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European funding in Northern Ireland

1. An Overview of EU Regional Policy

The European Union's (EU's) regional policy has played a significant role in promoting economic and social development in Northern Ireland. Additional support to achieving peace in Northern Ireland has also been given specifically via the EU Peace Programmes.

EU regional policy aims to reduce economic and social disparities across the 27 Member States. The funds allocated to this policy, known as Structural Funds, are allocated from the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. For the period between 2007 and 2013, the EU has earmarked 35.7% of its total budget to be divided between the following three objectives:¹

- Convergence;
- Regional Competitiveness and Employment; and,
- European Territorial Co-operation.

¹ http://ec.europa.eu/regional_policy/policy/fonds/index_en.htm

2. European Funding Allocated to Northern Ireland

2.1 Previous Funding Periods: 1989-94 and 1994-99²

Between 1989 and 1999, Northern Ireland was in receipt of Objective 1 priority funding. These funds contributed to the financing of investments in infrastructure and the promotion of economic development and environmental improvements.

1989-94

Between 1989-94 Northern Ireland received EU allocations of ECU 874 million. This figure includes ECU 82 million under INTERREG which was a joint Northern Ireland/Republic of Ireland allocation.

Table 1: Funding Programmes 1989-94

Programme	EU allocation (MECU)	Programme Objectives
Physical & Social Environment OP	50,400,000	Designed to tackle Northern Ireland's negative image and some of the internal problems identified as impeding economic development. Operated through three main sub-programmes: community relations, urban development and environmental improvement.
Transportation OP	165,500,000	Designed to reduce the effects of peripherality through major improvements and additions to the existing communications systems between Northern Ireland and the rest of the UK and elsewhere. Promoting investment in infrastructure at the region's gateways, i.e. the ports and airports.
Industrial Development OP	127,800,000	Improvement of economic growth in Northern Ireland by raising the level of new firm formation, increasing the competitiveness of existing companies, and attracting new inward investment. Activities under three broad sub-headings: industrial development, human resource development and infrastructure for industrial development.
Tourism OP	43,500,000	Assistance in development of Northern Ireland's tourism industry to strengthen and diversify the region's economy.
Combating Long Term Unemployment OP	34,600,000	Combating long term unemployment.
Integration of Young People OP	153,300,000	Facilitating the occupational integration of young people.
Multi-Priority OP	23,500,000	Supporting the human resource requirements generated by the implementation of the Community Support Framework (CSF) as a whole.
Special Measures OP	11,000,000	A programme for apprenticeship training.

² Source DFP Communication 20 August 2010

Agricultural Development OP	38,500,000	Designed to stimulate and promote a prosperous agricultural sector in Northern Ireland with the attendant benefits to the rural economy, and to protect and improve the rural environment.
Horizontal Measures OP	90,300,000	
STRIDE	14,000,000	Science and Technology for Regional Innovation and Development in Europe. Provision of technology and research infrastructure to encourage enhanced research and development activities in industry.
PRISMA	5,700,000	Enhance competitiveness of local industry through support for development of an internationally recognised testing and calibration infrastructure and assistance to improve product quality.
TELEMATIQUE	5,400,000	Increase awareness and take-up of advanced telecommunications applications, particularly for SMEs, and promote development in the public sector of data transmission services which could contribute to regional development.
EUROFORM	2,200,000	Provision of skills and qualifications required to meet the needs of new technologies and the Single Market.
NOW	1,300,000	Support for projects aimed at integrating women in the labour market. Promotion of equal opportunities for women in employment and vocational training.
HORIZON	1,800,000	Training for the disabled and other disadvantaged groups.
ENVIREG	17,100,000	Protection and improvement of coastal waters by means of the extension / construction of sewage treatment works and the development and management of waste disposal through relevant studies.
LEADER	3,800,000	Promotion of innovative community-led rural regeneration.
RETEX	2,600,000	Retex was designed to assist with economic diversification in regions heavily dependent on the textiles and clothing sector.
INTERREG *	* €82,100,000	Joint Northern Ireland / Ireland Programme to assist border areas to overcome development problems and to encourage cross-border co-operation in order to maximise growth potential. Delivered through the following sub-programmes: Tourism, Agriculture / Fisheries / Forestry, Human Resources, Environmental Protection and Regional Development (economic development, infrastructure and community regeneration).
Total *	* €874,400,000	

* INTERREG allocation is a joint NI/ROI allocation

1994-99

From 1994-99, Northern Ireland received over €1.8 billion in European funding, as shown in Table 2.

Table 2: Funding Programmes 1994-99

Programme	EU allocation €	Programme Objectives
NI Single Programme	1,297,050,000	Funding split across promoting economic development; tourism; investing in communities and people; reducing the effects of peripherality; energy; agriculture, fisheries and rural development, and; protection of the environment.
PEACE I (NI)	402,522,400	Funding split across employment; urban and rural regeneration; cross-border development; social inclusion; productive investment/industrial promotion, and; partnerships.
INTERREG II (NI)	69,647,000	Funding split across regional development; human resources development; infrastructure; agriculture, fisheries and forestry, and; environmental protection.
Urban	19,400,000	Intended to help find solutions to the serious social problems caused by the crisis in many depressed urban areas by supporting schemes for economic and social revitalisation, the renovation of infrastructures and facilities and environmental improvement.
Employment	12,800,000	Use of development of human resource, improvement of working patterns and implementation of trans-national measures to support a revival of employment, greater social solidarity throughout the Community and equal opportunities for women on the labour market. Three strands - Employment-Now (to improve equal opportunities for women), Employment-Horizon (to facilitate access to the employment market for those excluded or threatened with exclusion, including disabled or disadvantaged people), and Employment-Youthstart (to encourage integration into the labour market of young people under 20).
LEADER II	12,500,000	Designed to help rural associations and local government in rural areas to exploit their potential better.
SMEs	6,200,000	Assistance to small and medium sized businesses to adjust to the Single Market and become competitive on international markets.
Retex	5,100,000	Retex was designed to assist with economic diversification in regions heavily dependent on the textiles and clothing sector.
Adapt	3,500,000	Adaptation of workers to change, improvement of competitiveness of firms through training, prevention of unemployment by improving qualifications, and creation of new jobs and fresh activity.

Konver	3,400,000	Support for economic diversification in areas heavily dependent on the defence sector, in particular through the conversion of economic activities associated with the sector to make them less dependent on it, and through the encouragement of commercially viable activities in all industrial sectors with the exception of activities that might have military application.
Pesca	2,200,000	Assistance to the fishing industry in coping with and mastering the social and commercial consequences of structural crisis in the fishing industry, and to contribute to diversifying the regions affected through the development of job-creating activities.
Total	1,834,319,400	

Previous Funding Periods: 2000-06³

Between 2000 and 2006, Northern Ireland retained Objective 1 status on a transitional basis, despite having officially exceeded the eligibility criteria due to rising living standards. In the period 2000-06, six programmes received EU aid of some €1.57 billion. The EU also contributed to the International Fund for Ireland.⁴ Table 3 shows a breakdown by programme.

Table 3: Funding Programmes 2000-06

Programme	EU allocation €	Programme Objectives
Building Sustainable Prosperity Programme	929,115,400	Funding split across economic growth and competitiveness; employment; urban and social revitalisation, and; agriculture, rural development, forestry and fisheries.
PEACE II Programme (NI allocation)	467,000,000	Funding split across economic renewal; social integration, inclusion and reconciliation; locally based regeneration and development strategies; outward and forward-looking region, and; cross-border cooperation.
INTERREG IIIA	*137,021,821	Funding split across integrated local development strategies; supporting physical infrastructure and the environment and; civic and community networking.
LEADER+	15,417,000	To increase the economic and employment that very small businesses, including small firms, make to the rural economy by encouraging local partnerships to test out new approaches to micro-business development and, where beneficial, to work in collaboration with similar partnerships in other rural areas.
Equal	11,690,000	Designed to test new ways to combat all forms of inequality and discrimination in the labour market, for those in work and those seeking work, through transnational co-operation.

³ http://ec.europa.eu/unitedkingdom/about_us/office_in_northern_ireland/funding/strfunds.pdf (accessed 17 August 2010)

⁴ http://ec.europa.eu/regional_policy/themes/peace/report2008.pdf (accessed 17 August 2010) (see page 86)

Urban II	10,623,932	To regenerate North Belfast into a vibrant, safe and viable urban community for its people, its environment and its economy.
Total	*1,570,868,153	

*INTERREG IIIA is a joint NI/ROI allocation

For further detail on 2000-06 Programmes see Assembly Research Paper 10/02.⁵

2.2 Current Funding Period: 2007-13

Northern Ireland no longer receives funding at the higher level (Objective 1 status) due to the increasing prosperity of the region. However, it is still anticipated that Northern Ireland will receive approximately €1.1 billion from all streams of European Funding.⁶

For the current funding period 2007-13, NI will benefit from six EU Programmes:

- European Sustainable Competitiveness Programme;
- European Social Fund Programme;
- PEACE III Programme;
- Cross Border Territorial Co-Operation Programme (INTERREG IVA);
- European Fisheries Fund; and
- Rural Development Programme.

Table 4 below outlines the EU funding contributions to Northern Ireland for the period 2007-2013 (match funding is not included).

Table 4: anticipated funding 2007-13

Programme	€m
European Sustainable Competitiveness Programme	307 million
European Social Fund Programme	165.7 million
INTERREG IVA	192 million
PEACE III	225 million
European Fisheries Fund	18 million
Rural Development Programme	171 million
Total	1,078 million

⁵Assembly Research (2002) 'Summary Briefing Paper on the Role and Scope of the Department of Finance and Personnel Responsibilities for EU Funds in Northern Ireland' available online at: <http://assist.assemblyni.gov.uk/services/rsrchlib/research/reports/reportspub/finance/kelly1002.pdf> (accessed 17 August 2010)

⁶ See <http://www.dfpni.gov.uk/index/finance/european-funding/> (accessed 17 August 2010)

In addition to these programmes, the European Commission highlights the availability of loan-based financial support through the JEREMIE and JESSICA initiatives for SME and urban development, respectively.

3. Details of Current Funding Programmes

3.1 European Sustainable Competitiveness Programme 2007-13

This program is co-financed by the European Regional Development Fund (ERDF) and it is concerned with growth and jobs. Specifically, the programme will promote investment in research and technological development and encourage enterprise and entrepreneurship.

Table 5: European Sustainable Competitiveness Programme (ERDF)⁷

Priority Axis	EU Contribution	National Public Contribution	Total Contribution
Sustainable Competitiveness and Innovation	€160,000,000	€160,000,000	€320,000,000
Sustainable Enterprise and Entrepreneurship	€105,000,000	€105,000,000	€210,000,000
Improving Accessibility and Protecting and Enhancing the Environment	€38,000,000	€38,000,000	€76,000,000
Technical assistance	€3,833,439	€3,833,439	€7,666,878
Total	€306,833,439	€306,833,439	€613,666,878

3.2 European Social Fund Programme (ESF)

The Northern Ireland European Social Fund (ESF) programme supports the regional strategy for economic growth by extending employment opportunities and improving workforce skills and adaptability. The strategy is aimed at creating a knowledge based, innovative and business friendly region with a highly skilled, flexible workforce generating a high quality of living, sustainable communities and lifetime opportunities for all throughout the entire region.⁸

⁷ Information available from

http://ec.europa.eu/regional_policy/country/prordn/details_new.cfm?gv_PAY=UK&gv_reg=ALL&gv_PGM=1006&gv_defl=7&LAN=7 (accessed 17 August 2010)

⁸ Department for Employment and Learning (2007) 'Northern Ireland European Social Fund Programme 2007-2013' available online at: http://www.dfoni.gov.uk/northern_ireland_esf_operational_programme_-_17_sept_07_version.pdf (accessed 17 August 2010) (see page 4)

Table 6: European Social Fund Programme (ESF)⁹

Priority Axis	EU Contribution	National Public Contribution	Total Contribution
Helping people into sustainable employment	€95,597,174	€143,395,761	€238,992,935
Improving workforce skills	€67,280,121	€100,920,182	€168,200,303
Technical assistance	€2,900,005	€4,350,007	€7,250,012
Total	€165,777,300	€248,665,950	€414,443,250

3.3 INTERREG IVA

The INTERREG IVA Programme for Northern Ireland, the Border Region of Ireland and Western Scotland is supported through the Cross-Border Territorial Co-operation Programme which seeks to address the economic and social problems which result from the existence of borders. It assists two categories of projects:

- North/south projects; and
- Tripartite projects involving all three regions.¹⁰

Table 7: Northern Ireland, the Border Region of Ireland and Western Scotland Cross-border Cooperation Programme (INTERREG IVA)¹¹

Priority Axis	EU Contribution	National Public Contribution	Total Contribution
Cooperation for a more prosperous cross-border region	€75,502,500	€25,167,500	€100,670,000
Cooperation for a sustainable cross-border region	€104,999,866	€34,999,956	€139,999,822
Technical assistance	€11,520,000	€3,840,000	€15,360,000
Total	€192,022,366	€64,007,456	€256,029,822

3.4 PEACE III

PEACE III (2007-2013) is a €333 million EU structural fund which builds upon the successes of previous programmes PEACE I and PEACE II. It aims to reinforce progress towards a peaceful and stable society and promote reconciliation across

⁹ Department for Employment and Learning (2007) 'Northern Ireland European Social Fund Programme 2007-2013' available online at: http://www.dfpni.gov.uk/northern_ireland_esf_operational_programme_-_17_sept_07_version.pdf (accessed 17 August 2010) (see page 105)

¹⁰ Source: Special EU Programmes Body Annual Report 2009

¹¹ INTERREG IVA information available from http://ec.europa.eu/regional_policy/country/prordn/details_new.cfm?gv_PAY=UK&gv_reg=ALL&gv_PGM=1285&LAN=7&gv_per=2&gv_defl=7 (accessed 17 August 2010)

Northern Ireland and the Border Region of Ireland. This will be achieved by supporting projects and operations which help reconcile communities and contribute towards a shared society.¹²

Table 8: PEACE III EU Programme for Peace and Reconciliation (ERDF)¹³

Priority Axis	EU Contribution	National Public Contribution	Total Contribution
Priority 1 Reconciling Communities	€128,952,254	€61,966,046	€190,918,300
Priority 2 Contributing to a shared society	€82,402,656	€39,597,344	€122,000,000
Technical assistance	€13,490,738	€6,482,769	€19,973,507
Total	€224,845,648	€108,046,159	€332,891,807

3.5 Rural Development Programme

This rural development programme will contribute to each of the three objectives detailed in Article 4 of the Council Regulation (EC) No 1698/2005, namely:

- Improving the competitiveness of agriculture and forestry by supporting restructuring, development and innovation (Axis 1);
- Improving the environment and the countryside by supporting land management (Axis 2);
- Improving the quality of life in rural areas and encouraging diversification of economic activity (Axis 3); and
- Implementation of the Leader approach.¹⁴

¹² Source: Special EU Programmes Body Annual Report 2009

¹³ Special EU Programmes Body, *EU Programme for Peace and Reconciliation 2007-2013 Operational Programme*, http://www.seupb.eu/Libraries/PEACE_III_Reports_Pubs/PEACE_III_Operational_Programme.sflb.ashx (accessed 17 August 2010) (see page 116)

¹⁴ DARD (2010) 'Northern Ireland Rural Development Programme (version 5)' available online at: http://www.dardni.gov.uk/northern_ireland_rural_development_perogramme_version_5_approved_jan_2010_pdf_2105_k_b (accessed 17 August 2010) (see page 90)

Table 9: Rural Development Programme¹⁵

Priority Axis	EU Contribution	National Public Contribution	Total Contribution
Axis 1	€17,090,060	€17,090,060	€34,180,120
Axis 2	€102,558,000	€182,325,333	€284,883,333
Axis 3	0	0	0
Axis 4	€51,185,000	€51,185,000	€102,370,000
Technical assistance	0	0	0
Total	€170,833,060	€250,600,393	€421,433,453

4. Beneficiaries of EU Funding in Northern Ireland

Some specific achievements accruing from European funding may be highlighted:¹⁶

- **Enterprise Policy:** Northern Ireland has been active in supporting business and innovation via Invest NI, Euro Info centres and Innovation Relay Centres. The Belfast Innovation relay centre is considered to be amongst the top performers in the EU-wide network, having mediated for twenty-eight transnational technology transfer operations.
- **Research Policy:** Under the Sixth Framework programme (2000-2006), NI participated, along with 161 partners, in 146 research contracts. This involved drawing down €33.4 million from the EU budget.
- **Environment:** Some environmental success stories include the action plan to reduce nitrates and preventative actions to reduce illegal exports of waste (the latter having been conducted in cooperation with Ireland).
- **Employment/Equal Opportunities:** Members of Northern Ireland's equality authority participate in the steering committee which oversees the European Commission's study of multiple discrimination; NGOs also actively participate in anti-discrimination networks.

Breaking the funding down to beneficiary level would be an extremely onerous task. However, with regard to specific beneficiaries there is a searchable database listing successful grant applications under each programme see:

<http://successes.euqrants.org/Default.aspx?a=as>

¹⁵ NIRDP, p99

http://www.dardni.gov.uk/northern_ireland_rural_development_perogramme_version_5_approved_jan_2010_pdf_2105_k_b

¹⁶ European Commission (2008) 'Northern Ireland Report of the European Task Force'

http://ec.europa.eu/regional_policy/themes/peace/report2008.pdf (accessed 17 August 2010)

4.1 Educational programmes

There are a number of EU educational programmes (administered in the UK by the British Council) of which two in particular have seen considerable uptake in Northern Ireland.

ERASMUS

The Erasmus programme enables students from Northern Ireland to study or undertake work placements/internships in participating organisations across Europe.

The aims of funding study abroad are:

- To enable students to benefit educationally, linguistically and culturally from the experience of learning in other European countries;
- To promote co-operation between institutions and to enrich the educational environment of host institutions; and,
- To contribute to the development of a pool of well-qualified, open-minded and internationally experienced young people as future professionals.

The aims of student work placements are:

- To help students to adapt to the requirements of the EU-wide labour market;
- To enable students to develop specific skills including language skills and to improve understanding of the economic and social culture of the country concerned in the context of acquiring work experience;
- To promote cooperation between higher education institutions and enterprises; and,
- To contribute to the development of a pool of well-qualified, open-minded and internationally experienced young people as future professionals.

Table 10: Northern Ireland Students participating in Erasmus 2007-08 and 2008-09¹⁷

Programme	2007-08		2008-09	
	Number of students	Total Funding	Number of students	Total Funding
Study Mobility	159	€ 379,940	167	€ 357,954
Work Placement Mobility	132	€ 374,360	190	€ 739,855

¹⁷ http://www.britishcouncil.org/erasmus_headline_statistics_07_08_and_08_09.pdf (accessed 17 August 2010)

COMENIUS

The Comenius programme provides opportunities for schools and colleges to introduce or strengthen the European dimension in their curriculum. There are a number of different strands:

- **School Partnerships** which enables pupils, teachers and other staff to collaborate with partner schools and colleges;
- **In-service training** which provides for professional development in another EU country;
- **Regio Partnerships** which allow collaborative working at local authority level;
- **Preparatory visits and seminars** for the purposes of project planning or attending partner-finding events; and,
- **Centralised Projects** enabling large-scale projects and networks.

Table 11: Comenius programme awards to Northern Ireland 2010¹⁸

Programme strand	Total number of UK awards	Number of awards to NI	Funding range (per award)
School Partnerships	454	37	€14-22,000
Regio	22	2	To be confirmed
In-service training	290	45	€1,510-2,049

5. Establishing the importance of EU funding to Northern Ireland

Identifying the net impact of Structural Funds used to be a highly complex issue. The Scottish Parliamentary inquiry into the implementation of Structural Funds attempted to assess additionality at the Scottish level, but concluded that this was not possible.¹⁹ The House of Lords Select Committee on the Constitution reported on the issue of the additionality of Structural Funds and found that there had been:

considerable debate about ‘additionality’ in relation to this money – meaning not whether the UK Government makes extra public spending available to match the EU funding, but whether the UK Government passes on the extra funding to the relevant administration at all. Historically, it often has not, employing what one witness called ‘a consistent scam’. The

¹⁸ Source: <http://www.britishcouncil.org/comenius-results.htm> (accessed 17 August 2010)

¹⁹ <http://assist.assemblyni.gov.uk/services/rsrchlib/research/reports/dept/ofmdfm/2010/browne1510.pdf>

*PEACE II funding for Northern Ireland has been one exception to this, however.*²⁰

5.1 What is 'additionality'?

EU Structural Funds provide co-financing for eligible projects in Member States aimed at resolving structural economic and social problems.²¹ Project applicants must secure match funding from non-EU sources - for example, from their own budgets or borrowing. Structural Funds "complement, and can be matched by, a range of existing UK Government and devolved administrations' programmes."²²

A key European Commission requirement in relation to Structural Funds is that funding **must be additional** to expenditure that is already planned. Member States must maintain expenditure at appropriate levels and not reduce it to take account of EU funds. Individual projects must be able to demonstrate added value. In other words they must show that they wouldn't go ahead without EU funds, or that they would only be able to go ahead in a reduced form.

The UK Government states that "it has, and aims to continue to, satisfy the EC rules on Additionality, as set out in the Structural Funds regulation."²³

The following statement is made in the Scottish Public Finance Manual:

*The European Commission monitors compliance and has to date pronounced itself satisfied that the UK, at the level of the Member State, meets the requirements to maintain expenditure at appropriate levels in the relevant public expenditure programmes.*²⁴

5.2 Accounting for EU funding

Part of the reason that additionality was difficult to establish is the way that Structural Fund payments are accounted for.

Prior to 2006-07 EU grant income was not included in the Estimates as part of a department's net total resources figure. When the income was received it was paid over to the Consolidated Fund as a Consolidated Fund Extra Receipt (CFER, that is,

²⁰ House of Lords Select Committee on Constitution (2002) Second Report 2002-3 available online at: <http://www.publications.parliament.uk/pa/ld200203/ldselect/ldconst/28/2807.htm> (accessed 17 August 2010) (see paragraph 99)

²¹ See http://ec.europa.eu/regional_policy/funds/prord/sf_en.htm (accessed 17 August 2010)

²² HM Treasury (2007) 'Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy' http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf (accessed 17 August 2010) (see page 23)

²³ HM Treasury (2007) 'Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy, page 23' http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf

²⁴ See <http://www.scotland.gov.uk/Topics/Government/Finance/spfm/eufunding> (see paragraph 12 on 'Additionality / Added Value')

not a receipt from taxation or the Northern Ireland Block Grant) and thus did not score in the Statement of Parliamentary Supply.

This meant that EU grants **received** were outside departmental budgets and were not offset against departmental expenditure. But departmental **expenditure** financed by EU receipts scored against departmental budgets in the normal way. So in accounting terms, when income became due from EU, a CFER debtor was created which was treated as income in the Operating Cost Statement. An equal creditor was also required, showing the amount due to be paid over to the NI Consolidated Fund (the double entry to the General Fund).

According to DFP:

EU receipts (aside from those for the PEACE Programmes) were additional at the UK level but were not directly additional to the Northern Ireland Block. However, the Northern Ireland Block was set at an increased level to reflect the EU receipts that Northern Ireland, in effect, earned for the UK. EU receipts in respect of the PEACE Programmes have always been fully additional.²⁵

The UK Treasury changed this accounting treatment from 1 April 2006 in order to simplify the budgeting regime for EU receipts and to give departments automatic spending cover for expenditure financed by EU grants.

From 2006-07 onwards, EU income scores in Departmental Expenditure Limits (DEL) as a receipt in budgets and as an accruing resource in Estimates and accounts. Income should be treated as resource, capital or capital grant to match the expenditure it finances. EU income is no longer required to be recorded in Estimates and accounts as a CFER.

In consequence, income from the EU is netted off the relevant DEL classification. Therefore, an EU grant for a capital project is netted off Capital DEL. But in the Estimates and accounts, EU income continues to be classified as resource.²⁶

The result of this is that the arrangements are more transparent and “since 2006-07, all EU receipts, not just those for the PEACE Programmes, have been fully additional.”²⁷

5.3 EU funding and the Barnett Formula

EU Structural Funds expenditure is accounted for **when payments are made to projects**. As noted above, this expenditure is scored against DEL. An equivalent amount is then offset by Structural Fund receipts which count as negative DEL. The result therefore is that the EU funding is neutral in budgetary terms.

²⁵ Source: DFP Communication 20 August 2010

²⁶ DFP (2006) 'DAO 1606: Introduction of EU Negative DEL Regime from 2006-07 Onwards – Accounting and Budgeting Impacts' available online at: <http://www.afmdni.gov.uk/pubs/DAOs/dac1606.doc> (accessed 11 August 2010)

²⁷ Source: DFP Communication 20 August 2010

Usually when funding to a UK Government Department is increased it triggers a Barnett consequential increase to devolved budgets for comparable programmes.

Responsibility for contributions to and distribution of receipts from the EU rests solely with the United Kingdom Government.²⁸

*The Treasury treats such EU funding as UK expenditure, on the argument that the UK is a net contributor to the EU and thus EU grants are ultimately funded by the UK taxpayer. A large prospective increase in EU funding to England will therefore be reflected in the DELs of the relevant English departments. As well as setting limits on departmental spending, these DELs determine the assigned budget of the devolved authorities in conjunction with the Barnett Formula. Scotland, Wales and Northern Ireland will therefore benefit from increased funding even though the intention of the EU was to meet the particular needs of England.*²⁹

Thus, the UK Government has argued that there is “additionality in aggregate” (see section 5.2 above) because the levels of public expenditure are higher as a result of ERDF funding.

6. European Funding in Northern Ireland: Comparative Context

As noted above, a direct comparison of the level of Structural Funds allocated to Northern Ireland with Wales or Scotland, for example, is difficult. Eligibility requirements mean that each UK region acquires different levels of EU funding for different programmes. For example, Wales is largely funded through the Convergence objective; Northern Ireland is ineligible for this due to increasing prosperity levels. But Northern Ireland accesses special funding through the PEACE III and INTERREG IVA programmes amounting to some €417 million, whereas Wales is ineligible for these funds.

To give some impression of the relative importance of EU funding to Northern Ireland, the following per capita figures (for the funding period 2007-13) illustrate that EU funding is of *particular* significance to Northern Ireland relative to the remainder of the UK.³⁰

²⁸ HM Treasury (2007) ‘Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy’ http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf (accessed 11 August 2010) (see page 8)

²⁹ David Bell and Alex Christie, Finance – The Barnett Formula: Nobody’s Child? (2001). In A Trench (ed) *The State of the Nations 2001: The second year of devolution in the United Kingdom*

³⁰ Department for Business, Innovation and Skills (2006) ‘Written Statement to Parliament, 23 October 2006, National Strategic reference Framework for EU Structural Funds Programmes 2007-2013’ available online at: www.berr.gov.uk/files/file34786.pdf (accessed 17 August 2010) (see page 3)

- NI - €248 per capita;
- England - €91 per capita;
- Scotland - €122 per capita; and
- Wales - €114 per capita.

7. An Ongoing Requirement for EU Funding?

Despite rising prosperity levels, socio-economic weaknesses prevail in Northern Ireland. The Executive highlighted a number of these in the 2008-11 Budget. It cited the crucial need to improve regional productivity, but also pointed to some positives:

Statistics relating to the Northern Ireland labour market would suggest a remarkable transformation over the last decade. Employment in Northern Ireland has been growing at a faster rate than elsewhere in the UK over recent years while the official unemployment rate is the second lowest of all UK regions.³¹

Clearly, one impact of the recent recession will have been to weaken or erode some of these gains. There are also some other structural issues.

The size of the public sector

A well publicised issue relating to the economy in Northern Ireland is the relative size of the public sector and the resulting dependence on public expenditure for economic activity. For example, in September 2007 around 28% of employment in Northern Ireland was public sector compared to around 20% for the UK as a whole.³² The effect of the Spending Review and reduced public expenditure as part of the UK Government's deficit-reduction plans may well have an impact on this balance – though at present, NICS departments are trying to manage spending reductions without redundancies by relying on 'natural wastage' and redeployment.³³

In any case, the Executive has argued:

However, when the size of the public sector is measured in terms of public employment as a proportion of population, Northern Ireland is similar to other parts of the UK. This may be a more accurate comparative measurement because public service provision is for the entire population (and education and health sectors are the largest public sector employers).

³¹ NI Executive (2008) 'Budget 2008-11' available online at: <http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf> (accessed 17 August 2010) (see page 14)

³² NI Executive (2008) 'Budget 2008-11' available online at: <http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf> (accessed 17 August 2010) (see page 18)

³³ See, for example, '1000 NICS jobs facing the axe in the next eight months' Belfast Telegraph 10 August 2010, available online at: <http://www.belfasttelegraph.co.uk/news/local-national/northern-ireland/1000-northern-ireland-civil-service-jobs-facing-the-axe-in-next-eight-months-14902807.html> (accessed 17 August 2010)

This then suggests that the greater concern should be the relative size of the private sector in the local economy.³⁴

If the right policies can be found to stimulate the size of the private sector then there can be a rebalancing of the economy. EU funding could be important in this aim, but of course, such funding is only likely to be one part of the solution.

Economic inactivity

Another feature of the Northern Ireland economy is the high rate of economic inactivity which was identified by the Executive as:

a particular concern. Within the Economically Inactive category some 112,000 people (almost two-fifths) are currently claiming Incapacity Benefit [...] People tend to stay on Incapacity Benefit longer and after more than two years the probability of returning to work becomes very low. This represents a significant constraint on the economic potential of the region. It also imposes considerable costs on public services such as health and social care.³⁵

Dependency ratio

Northern Ireland has a high ratio of dependency – there are relatively large numbers of people of non-working age (i.e. young and elderly) compared to those of working age.

Northern Ireland's high dependency ratio is expected to decline as the currently youthful population grows older. Northern Ireland is projected to have a higher proportion of working age population than the UK from 2010 until 2021.³⁶

This demographic change may result in a reducing need for EU funding, all other things remaining equal.

Dependence on agriculture

The Northern Ireland economy has a relatively large number of small farms. In 2005, 73% of land in Northern Ireland was used as “grass and rough grazing”, compared to 37% in England and 52% in the UK as a whole.³⁷ European programmes aimed at increasing farm diversification, for example, may continue to have an important role in supporting economic growth.

³⁴ NI Executive (2008) 'Budget 2008-11' available online at: <http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf> (accessed 17 August 2010) (see page 18)

³⁵ NI Executive (2008) 'Budget 2008-11' available online at: <http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf> (accessed 17 August 2010) (see page 15)

³⁶ NI Executive (2008) 'Budget 2008-11' available online at: <http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf> (accessed 17 August 2010) (see page 20)

³⁷ NI Executive (2008) 'Budget 2008-11' available online at: <http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf> (accessed 17 August 2010) (see page 24)

Fiscal deficit³⁸

In the 2008-11 Budget the Executive stated that:

*The tightening fiscal environment will necessitate using public expenditure in a more effective and efficient manner, to deliver enduring value for money returns.*³⁹

If that was true at the start of the budget period it is indisputable that it will be even more the case for 2011 onwards. As public expenditure is reduced across the United Kingdom through the forthcoming Spending Review, it seems reasonable to assume that the size of Northern Ireland's fiscal deficit will be the subject of increasing attention.

The Department of Finance and Personnel (DFP) published a report in May 2010 that looked in some detail at the levels of public revenue and expenditure in Northern Ireland.⁴⁰ The DFP *Fiscal Balance Report* is helpful in setting context for any discussion of future funding and the need for sustained EU contributions.

Table 12 below shows that the estimated fiscal deficit in Northern Ireland was £7.3bn in 2007-08. In other words, Northern Ireland spent £7.3bn more on public services than it raised in revenue. It is immediately apparent that from a total expenditure of £20.3bn, this was a significant proportion – 36% of total expenditure in Northern Ireland was not funded by the Northern Ireland taxpayer.

Table 12: Net Fiscal Balance Estimates: NI, Scotland and the UK, 2007-08 (£m)⁴¹

£ Million	NI	Scotland	UK
Aggregate Expenditure	20,296	56,459	584,065
Aggregate Revenue	12,958	44,747	540,915
Net Fiscal Balance	-7,338	-11,712	-43,150
Net Fiscal Balance per capita (£)	-4,167	-2,280	-708
Net Fiscal Balance as a % of financial year GVA	-26.1%	-11.7%	-3.5%

Looking at it another way, the table also shows that £4,167 more was spent per person than was, on average, paid in tax. That is a difference of £3,459 per person more than the UK figure of £708.

³⁸ For further detail on the fiscal deficit, see Assembly Research Briefing paper 82/10, available online at:

<http://www.niassembly.gov.uk/researchandlibrary/2010/8210.pdf> (accessed 17 August 2010) (see pages 2-4)

³⁹ NI Executive (2008) 'Budget 2008-11' available online at: <http://www.pfgbudgetni.gov.uk/finalbudgetdocument.pdf> (accessed 17 August 2010) (see page 27)

⁴⁰ 5DFP (2010) 'Northern Ireland Net Fiscal Balance Report 2007-08 (Experimental)' available online at:

<http://www.dfpni.gov.uk/northern-ireland-net-fiscal-balance-report-07-08-experimental.pdf> (accessed 17 August 2010).

For a full explanation of how the figures for revenue and expenditure are calculated see Annexes A and B.

⁴¹ Source: DFP (2010) 'Northern Ireland Net Fiscal Balance Report 2007-08 (Experimental)' available online at:

<http://www.dfpni.gov.uk/northern-ireland-net-fiscal-balance-report-07-08-experimental.pdf> (accessed 21 June 2010) (see page 10)

Taken together, these structural economic issues may point to continued importance of European funding. Of course, it should be noted that increased funding from Europe would *increase* Northern Ireland's fiscal deficit rather than reduce it, at least in the short term.