explained below and in points 31 and 32.

It should not be forgotten that of the 118 cities covered by URBAN, only 20 or so were not covered by one of the Structural Fund Objectives, with the rest in Objective 1, 2 or 6 areas. The added value provided by the URBAN initiative derives primarily from its integrated approach, since many 'simpler' programmes were already carried out in the 1994 to 1999 period as part of mainstream Structural Fund programming, and the number of such programmes is set to increase even more in 2000 to 2006, when Objective 2 will contain an urban funding section.

### Programme approval

21. We agree with the Court that the delays it highlights in the adoption of the programmes submitted in 1994 can be attributed in part to the unwieldy procedure for selecting the eligible areas and the detailed and substantial negotiations between the Commission and the Member States. The delays are also due to the major revision work required on a number of programmes to reach a satisfactory level of quality, since this was the first time that the local authorities had been called upon to play a key role in programming.

The experience thus gained by the local administrations was bearing fruit as early as 1996, when the adoption time for programmes was less than half that in 1994.

In any event, the practice is now to resolve the selection problems before the programmes are submitted for approval (see the comments on points 11 to 16 above) and this problem is not expected to recur under URBAN II.

22. (See point 61.)

23. The Commission agrees that the four-month period allowed for drawing up the first generation of URBAN programmes in 1994 proved in some cases to be too short. It also agrees with the Court that the situation improved for the programmes that started after 1996. The submission period for the 2000 to 2006 URBAN programmes has been extended to six months.

Among the causes cited by the Court, the Commission acknowledges that the absence of reliable statistical and socioeconomic information on the areas in question was a serious problem. This cannot be solved satisfactorily in the short term. However, the Commission accepts the Court's suggestion (in point 71 of the draft report) that it continue the efforts launched by the Urban Audit to improve information and statistical data at local level.

In addition, the Commission will urge the authorities responsible for drafting the URBAN II programmes in so far as is possible to draw up a standard list of priorities that can be used to form the basis of a consistent monitoring system, and a limited number of standard indicators that could greatly improve the consistency of the programme assessments.

24. Responsibility for proposing operational programmes lay with the Member States,<sup>(1)</sup> as did the choice between having separate programmes by area or a single national programme.

<sup>(1)</sup> See point 20 of the guidelines.

In some cases, the Commission felt it appropriate to go along with the management procedures normally used for Structural Fund programmes in a particular Member State.

25. The Court considers that the two approaches used (single national programme or individual programme for each city) sometimes caused delays in programme adoption and inefficient programme management. In this connection, it cites the example of national programmes, where, since a single statement of expenditure is made for the entire programme, a delay on the part of just one city is enough to penalise all the others. In the light of its experience with URBAN I, the Commission shares this view and has sought to rectify the problem in URBAN II, the guidelines for which state that 'each programme shall target an urban area and must be drawn up by the local authorities responsible for that area'.

On the other hand, once the negotiation stage begins, the Commission will seek to make the process as simple and efficient as possible, by taking advantage of the 'smoother coordination of measures and [an] improve[d]... exchange of valuable information', the clearest signs of which seem to be in the national programmes. For example, where possible all the monitoring committees will sit in parallel, a single paying agency will be appointed and the control system will be standardised.

### INTEGRATION WITH OTHER COMMUNITY POLICIES

27. It should be pointed out that while some of the measures provided for in the framework for action (such as the Interdepartmental Group or the Group of Experts) have not so far been implemented, this has been due to the Commission concentrating its efforts on other priority measures announced in the framework. These include Actions 1<sup>(2)</sup>, 8<sup>(3)</sup> and 18<sup>(4)</sup>, which were given particular priority in the new guidelines for Structural Fund programmes in 2000 to 2006 adopted by the Commission (COM(99) 344 final of 1 July 1999).

<sup>(2)</sup> Action 1, 'Explicit urban programming for Structural Fund support', focuses on the central role played by urban centres in regional development. It encourages regional plans and operational programmes to include reference to the specific development problems, opportunities and objectives presented by the main urban areas in each region. These documents should include specific measures to develop the urban areas in question.

<sup>(3)</sup> Action 8, 'Structural Fund support for area-based action for urban regeneration', is concerned with the economic and social regeneration of areas experiencing structural problems, especially urban areas. In addition to the areas of this type that fall under Objective 1 and, as industrial areas, under Objective 2, the general Structural Fund Regulation (Regulation (EC) No 1260/1999) makes provision for identifying deprived urban areas for which an integrated spatial approach like that employed under the URBAN initiative is particularly relevant.

<sup>(4)</sup> Action 18, 'EU Structural Fund support for protecting and improving the urban environment', underlines the importance of environmental sustainability in urban development.

As acknowledged by the Court in point 71 of its report, the Urban Audit, which was mentioned in Action 23 of the framework for action, is an example of the Commission's efforts to improve the quality of its comparative data on urban areas. It will be continued in collaboration with Eurostat.

The Commission is also planning to give special priority to another major theme of the framework (Action 20: Raising awareness, sharing experience and building capacity for sustainable urban development), thanks to the opportunities provided by the new URBAN II initiative, under which EUR 15 million will be earmarked for information-sharing schemes in 2000 to 2006.

29. The situation described by the Court is a real problem and applies to all the measures implemented by the Community in a particular geographical context.

The Commission is aware of this problem and has, therefore arranged for all expenditure on urban renewal (i.e. spending on urban transport networks and investment in urban regeneration) made under the new Structural Fund programmes and URBAN II to be identified in the expenditure codification system.

30. In accordance with the Regulation, the Commission intends to evaluate the Objective 1 and 2 programmes to determine the longer-term impact of Structural Fund operations. These evaluations will not be completed before the end of 2003. As suggested by the Court, they will include an assessment of the programmes' impact on urban development.

31. With regard to the financial significance of the assistance granted under URBAN, it should be noted that:

- URBAN I had the catalysing effect it was planned to have, mobilising considerable investment in the target areas to the total amount of EUR 560 per capita on average (meaning that the Community contribution was matched by counterpart financing from national public and private sources),
- while it is true that the EUR 280 per head of population sourced through URBAN is a small amount compared to the EUR 1 000 per capita granted in the 66 cities covered by Objective 1, it should not be forgotten that in the 33 Objective 2 cities this amount approaches the levels of funding granted under the CSFs and SPDs and, for cities not covered by Objectives 1 or 2, was the only urban regeneration support provided by the Structural Funds.

32. It should be pointed out that URBAN was not conceived simply to provide top-up funding to Objectives 1 and 2. Its real added value lies in basing urban regeneration on the creation of

neighbourhood partnership networks and the involvement of local residents. While it is true that this approach is also possible under the general rules on Structural Fund measures, the Court recognises that '... local authority involvement in the Structural Fund regional measures that target local development was quite insignificant in most of the countries. URBAN has enabled local authorities to access Community part-financing'.

33. The Commission believes that all the programmes adopted under the URBAN initiative are integrated with the other national urban regeneration programmes that exist in the Member States.

This does not, however, mean that the degree of integration is the same in all Member States, since this is at the discretion of each Member State, in accordance with the principle of subsidiarity.

Italy: The participating cities and the projects to be carried out under the URBAN initiative for Italy were selected jointly by the Commission and the competent national authorities, such as the *Dipartimento per le aree urbane* or the Ministries for the Environment, Industry, Home Affairs, Public Works, Labour, etc., and in consultation with the local and regional authorities. In this way, an urban regeneration strategy was developed at national level.

The United Kingdom: There was indeed a degree of overlap between the URBAN programmes and some national programmes (i.e. SRB or City Challenge). This was due to the choice of delivery by the UK authorities and the fact that the SRB serves as a part-financing fund to the URBAN programmes. However there were some differences between URBAN and the UK programmes in terms of scope and selection criteria.

## MANAGEMENT AND MONITORING STRUCTURES

### *At the decision-taking level*

34. The Commission regards subsidiarity as one of the key principles of the URBAN initiative, in both the preparation and the implementation of the programmes.

35. Although their role in the monitoring committees may differ, the Member States always retain responsibility for selecting projects.

On the issue of the Commission's role in decision-making (in Spain), although it did not have a say in the project selection procedure, it was closely involved thereafter in determining project content.

The Court is right that in Greece all the projects part-financed under the programme were subject to scrutiny and approval by the programme's Monitoring Committee. These arrangements applied throughout the 1994 to 1999 period not only to Community initiatives but also to all CSF II programmes in Greece. As a member of the Monitoring Committee, the Commission was involved in assessing and approving these projects. The purpose of such scrutiny was to ensure that only projects which had reached the required level of 'maturity' were included in the programme. It was in fact largely due to this approach that the projects were up and running within the prescribed deadline and could thereby make a full contribution to the programme objectives.

36. The Commission considers that the partnership dimension of URBAN is one of the initiative's strongest points, and that the involvement of the social partners and local residents in implementation has generally been satisfactory. It must be admitted, however, that they were not involved to the same degree in drawing up the programmes, due mainly to the lack of appropriate structures for this.

#### ***At the level of implementation and monitoring***

37. The Commission coordinates the programmes at all stages through a process of interdepartmental consultation on all decisions and management issues.

The new URBAN II initiative will be funded from a single Fund (the ERDF).

38 to 40. Because of its particular approach, one of the key features of which is to promote a high level of participation by the competent authorities in programme implementation, the URBAN initiative has experienced a number of problems due mainly to the fact that these authorities (mainly at local level) were not always familiar with the relevant Community rules.

While it is true that this may have caused delays or inefficiency in some cases, these shortcomings are to a large extent compensated for by the experience gained by the authorities in the course of the URBAN initiative, which equips them to take a more active role in implementing the whole range of Structural Fund programmes in their regions.

As regards the excessive number of Community departments handling the initiative, the Commission is confident that it has solved this problem by centralising all responsibility for scrutinising and managing the URBAN II programmes in a single DG REGIO unit.

42. In the Commission's view, these shortcomings have not prejudiced the monitoring of the programmes and the monitoring system worked well.

The general problems experienced with the submission of the annual implementation reports can now be considered a thing of the past, since under URBAN II all requests for interim payments will be conditional on the submission to the Commission of the latest annual implementation report (Article 32(3)(b) of Regulation (EC) No 1260/1999). This report will also be required as a basis for the annual consultations between the Commission and the managing authority provided for in Article 34(2) of the Regulation.

#### ***At the level of technical assistance***

43. It is clear that, for Community initiative programmes, such as URBAN, expenditure on technical assistance accounts for a greater proportion of total funding than it does in CSF and SPD programmes.

For URBAN in particular, this is due in part to the innovative nature of the integrated approach promoted by these programmes and partly also to the frequent inexperience of the competent authorities in managing Structural Fund programmes (see points 20 and 38 to 40).

The problem is acknowledged in the new Regulation (EC) No 1685/2000 on the eligibility of expenditure under the Structural Fund programmes in 2000 to 2006, and in particular its rule 11 which, in laying down ceilings for expenditure on technical assistance, provides for a higher ceiling of 5 % for Community initiatives, well above that set for the CSFs and the SPDs.

It should be pointed out here that funding for technical assistance, as well as covering traditional forms of technical assistance (management, monitoring, evaluation and control, which will be capped at 5 % as described above), also covers promotional and publicity measures for projects and support for cooperation networks and information-sharing schemes.

46. The situation encountered with the management company in Greece must not be repeated. The Commission is currently examining this case with a view to taking the appropriate action.

In addition, on the issue of VAT, it should be noted that the infrastructure in question belongs to the local council, which, as a public body, is not liable for VAT. If part of this infrastructure were in future to be managed or run on a for-profit basis by a private management company that invoiced its services to third parties and applied VAT, one possible solution would be to refund the portion of VAT relating to the project that had been charged to the programme. However, this is hypothetical. And the size of the amounts involved could mean that the operation would not necessarily be viable in terms of cost/benefit.

In Portugal, the lower rate of VAT levied on infrastructure work carried out on behalf of local authorities compared with the rate applicable to the same work when carried out on behalf of other bodies (in this case a foundation) is a provision of Portuguese law.

In Spain, VAT liability is likewise governed by national legislation. The Commission will nevertheless examine the Court's findings and take the appropriate action.

47. It should be pointed out that funding for technical assistance, as well as covering traditional forms of technical assistance (management, monitoring, evaluation and control), also covers promotional and publicity measures and support for cooperation networks and information-sharing schemes.

In the light of the objective and specific arguments advanced in point 43, the Commission believes that expenditure on technical assistance has generally been kept within reasonable limits. In Spain, for example, it accounted for 5 % of the total budget.

As regards the lack of specific measures to promote information exchange, it should be noted that the beneficiary cities have indeed shared a significant amount of information with one another. However, in most cases this took place at national level and thus did not always feature a genuine Community dimension.

Since this problem was partly due to the lack of a specific funding line for transnational information-exchange schemes, the Commission believes that, with the EUR 15 million now earmarked for such schemes in the URBAN II initiative (see point 27), the situation is unlikely to recur.

48. It should be noted that the tasks referred to were introduced in an amendment to a more general contract (ERDF 96/00/29/010) governing technical assistance for URBAN pilot projects.

The parts of this contract that concern the URBAN initiative are specified in points 2 and 4.1 of Annex II to this amendment. The respective funding allocations for the services in the financial statement of the amendment are EUR 125 775 for part 2 and EUR 8 700 for part 4.1.

The consultant was commissioned to carry out a number of tasks, including revising an electronic file containing information on the 118 cities covered by URBAN, compiling summary sheets in five languages and producing a 30-page brochure in two languages outlining a number of examples of best practice, compiled on the basis of visits and case studies carried out in some 20 of the cities covered by URBAN. The consultant has not updated the URBAN website he created because the technical assistance contract expired on 31 December 1999.

The Commission is satisfied with the technical assistance provided in this case and considers that the terms of the contract were fulfilled.

## IMPLEMENTATION OF THE PROGRAMMES

### *Financial management*

49 to 51. In its management and supervision of the URBAN initiative projects, the Commission will ensure that all the Structural Fund legislation is enforced. To this end, it will examine the Court's findings and take the necessary action.

53. The URBAN initiative is subject not only to all the rules governing the Structural Funds but also to all the relevant control mechanisms for implementation.

The delays in programme implementation were caused by several factors, including the fact that the programmes grouped together cities with different profiles (see points 24 and 25), and that responsibility for managing them was too fragmented (points 38 and 39). These situations will not recur under URBAN II. What is more, with the publication of the URBAN II handbook in September 2000, the rules governing the development of programme proposals were tightened.

Expenditure on infrastructure projects must now be completed in the eligible period (before the end of the payment period). Only in duly justified cases can this period be extended.

Infrastructure projects must produce concrete results within the programming period, or at least at some subsequent stage.

Finally, as regards the abandonment of activities, the Community initiative programmes were designed to be limited in duration. What is more, if they meet all the conditions and remain eligible for ERDF funding, some former URBAN I areas may receive funding from programmes adopted under URBAN II.

### *Selection and implementation of actions*

56 and 57. Regenerating and adapting the social infrastructure of urban areas is a key feature of the integrated approach that characterises the URBAN projects.

Nevertheless, in its management and supervision of the URBAN initiative projects, the Commission will ensure that all the Structural Fund legislation is enforced. To this end, it will examine the Court's findings and take the necessary action.

58. The eligible area to be covered by each project is defined when the programme is submitted. However, in some cases the areas were amended very slightly, either to correct errors that were detected or to ensure that the planned measures could be properly implemented.

The Madrid project encountered a different problem: following the amendment of the spatial planning rules for the Madrid municipality, the project that had been approved initially could not be implemented, so the Spanish authorities proposed replacing it with another project in another part of the city.

It is true that under the León project a bridge was built outside of the eligible area. It should be pointed out, however, that the object of that project was to create a link to a neighbourhood that had previously been separated from the city by railway lines. The decision on where to locate the bridge giving access to this neighbourhood was conditioned by spatial planning rules and the cost and environmental impact of the work involved.

59. It would indeed be a shame to restrict the use of infrastructure part-financed by the Community exclusively to the residents of the eligible area if other residents of the city can also benefit from it. This would constitute a waste of resources.

60. The Commission will examine the findings of the Court and take the necessary action.

As regards the URBAN operational programme for Spain, no part-financing was used to fund housing improvement schemes. The only action of this type undertaken was a number of measures to restore building facades required in some cases under general schemes to rehabilitate the environment of deprived areas.

On a more general level, it is quite correct that housing is excluded from financing under URBAN. On the other hand, the Commission believes that it is not contradictory to include poor-quality housing as one of the objective and indicative criteria for selecting neighbourhoods for financing (see also comments on points 11 to 16).

### **Evaluation**

61. The Court correctly points out that the quantified objectives decided on for the last programming period had certain shortcomings. This hampered evaluation somewhat. The initial draft programmes for 2000 to 2006, which are based on the new Regulations and improved methodological guidelines from the Commission, give reason to expect significant improvements in this area.

62. The Commission shares the view of the Court that several mid-term evaluations provided results that may be useful for improving (and in some cases establishing) systems of indicators. These results can also be used for the new programming period.

Where mid-term evaluations are behind schedule, this may, as the Court points out, interfere somewhat with the *ex post* evaluations,

although the two types of evaluation have different objectives. Drawing on the experience of the 1994 to 1999 period, Regulation (EC) No 1260/1999 sets 31 December 2003 as the last possible date for submitting mid-term evaluations for the 2000 to 2006 programming period.

63. Based on a Commission proposal, Article 36(1) of Council Regulation (EC) No 1260/1999 on the Structural Funds provides for the categorisation of fields of operation in the 2000 to 2006 programming period. The Commission made a proposal to this effect in its methodological working paper 'Indicators and their quantification' and in one of the Annexes to the draft implementing Regulation (concerning Article 38 of Regulation (EC) No 1260/1999). This approach will be employed by the Member States in their programming documents.

The Commission expects the categorisation of operations and the prior assessments to provide more detailed feedback on the use and effects of the Structural Funds.

### **CONCLUSIONS AND RECOMMENDATIONS**

64. The real added value lies in basing urban regeneration on the creation of neighbourhood partnership networks and the involvement of local residents. While it is true that this approach is also possible under the general rules on Structural Fund measures, the Court recognises that the URBAN initiative has indeed played a role in giving local authorities access to Community part-financing.

The benefits derived from the local partnership are one of the reasons why the institutions, in particular the European Parliament, decided to continue the URBAN Community initiative in the 2000 to 2006 programming period.

65. This initiative could not hope to completely solve a major problem of contemporary society, i.e. the serious social and economic problems of neighbourhoods in many European cities, some of which could even be described as ghettos.

Instead the object of the initiative was to provide finance for a number of flagship projects to demonstrate that, even in neighbourhoods of this type, a sense of hope can be instilled in local residents and the economy revived.

As regards the need to identify more clearly the objectives of the programmes adopted under URBAN II, the Commission will be taking a number of steps to promote effectiveness and simplification including the use of a standard set of funding priorities and a limited number of standard indicators.



66. The eligible areas were selected on the basis of the rules laid down in the guidelines for the initiative and, more generally, in the Structural Fund Regulations. Under these arrangements, the proposals for the operational programmes were to be made jointly by the Member States and the local authorities, working together and each in accordance with the relevant procedures.

The Member States were required to put forward their shortlists of areas for the URBAN initiative, based on the criteria suggested by the Commission (high unemployment, decaying infrastructure, poor housing stock, lack of social amenities, etc.) and taking account of their domestic situation, in particular the existence of any other national urban regeneration programmes.

As regards URBAN II, the Court itself recognises that the 'responsibilities for the selection of eligible areas have been specified for the new period'.

In the light of experience with URBAN I, in conceiving URBAN II a considerable effort has been made to improve the procedure for selecting eligible areas, mainly by establishing a set of nine standard indicators. Each area selected will now have to be justified by reference to at least three of these indicators.

67. The task of allocating Structural Fund assistance to Objectives, Community initiatives and Member States posed considerable technical and political hurdles and the Commission believes it handled the operation effectively and in accordance with the Regulations.

The delays in the adoption of the programmes submitted in 1994 can be attributed in part to the unwieldy procedure for selecting the eligible areas and the detailed and substantial negotiations between the Commission and the Member States. The delays are also due to the major revision work required on a number of programmes to reach a satisfactory level of quality, since this was the first time that the local authorities had been called upon to play a key role in programming.

To prevent the deliberations on the number of selected areas becoming unwieldy and delaying the programme negotiations, the selection procedure for URBAN II comprises the following steps:

- firstly, the number of areas each Member State is allowed is confirmed, with any increase requested by the Member State having to be approved in advance,
- the areas are then identified and the funding for each is set, using the criteria laid down by the Commission under point 11 of the new Guidelines.

68. While it is true that the problems experienced by the different areas vary in seriousness, they generally all have broadly similar socioeconomic consequences: economic decline, a deterioration in transport networks and the environment, insecurity for local residents, etc.

The principal advantage of the URBAN initiative is its integrated approach, which gives priority to a multisectoral strategy which, rather than addressing symptoms, tackles the root causes of urban decay.

And while this may bring its own special problems, the approach is a valid one because many 'simpler' programmes were already carried out in the 1994 to 1999 period as part of mainstream Structural Fund programming, and the number of such programmes will increase even more in 2000 to 2006, when Objective 2 will contain an urban funding section.

The Commission shares the desire of the Court to make URBAN II as simple as possible, providing this does not prejudice the integrated approach which is its defining feature.

The fact that the URBAN initiative will henceforth be financed through a single Fund, the ERDF, represents a significant step in this direction.

69. It should be noted that one of the inherent difficulties with the URBAN initiative was linked to the key role that local authorities were called on to play, often for the first time, in both preparing and implementing the programmes.

While it is true that this may have caused delays or inefficiency in some cases, these shortcomings are to a large extent compensated for by the experience gained by the authorities in the course of the URBAN initiative, which equips them to take a more active role in implementing the whole range of Structural Fund programmes in their regions.

The experience thus gained by the local administrations was bearing fruit as early as 1996, when the adoption time for programmes was less than half that in 1994.

The techniques used do not necessarily constitute irregular practice. In its management and supervision of the URBAN initiative projects, the Commission will ensure that all the Structural Fund legislation is enforced.

As regards the lack of prior assessments and standard indicators for monitoring and evaluation, the Commission intends to simplify URBAN II and make it more effective. Its efforts will focus on the following objectives:

- a single structure for all new programmes,
- a standard set of funding priorities and a limited number of standard indicators,
- consistent, standardised evaluations.

The Commission has also centralised all responsibility for scrutinising and managing all the new programmes in a single DG REGIO department.

70. The Commission believes that the programmes adopted under the URBAN initiative are integrated with the other Community programmes, especially those part-financed by the Structural Funds, and with the other national urban regeneration programmes that exist in the Member States.

The situation described by the Court as regards overseeing every project part-financed by the Structural Funds in urban areas is a real problem and applies to all the measures implemented by the Community in a particular geographical context.

The Court does however recognise that, for a number of local authorities, URBAN was the first opportunity to become involved in programming and implementing a coordinated package of diverse measures in certain areas of their cities (point 18).

In any event, the Commission is aware of this problem and has therefore arranged for all expenditure on urban renewal (i.e. spending on urban transport networks and investment in urban regeneration) made under the new Structural Funds programmes and URBAN II to be identified in the expenditure codification system.

The Commission also notes that dropping URBAN pilot projects from the innovative measures in the 2000 to 2006 period is in

line with the Court's recommendation to reduce the number of specific assistance measures for cities already covered by the priority Objectives of the Structural Funds.

71. The Commission acknowledges that there were a number of problems with the monitoring of the URBAN programmes. These should now have been rectified in URBAN II (see point 69). It believes that these shortcomings have not prejudiced the monitoring of the programmes and that the monitoring system worked well.

As the Court points out, the Urban Audit is an example of the Commission's efforts to improve the quality of the comparative data on urban areas and it will be continued in collaboration with Eurostat.

As regards the lack of specific measures to promote information exchange, it should be noted that the beneficiary cities have indeed shared a significant amount of information with one another. However, in most cases this took place at national level and thus did not always feature a genuine Community dimension. Since this problem was partly due to the lack of a specific funding line for transnational information-exchange schemes, the Commission believes that, with the EUR 15 million now earmarked for such schemes in the URBAN II initiative (see point 27 above), the situation is unlikely to recur.

72. In the light of the above comments, the Commission believes that the conditions have been created for URBAN II to fully realise its potential to add value while at the same time being more effective and simpler.

The Commission shares the view of the Court regarding the goals of simplifying and improving management, monitoring and evaluation that are set out in the new Regulations for the 2000 to 2006 period. It also agrees with the Court that the new programming period gives us the ideal opportunity to introduce such much-needed measures.

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