Northern Ireland
Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

EU Commission Taskforce Action Plan

6 January 2010

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR FINANCE AND PERSONNEL

EU Commission Task Force Action Plan

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Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr David McNarry
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Bill Pauley	)	Department of Finance and Personnel
Mr Martin Tyrrell	)	

The Chairperson (Ms J McCann):

I welcome Bill Pauley, head of the European division in the Department of Finance and Personnel (DFP), and Martin Tyrrell, who is also from that division. I invite the officials to make a short presentation, after which members will ask questions.

Mr Bill Pauley (Department of Finance and Personnel): Thank you. We submitted a short paper; I will not go through everything that is in it, but will draw out a couple of points by way of introduction. The paper covers the INTERREG and Peace programmes and, indeed, the Special EU Programmes Body (SEUPB) itself. This session has finally ended up being about the task force, but we considered a few subjects. I am happy to discuss those or answer questions should they arise during the meeting.

I am pleased to be able, in early January, to inform the Committee that all of Northern Ireland's European programmes met their 2009 EU expenditure targets. Therefore, we do not need to address any funding de-commitment issues. Some targets were more challenging than others, but all have been met, which is good for us.

The Commission has now proposed that the 2009 expenditure targets be set aside for all member states, some of which are in considerable difficulties with regard to their structural funds expenditure. Many would have lost substantial sums back to Europe. The Commission and the

Council have proposed to the Parliament that those targets be set aside. Northern Ireland met its targets anyway, so that is not an issue for us.

I will focus briefly on DFP's contribution to the task force initiative. As we have told the Committee previously with regard to the 2008-09 action plan, we have tried, in what we submit as our contribution to the task force, to focus on new or additional elements of DFP's work on European programmes, rather than simply our day-to-day work in managing European programmes: how we can contribute to the task force's overall objective of enabling Northern Ireland to deepen its relationship with the European Union, rather than simply repeat what we do on a day-to-day basis.

Some time ago, prior to summer 2009, we submitted our input for the 2009-2010 action plan to the Office of the First Minister and deputy First Minister (OFMDFM). Since then, OFMDFM has updated it once. Various drafts have passed through. OFMDMF is still finalising the overall action plan. It has not yet been agreed by the Executive. Hence, we have not copied to you the actual formal input that we made to OFMDFM. In the meantime, we are trying to get on with implementing that as best we can.

DFP contributes to four of the task force's themes. The first of those themes is the promotion of Northern Ireland's interests in Europe, where DFP leads on cohesion policy for structural funds and on the European budget. A review of that is ongoing. We lead on the Lisbon agenda. The original Lisbon agenda lasted from 2000 to 2010. It is currently being reviewed and updated with regard to the policies that should be in place throughout Europe between 2010 and 2020. Indeed, a Commission consultation on the EU 2020 strategy is currently ongoing. It closes on 15 January. DFP is contributing to that process.

New policy areas that we have added to the draft action plan for 2009-2010 include procurement policy issues. As we all know, much of procurement policy is driven by European requirements. I think that my procurement colleagues would agree that we have not always been involved in the policy development process. Part of the task force's work is to look at our relationship with the Office of Government Commerce and how it engages directly with Europe to try to influence policy. We have also added a little bit of information on how our

Departmental Solicitor's Office engages with Europe on some of its directives and legislation. Therefore, the policy areas have not stayed exactly the same as those in the previous action plan; we have added some areas that we hope to look at.

The second theme is the accessing of EU funding. In that area, the Department is mainly involved with the transnational EU programmes, and we had a relatively minor input and involvement in those programmes during 2000-06. The Department has tried to extend and deepen that involvement; the Chairperson of the Committee was invited to an event the Department held just before Christmas at which the Minister spoke. We have managed to extend that work and we have had over 80 applications and 31 successful projects. There is approximately 18 months of application time left for 2007-2013, and work is under way to encourage stakeholders to take advantage of the opportunities that those programmes present. That is a key element of the task force's work.

The third theme is the raising of Northern Ireland's profile in Europe, and the key function of the Department in that is the staff exchanges work. I understand that the Committee received an update from the Department's corporate human resources on staff exchanges in November 2009, and we have touched on that issue in our submission to the Committee today.

The fifth theme is sharing our experiences in Europe, and some work is under way with respect to the peace network and its activities. That work is being led by SEUPB, but the Department and its counterpart in the South are also involved in sharing the work and experiences of the Peace III programme.

Therefore, the Department's input covers four of the five themes. That input is quite extensive and we are one of the four or five major Departments involved with EU work alongside the Department of Agriculture and Rural Development (DARD), the Department of Enterprise, Trade and Investment (DETI), the Department for Employment and Learning (DEL) and, increasingly, the Department of the Environment (DOE).

It is an interesting time for European policy work. A new Commission is being considered and sworn in, we have a new Parliament and we have a new treaty that contains different methods of reaching agreement in certain policy areas in Europe. We are also at the beginning of some interesting policies, and the debate about funding for the post-2013 period has also just begun. Over the next 12 months that debate will begin in earnest, with the Commission due to formally propose what the budget and structural funds will look like for that period in early 2011. The next 12 months will be key in trying to influence that and in how that debate will progress in Europe.

The Chairperson:

You have spoken about the debate that will take place on funding after 2013. Who is involved in the consultation on that, and in setting the priorities? For example, what type of consultation is there with local community and voluntary organisations?

Mr Pauley:

The European division leads that work in Northern Ireland.

The Chairperson:

DFP leads that?

Mr Pauley:

DFP leads on cohesion policy. I also chair an interdepartmental group that deals with the structural funds policies of the Departments involved. That group meets approximately every six weeks, although that is not formally established; we put about three meetings in the diary at a time.

With respect to your question on consulting with stakeholders, the Department updates stakeholders on the future funding debate in the meetings of its monitoring committees. I have recently given presentations to two of our INTERREG partnership groups on core funding, and I also attended the Councils of the Metropolitan Area (COMET) AGM and the East Border Region Committee AGM, at which those issues were discussed. I will be giving the same presentation to the Irish Central Border Area Network (ICBAN) later this month.

We are in the very early stages in the debate of what form member states and the Commission feel the policies should take. Currently it is focused on whether all regions of Europe should be involved in cohesion policy, or whether wealthy member states should fund their own. The debate is about to what degree structural funds should be linked to Lisbon-type objectives and how much they should focus on helping poorer member states and regions to catch up. There are some quite high-level issues.

We have not reached the stage where we are trying to determine what priority Northern Ireland's programmes should have within the wider EU framework. That will come after the 2011 budget proposal that I mentioned. When the European Council agrees that proposal, we will know how much money we will have and what programmes we will be involved in, and we can begin the formal processes of preparing draft programmes and formal public consultations at that time.

Mr Weir:

Will the consultation be done through DFP when we reach that stage in 2011?

Mr Pauley:

Yes.

Mr Weir:

I have a couple of questions, which in certain regards may be more directly dealt with by SEUPB. Mr Colgan may be able to prepare his answers, but I want to hear your take. You mentioned Northern Ireland reaching its spending targets for 2009. Has that been done without any need for re-profiling or reallocation?

Mr Pauley:

There have been no formal reallocations of expenditure. Different programmes have taken slightly different approaches. Some management has been needed to ensure that we reached the target. That tends to have centred on which projects were supported and brought into the programme rather than any movement of money away from priorities, themes or projects to other areas.

Mr Weir:

Is the amount of spend calculated on the basis of what is being spent or on letters of offer?

Mr Pauley:

It is on the basis of what is spent. Money is committed when a letter of offer is issued; we call that our commitment. The actual expenditure is calculated when the project spends the money and makes a claim to our system, when they are paid, hopefully, within our 10-day target turnaround time. That is when we say that it is spent.

Mr Weir:

You mentioned that across Europe, particular spend targets for a number of countries were effectively taken out of the equation for 2009 because they have not found themselves in the same position as Northern Ireland; they have not allocated fully in that regard. Is that likely to be a one-off action, or will the EU shift some of the spend targets to a slightly more flexible position?

One of the concerns is that a certain amount has to be spent within a certain period of time.

That sometimes leads to inflexibility. For example, a while ago there was controversy over the clusters, which did not match up with the proposed new review of public administration (RPA) boundaries. One reason given was that, given the various target dates, there was a question about whether reconfiguration would mean that you would be in a position to be able to process. That was a perfectly valid reason. If there is to be proper monitoring to ensure that the money is spent at the right time, and if there is a little more flexibility across Europe, that could sometimes mean that money is targeted in a better way. Do you see the 2009 position as a one-off, or is it part of a pattern of more flexibility?

Mr Pauley:

The 2009 position in Europe is in direct response to a crisis position for some member states that have been unable to find the matched funding or have been unable to implement the projects in time. Some of those member states are also in discussions with the International Monetary Fund (IMF). The degree of financial crisis is enormous.

The European Council has agreed a proposal that the Commission and the Council can make to the new Parliament. The Parliament may accept or reject that proposal. At the debate in the European Council, some member states wanted more flexibility across the programming period and some wanted less. It may be that MEPs in the Parliament will propose back to the Commission and the Council that that greater degree of flexibility should be applied. With it being a new Parliament, this is one of the first situations where, under the new treaty, a co-decision of the Parliament and the Council is required, so there are some interesting issues about whether the new Parliament will want to exercise its ability to say no to such a proposal.

The proposal that has been made will actually reduce the targets for every year in the future. The amount that was supposed to have been spent in 2007 has been removed from all future targets and spread evenly over the programming period. We have to spend around £45 million a year on our competitiveness programme. That amount is now divided by the six remaining years, thus reducing the targets for 2010 through the maths of that, so it is already slightly more flexible.

On a cautionary note, I am quite a strong supporter of the N+2 targets. The 1994-99 programmes did not have them, and we ended in a situation where, for example, we had to spend around 50% of the Peace money in the last two years. That caused some actions to be taken to spend money quickly that are perhaps even more severe than the need to annually maintain an even profile of expenditure. I believe that that was a contributory factor in the issues of late commitment of money and movement of money that were identified and queried by the European Commission when it carried out an audit. The targets do encourage us to keep an even flow of money, rather than trying to spend seven years' money in two years. That is the cautionary note to the issue.

There is no doubt that we have met those targets this year, with some management issues. The targets for remaining years are now somewhat reduced. My own experience suggests that the first target is the hardest, as letters of offer are committed. Once sufficient letters of offer are sent, and projects are starting up and beginning to spend, the money will flow. There is always an issue, but the first target is the hardest.

The Chairperson:

Are you saying that both the North and the South are on track to meet the N+2 targets in 2010-

11?

Mr Pauley:

For Northern Ireland programmes, including the North/South programmes Peace and INTERREG, we hope that, on current profiles, we will be able to meet our targets for the end of this year, particularly if the Commission's proposal to suspend the 2007 targets is accepted.

The Chairperson:

Are you confident of that?

Mr Pauley:

You can ask Pat Colgan about the INTERREG and Peace programmes, but I am very confident of the competitiveness programme and the employment programme for the European Social Fund (ESF). My own view is that we can meet the targets for the Peace and INTERREG programmes as well, but Pat is accountable for that.

Dr Farry:

What do we actually mean by the term "cohesion"? How do we define that in relation to cohesion policy?

Mr Pauley:

The term derives from the Lisbon Treaty, which states the aim of promoting economic and social cohesion. The second part of the relevant sentence in the treaty refers to the hope that "lagging" regions, as the term is used, will be able to catch up with those regions that are experiencing faster growth and higher levels of GDP per head.

In some ways, cohesion policy is a correction mechanism. Europe's hope is that coming together in a single market for local trade and competitiveness will create economic growth in all member states. However, it recognises that that might not be even across all regions, and the cohesion policy is there to help those regions that do not enjoy higher levels of GDP per head in the hope that they will catch up.

Dr Farry:

Essentially, we are talking about economic convergence. How do we go about measuring the effectiveness of programmes in order to meet those economic convergence goals? Is there a burden on us to demonstrate the effectiveness of how we spend money, or does Europe analyse how we have spent the money?

Mr Pauley:

In overall terms of whether cohesion policy is working in Europe, the measure is broadly GDP per head and whether there is convergence among the regions. Each of our programmes contains targets for the whole programme, along with some individual priority targets and indicators for the different themes that we have. Those are reported on a biannual basis to the monitoring committee, and the European Commission requires us to submit an annual report detailing all of the targets and our progress against those targets.

Dr Farry:

Is any exercise don to try to disaggregate those, such as when we have a rise in employment or productivity in Northern Ireland, either due to European programmes or indigenous economic policy and programmes? Is there any mechanism by which any analysis is attempted to try to disaggregate the effect of the different interventions?

Mr Pauley:

There is not really any mechanism that looks at the level of the economy or the growth of our economy. European money is quite small in relative terms. It is good money and we appreciate it, but in terms of public expenditure in Northern Ireland it is quite small. Our largest programme is delivered by DETI, where there are energy and telecoms elements in the main Department, but substantial amounts are delivered by the Tourist Board and Invest Northern Ireland. As such, with regard to the overall performance of Invest Northern Ireland and the Tourist Board, it would be difficult to separate out how our tourism performance has changed because of the European schemes, compared to the nationally funded programmes.

Dr Farry:

With regard to the Executive's policy, and DFP's in particular, there has been a shift in recent years towards a heavier focus on gross value added (GVA) convergence. However, the Programme for Government's targets are entirely within a UK context as regards convergence with the UK average, or the UK average minus the greater south-east of England. Am I right in saying that there is no measurement for GVA convergence between Northern Ireland and EU-wide figures?

Mr Pauley:

Those figures exist —

Dr Farry:

I know that they exist, but are there any specific targets for convergence between Northern Ireland and the EU average?

Mr Pauley:

There is no specific target with the EU average. If we have a target that relates to the UK, we hope that that can read across to how that compares with Europe.

Dr Farry:

That is probably why I asked those questions. I am concerned that we have a heavy emphasis on cohesion and the whole philosophy of trying to address economic convergence across the EU, but we do not have an effective target with which we can see Northern Ireland, as a region, converge with the EU average. It is not simply a factor of how nation states compare with one another; it is about how regions compare with other regions at an EU level. Italy is a prime example of major internal differences. It is important to see how regions perform in their own right at European level. Widening out our targets and our monitoring might be something that we should consider, to see how well we are closing the gap.

Mr Pauley:

It is an extremely interesting debate. Over the past decade to 15 years, we have enjoyed our highest levels of employment and lowest levels of unemployment, and we have experienced growth. Although we all felt the benefits, in the shops and through the people we knew who were employed, one of the disappointing features was that the level of convergence in GDP per head, as measured through the stats, was minimal. Our level of unemployment is still relatively low compared with those in Europe. We have outperformed other regions of the UK and of Europe. However, through productivity and other performance indicators, our GDP per head does not reflect that.

Dr Farry:

That raises questions on the effectiveness of the cohesion policies at EU-wide level. In Italy, for example, the southern regions may have had access to a lot of cohesion funds, but the overall pattern has not necessarily shifted much.

Mr Pauley:

At the beginning of every EU funding period, or at least the three in which I have been involved, Europe tries to debate whether GDP per head should be the only mechanism for deciding whether a region is a convergence region or an objective 2 region. The difficulty with obtaining comparative statistics at lower levels always means that the aspiration to have something broader falls away each time. The main measure has been GDP per head, and, at the individual programme level for regions, we are able to have discussions with desk officers at the Commission to agree what the priorities for our region might be. Obviously, we also have to live within a national policy framework.

Ms Purvis:

I declare an interest as a board member of Healing Through Remembering and of Intercomm Ireland. I am also a management committee member of the Ex-Prisoners Interpretive Centre and a trustee of the David Ervine Foundation.

I wish to return to the issue of the European social fund (ESF). You said that you were on course to meet your targets. I believe that there is an issue around match funding for some of the projects that have been funded. Are you aware that any of those projects are at risk of losing the third year of their programme funds because of the question mark over match funding?

Mr Pauley:

I am not aware of any specific projects that have declared that they are in that position. The Department for Employment and Learning (DEL) manages that programme and issued the letters of offer to the projects, so it is closer to the day-to-day, or project-management, position than we are. Given that the projects report to DEL, it will be more aware of the degree of difficulty that such projects are in.

The match funding position for the ESF programme, where the projects contribute 35% of the funding, has been in place throughout the 2000-06 programming period and has been retained for the 2007-2013 programming period. As we were preparing the 2007-2013 programme, DEL proposed that that figure be kept at 35%, and, as part of the programme, we put that proposal to the Executive on the basis that that would allow the money to go further. The fact that the projects bring 35% of the money increases the total pot available and allows more projects to be supported.

I understand that the vast majority of projects are able to source their match funding. We know that some projects have had difficulty, and when the projects were receiving their letters of offer, DFP and other Departments received correspondence on that. My understanding is that 73 of the 74 successful projects are proceeding. I have not heard whether any of those projects cannot complete their last year. However, the vast majority of the projects that were selected under the original terms and requirements were able to proceed. Had we not had the 35% requirement, we would not have been able to offer money to 74 projects; it would have been fewer than that. That leverage helps improve the effectiveness of the programme.

Ms Purvis:

I am aware of four projects that are receiving match funding from Belfast City Council for the initial two years, but that the third year will not be funded and cannot therefore go ahead.

I wish to ask you some questions regarding your end of year report. I am conscious that it covers up to March 2009 and that there may be an update on some of the targets. The key stage was to ensure that a regional economic strategy and an employment strategy and policy are developed. The timeline for that was October 2009, and we are aware that a regional economic strategy has still not been produced. What is the position at the moment?

Mr Pauley:

I do not take the lead on the regional economic strategy. Our requirement, and what we hoped to do through the task force report, was to ensure that European policies such as the Lisbon strategy and developments in European policy are reflected in Northern Ireland's regional economic strategy, when that reaches the point where it can be put to and agreed by the Executive. My knowledge of the strategy, and where it is at, comes from departmental briefings, rather than from working on it.

Mr Weir:

May I intervene? The Finance Minister has said, essentially, that the Programme for Government is now regarded as the regional economic strategy. I share the scepticism about whether that is robust enough. However, that is the formal view of DFP that was expressed last autumn.

Ms Purvis:

The report says that the European provisions have to feed into the regional economic strategy. Have you done that?

Mr Pauley:

Yes, we have. In the introduction, I mentioned that the European economic strategy of the Lisbon agenda is that document; however, I have never seen that precise title for it. There has been a Commission-wide public consultation on the document, and the UK is preparing its response and input to the consultation. I have sought the views of all Departments on the document to find out whether there are items in it that they either support or have difficulty with because of their wider departmental policies as they develop those. We have invited input from all of the policy divisions of all the Departments.

From the responses that we have got back, I have prepared a summary of our position for the Minister, which I anticipate he will share with his Executive colleagues shortly and will explain where we think that European policy is going and what issues we might face as it develops for Northern Ireland. We have fed all that information to the policy people in the Department. In the near future, I expect that my Minister will share with his Executive colleagues some thoughts and views about the document and about what the Executive's position should be on that as work develops.

Ms Purvis:

The lead Departments for the JEREMIE initiative are DFP and DETI. One of the key stages was assessing the results of the European investment fund feasibility study, and the timeline for that was December 2008. The report says that the target has been partially achieved and that a decision on the next step is expected by June 2009. Is there any update on that?

Mr Pauley:

I understand that DETI officials advised their Minister in relation to the JEREMIE initiative, which was that we would not proceed with that using European funding at this particular time. I do not know the full details, but I understand that DETI is considering other approaches. Essentially, JEREMIE provides micro-finance to SMEs. Invest Northern Ireland will consider how to deliver that finance without European funding being involved through the JEREMIE initiative.

Ms Purvis:

Is that because of the terms of the European funding, or did DETI officials think that finance here was available on better terms?

Mr Pauley:

There are conditions and bureaucratic requirements for European funding. One of those conditions is that the money would have to flow through and be lent out to companies by 2013 otherwise it could be lost. It was considered that such a condition was unnecessary to make on any micro-finance fund that we had and that we could use our European funding for other Invest Northern Ireland schemes and initiatives that do not have a regulatory requirement at the end. Part of the consideration involved determining whether it was necessary to burden the initiative with a European requirement if we could use our own money to take it forward.

Ms Purvis:

The final report on the scope and study of the JESSICA initiative was expected in February 2009.

That was delayed. Moreover, the assessment of the results of the study has been delayed; that was expected in May 2009.

Mr Pauley:

The final report on the JESSICA initiative was produced in October 2009. It went to DSD, which is the lead Department on that matter. During the production of the report, economic circumstances changed considerably. Therefore, the EIB did not anticipate that it should put any resources into a JESSICA fund for Northern Ireland. I understand that DSD officials have advised their Minister in relation to JESSICA and about whether we should respond to the report.

Ms Purvis:

Do you know why it took PricewaterhouseCoopers (PWC) so long to produce the report?

Mr Pauley:

One factor was that the lead partner had a heart attack. I also believe that there was some debate between PWC and the EIB on the strength of the report's recommendations in some areas as to whether the fund was feasible.

The Chairperson:

I might have missed the answer during your response to Dawn. You mentioned the ESF; why did the North take only 40% and not the 50% that was available?

Mr Pauley:

Article 74 of the regulations for 2007-2013 introduced, for the first time, a new possibility that small programmes such as the ESF would have reduced audit and control requirements, for projects and for those who administer the programme, on the conditions that the programme was under €750 million in total and that the European contribution was 40% or less. Therefore, in order to reduce the bureaucracy and financial control requirements of the programme, we agreed to provide 60% match funding for that programme in the hope that delivery would be simplified, both for projects and for those who administer the programmes, and in order that it would be more efficient.

In the 2000-06 programme, the projects provided all of the 35% of match funding that was required. The proposal for the 2007-2013 programme was to keep the original 35% requirement and provide the match funding from the Northern Ireland block grant, alongside the EU element, to make it 60:40 in the hope that it was in everyone's interests that the programme was simpler to run and less bureaucratic. That has been a long-standing complaint about European funding and its programmes.

Mr O'Loan:

I have only one question for the departmental officials; the others can wait until we have heard from the SEUPB representatives.

Earlier, Bill, you referred to the importance of engagement with the EU, particularly during the coming year. There is a new Commission and significant new structures. The quality of engagement is important in getting the most out of our EU membership and in making a contribution. I see a political difficulty in this, however, because the two biggest parties — those that lead OFMDFM — are very negative towards the EU. At least one of those parties is opposed to the Lisbon Treaty; and both, it might be said, are fundamentally opposed to EU membership. How, in that political environment, can there be good quality engagement with the EU? Your report, in many ways, presents things as "business as usual"; you are working the programmes and doing what needs to be done. I wonder whether we are maximising what we can get out of, or put into, our involvement in the EU if there is no clear and positive political direction. Do you agree with that?

Secondly, following on from that; do you find yourself subject to mixed messages or are you unclear about the political direction that you are getting?

Mr Pauley:

The objectives of the task force, in deepening the relationship that was agreed by the Executive, are clear. We have a desire to deepen that relationship, and we have been tasked with taking that forward and with becoming more involved in contributing Northern Ireland's views on those policies as they develop. In that way, we deepen our engagement with, and our participation in, Europe. We have been doing that, and we have had clear direction to do it.

Mr O'Loan:

I still have concerns about how we can maximise the quality of the outputs from the EU programmes if there is no clear political direction.

Mr McLaughlin:

To follow on from that, Bill, will you give the Committee an indication of the preparations for the EU 2020 strategy and the possible development of INTERREG V to provide the most cohesive and coherent platform? Is any preparatory work being done, and if so, what timeline is involved?

Mr Pauley:

This will be an important year. The second half of 2009, as the old Commission came to an end, was quite a strange period. There were some leaked documents from the budget report that proposed, for example, that the common agricultural policy (CAP) would become the responsibility of member states and that they would have to find that themselves. That drew immediate responses from agriculture representatives, who said that it could not be considered.

There was some kite-flying by people who were leaving the system about some of the more extreme proposals that have been around for some time.

As the new Commission takes up office in the first couple of months, the various commissioners have to go before the European Parliament so that it can ratify their appointments. The rest of the year will be important with regard to most policies, because the Commission timetable dictates that the new EU 2020 strategy will, hopefully, be agreed at the June Council of Europe meeting. As we go into what is described as the first half of 2011, the budget for the 2014-2020 financial perspective could be agreed at either the March or June Council meeting.

Discussion and debate about those things will begin in earnest when the Commission is appointed. The new Parliament is beginning to bed down; it has had a couple of sessions, and its various committees have begun the work of exploring and looking at policies.

As regards our preparatory work, there are some very big issues at the moment. A key aspect emerging is that there will be an increased priority in Europe on environmental and climate-change issues. We have had discussions with departmental officials about how and where that might have implications for us. The EU budget is made up of three bits, which I will talk about in very simple terms. About 40% of the budget is structural funds, about 40% relates to CAP and agriculture, and the rest is for competitive programmes for research and development and admin.

There seems to be consensus that there should be significant financing for climate change and the environment in the next period. If the three bits of the EU budget are to become four, the existing three will have to give way a little, if the overall budget is not to increase. We will have to look at what actions will have to be taken, what support we will need and what our needs will be generally in the new area over the coming year, as well as looking at how our existing programmes are performing.

The competitiveness programmes that we have are those about which there is most debate in Europe. At times, some member states, which are usually the net contributors, take the position that wealthier member states do not need that money: they feel that it is recycled through Europe and, therefore, not worth bothering with. They would prefer a cohesion policy that focuses on the countries that are in most need of the money. You mentioned INTERREG specifically. There is general and widespread support for the cross-border elements of European work that are seen to add value, which is why a union of member states is looking at the issues across member states and regions. There has not been an enormous amount of discussion about INTERREG or cross-border co-operation. Most people feel that it adds value at European-level and that cross-border co-operation should be a priority for the next period.

On 3 December 2009, the outgoing regional policy commissioner presented a paper that suggested three priorities for the cohesion policy post-2013. The first would link the cohesion policy to the EU 2020 strategy; essentially, the Lisbon Treaty and competitiveness and globalisation. The second priority is that lagging regions would catch up, and the third is cross-border and inter-regional co-operation. Some members of the Committee may have heard that, at the end of 2009, the Commission launched a Baltic Sea strategy, which covers the member states and regions in that area. A Danube strategy is under way, and there has also been talk of an Atlantic area strategy, a North Sea strategy and so on. The Commission is looking at cross-border co-operation as something that might be developed over the next funding period, and first proposals suggest that that approach will be given greater priority. That will mean that a greater proportion of money will be allocated to that approach in the next funding period.

Although there are many views about CAP and agriculture, most people accept that some reform in that area will be necessary during the next funding period. That might be part of a greater focus on climate change. The debates taking place at the moment concern the big, chunky issues. They have not got down to details such as the INTERREG programme or whether the Northern Ireland-Ireland programme will be given €250 million or €350 million in the next funding period.

Mr McLaughlin:

Thank you for your detailed answer. I appreciate the big, strategic picture, or at the least the process, that you have described. However, it is clear, even from some of the questions that you have dealt with, that there are communication and capacity issues regarding the working relationship between the SEUPB and local partnerships.

That we have to depend on Westminster officials to negotiate the outcomes for here, and that they need to be informed, is a factor. On reading your report, I get the impression that some of those communication difficulties are carefully nuanced in it. Perhaps we will get into more detail on that subject when we talk to Pat Colgan and his colleagues later. To ensure that those communication and capacity difficulties do not haunt us in the future, it is imperative that we begin mapping out a strategic approach to influencing the Treasury and Westminster officials who will have the job of negotiating on behalf of all the regions, including ourselves. We are at a distinct disadvantage in influencing those outcomes in the way in which we might hope to, and if we do not map out our expectations, we cannot complain if they are not delivered precisely. That is what I meant by the timeline. I appreciate that there is a new Parliament and new Commissioners and that new macro-level budget priorities must be negotiated; however, we must prepare for what we know is coming down the line and put our best foot forward, perhaps by mending some of the obvious communication problems that exist. We must sit down with partners to work out how to proceed in the next decade.

Mr Pauley:

That is important, and they have a desire to be informed about the stage of the debate.

I mentioned that I had given some presentations to the INTERREG partnerships about future funding, which came about when the COMET partnership asked me to give one and, two days later, I received a phone call to say that the others would find it interesting. So, the interest exists; it is not something that we have been hiding in the work. When we were asked to do it, we went and did it and, given that funding is an important area for the partnerships, I expect that we will continue to openly discuss those issues with them, including any future funding that might be coming.

With respect to SEUPB's work and the work that is available to local clusters of councils, the bigger question and chunk of work is in relation to Peace and what might or might not exist post-2013.

Mr McLaughlin:

Is INTERREG not a more strategic and stable basis on which to plan than Peace?

Mr Pauley:

I expect that INTERREG funding will continue and that the Commission's proposals are likely to place a higher priority on funding cross-border projects. That also happened the last time, but funding was cut with each budget proposal that came forward, because, during negotiations, individual member states often calculate what they will pay in and take out, but they cannot precisely calculate their respective takes for cross-border projects.

Therefore, my first proposal is that I anticipate having an INTERREG programme at or around the level that we have now. There is support in Europe for that type of work. As I said in a previous meeting with the Committee, the Commission's focus is now economic, and what we do will be partly determined by the Peace III and INTERREG IV programmes, which were developed together on the understanding that we were meeting different needs from each one. That might change, and I believe that the regulations will allow some of those other activities in INTERREG. However, that will be determined by whether or not there is a Peace programme and by the type of funding that might come from it.

Mr F McCann:

Your paper states that local authority partnerships play a significant part in INTERREG IVa in the development of multi-annual plans. However, the report goes on to state:

"The Plans themselves do not however provide sufficient detail for a funding decision to be taken."

There seems to be an indication on the part of the groups that they were fully aware of what they had to deliver, but a change of requirements in midstream put them back, which led to the problem with their development plans.

Mr Pauley:

That would not be exactly how I see the position. There is no doubt that the first cross-border groups and the other applicants to INTERREG to come forward found that one of the changes to INTERREG this time is that the projects that we hoped for would be more strategic and offer more lasting benefits than previously.

Some projects and appraisals were found to have weaknesses. Questions were asked by those considering the appraisals, either in SEUPB or in the accountable Departments, to determine whether value-for-money considerations were being met. The delay caused by the toing and froing involved in that process served no one well; it was in no one's interest and no one wanted it to happen. That led to our setting out and clarifying exactly what business plans, project plans and appraisals were required for projects worth millions of pounds and how we would expect value for money to be demonstrated.

I reassure the Committee that those requirements are no different from any other public expenditure requirements: they are neither more nor less onerous. We set out in the hope that everyone would be clear what those requirements were. Rather than some of the toing and froing that we had had, there was a demand for someone to specify exactly what was required so we could get on with that.

Those first demands for that clarification came in May or June 2009. I chaired the group with SEUPB and DETI — perhaps the biggest INTERREG Department, although others are involved — and we set out an agreed position in relation to roles and responsibilities and what we thought was required. The groups have confirmed that they are now clear about what is required.

However, I contend that it was a clarification and a setting out of what was required rather than a change or a new addition.

The Committee will be aware that the green book economic appraisal guidance has recently been relaunched , and in that work we tried to incorporate the new language and terminology. However, one of the first paragraphs in that document states that the economic appraisal requirements are “fundamentally unchanged”. That is precisely in line with the guidance and requirements that we have issued to the groups and across the EU programmes. Those requirements are not more onerous and are not different from those that we make of any other projects.

Mr F McCann:

Were the groups, therefore, fairly clear at the beginning of this process on what was required of them? Was there no change at all?

Mr Pauley:

I do not think that they were clear at the start on precisely the quality and standard that might be needed for larger projects of some millions of pounds. In the period 2000-06, average project sizes were under £1 million by some margin. Economic appraisal guidance in the green book uses £500,000 as a level below which it is recommended that a series of questions might be asked to help determine value for money. Above that amount, full appraisal is required and has always been required.

All of the projects that have come forward from the cross-border groups, with the exception of one, are above that limit. That is a change from the last programming period, and it has taken the groups, SEUPB, us and accountable Departments a little bit of time for everyone to be clear about what was needed and to be satisfied that the projects represented value for money.

From my discussions with the groups, I know that everyone is disappointed that there has been a delay and that a time difference has taken place. However, most have now indicated that they are clear about what is required. They have also indicated that some things that came back from the appraisals, when they were done properly, have benefited their projects. They speak reasonably positively, but everyone regrets that there was a time when there was some toing and froing. That did not help any of us or move the programme forward as quickly as we would like.

The cross-border groups remain what they have always been seen as: partners in the programme delivery. Our expectation is that, over the next six months, there will be a timetable during which we hope that considerable progress will be made and that we will have everybody in a better position. We hope that a larger number of projects will be undertaken.

The Chairperson:

The groups have a track record of delivering large-scale projects such as the ones in INTERREG IVa. Is it your understanding that the steering committee approved the projects and the multi-annual plans in July 2008, and that the revised appraisal was not introduced to the groups until September 2009?

Mr Pauley:

No.

The Chairperson:

There is a level of concern about that delay. The steering committee approved the projects in 2008, but groups were not made aware of the revised appraisal until September 2009.

Mr Pauley:

The multi-annual plans were approved by the steering committee on the basis that they offered a strategic plan that the groups could operate and begin to deliver for their area. It was clear from the approval that the individual projects needed to be brought forward to demonstrate their value for money.

The groups understood that they had to bring forward the projects separately after that process. Those who did the approving understood that that had to be done. The differences came because what was being brought forward did not contain sufficient detail to demonstrate value for money.

Some of the appraisals that were carried out by consultants were poor. For their part, they said that when they went to the cross-border groups to verify amounts, suggestions and the source of benefits in the documentation that the groups had submitted, there was no business plan behind that to verify those materials. Therefore, completing the appraisals was difficult. It was a back-and-forward position because the groups that knew that they had to bring forward other material began to ask exactly what they had to bring forward. That was when we wrote it down for them over the summer, and, after agreement from DFP and the other accountable Departments, we allowed SEUPB to present the requirement in September. We presented that to them and asked whether they could bring that forward.

There was a period of time, virtually a year, during which the groups worked and brought forward some material that, in some instances, did not provide all of the necessary source material. The process is not different to any other public expenditure. The INTERREG and Peace programmes have had projects approved: projects can be approved to do this. There is no greater or lesser requirement on those groups with respect to the material they are asked to produce.

The Chairperson:

Almost 40 projects are stuck between DFP and DETI, which represents a substantial amount of European money intended for those cross-border projects. You said that you had discussions with the cross-border groups about solving that issue. When did DFP become involved in discussions with those groups? How long have those discussions been going on?

Mr Pauley:

We have an ongoing relationship with the groups. I know the people involved personally.

As to the specific requirements for programmes and appraisal requirements that came forward, we began to discuss those in May and June 2009 as some of the projects that came forward were being rejected as not having sufficient detail to allow a positive funding decision to be taken, and needed further work to build them up. That is in terms of when this issue existed. DFP is represented on the SEUPB steering committees. We were aware that some groups wanted faster progress from the monitoring committee of the INTERREG programme, on which we also sit. It is a generic issue. Everyone wanted project approval to be a faster process than it has proven to be in the first part of the INTERREG programme.

Mr McLaughlin:

This is a process of transition. Of all people, politicians in this place understand the difficulties that can arise from managing a process of change. The report indicates the steps that are being taken.

I was interested in Mr Pauley's responses in relation to engagement. The groups or partnerships were brought together in September 2009 to discuss the outcomes and to give them the precise detail. There had been communication before that, but the groups were brought together collectively at that time.

Mr Pauley:

DFP did not attend that. It was an SEUPB meeting that presented a process that had been developed over the summer months by a working group that I chaired. Projects come to SEUPB, but they require the approval of accountable Departments in different ways. A standard requirement of DETI is that any project spending over £1 million requires ministerial approval. That is a part of their delegations framework for financial management control. To ensure that there is consistency in what all Departments were requiring, we chaired a group to set down and communicate to the partnerships precisely what we expected them to bring forward and what the requirements were to demonstrate value for money for projects of that size and nature.

Mr McLaughlin:

The Chairperson indicated that there are still a sizeable number of projects in the pipeline.

Mr Pauley:

There are 63.

Mr McLaughlin:

That is set against the confidence that we can allocate the available budget. That is your judgment.

As to capacity issues, in June 2009 a DFP economist was attached to SEUPB. All of that is prudent management, and I do not argue against it. It is best to meet capacity issues: they will arise in any case. The review of the green book brings with it the impression that there was something that had to be tidied up and improved. That may be interpreted benignly by some; others will see it as moving the goalposts in the middle of the process. People will criticise it because they have to backdate some of their project propositions to take that into account.

That may or may not be reasonable. I am not completely convinced that it is a reasonable argument. If there is greater transparency and understanding, that is in everyone's interest, including partnerships or cross-border bodies or whatever they are designated as. That is all to the good. However, there are still unresolved capacity issues that need to be defined, measured and adjusted.

That was not what I started to say, but it was provoked by your answer. A number of projects under the £500,000 threshold have been approved in principle. What has happened to them as a consequence of the green book reappraisal? Have they managed to roll on, or are they also coming up against difficulties?

Mr Pauley:

The economic appraisal requirements for those projects are less. There is a value-for-money assessment whereby someone has to demonstrate that they have considered that a project will cost x and deliver y, and to have reached a judgement on that.

Mr McLaughlin:

Is that a tangible measurement? Is it value for money? Is that a subjective measurement?

Mr Pauley:

Yes, where possible. People know what things are going to cost, and they need to be able to state the benefits. If the project were to result in training three people, and would cost £15,000 to train each person on that programme, we would expect them to say that that compares favourably or well against what it would cost to train people through a DEL or Foras Áiseanna Saothair programme, or something like that. We expect that assessment to confirm that they are able to do that and that it would be worthwhile.

Mr McLaughlin:

Mr Colgan may give us some further information on that, but from the Department's perspective, is the through flow of those projects that are under the £500,000 threshold unaffected? They may or may not all be affected, because that happens anyway.

Mr Pauley:

They should not be affected. We would expect a lesser value-for-money assessment to have been reached. That would then need the steering committee approval of INTERREG, which includes monitoring committee members as well as departmental representatives.

Mr McLaughlin:

Are there any new or unanticipated blips or issues to be concerned about at this stage?

Mr Pauley:

No, there are none. However, my understanding is that 63 of the 64 partnership projects are over £500,000. Mr Colgan may be able to confirm that.

Mr McLaughlin:

OK.

Mr Pauley:

One or two projects are on either side of that threshold, but that does not change the substantive bulk of my comment. Part of the experience has been that the projects have all been bigger, and we are getting used to dealing with that. The groups have dealt with some bigger projects in the past, but in other parts of their work. We are now in a position where all the projects are bigger, and hopefully the benefits will be longer-term. We are taking a decision about committing a larger sum and considering the planning, appraisal and management of that. The demonstration of how the project will be managed over its lifetime needs to be proportionate to its size.

Ms Purvis:

When the five local authority groups were invited to seek financial assistance to submit the multi-annual plans (MAPs), was it made clear that these were only outline plans, and that they would then have to submit very detailed applications, including business plans and all the detail required to assess economic appraisal and value for money for the projects outlined in the MAPs?

Mr Pauley:

I do not think that there is a written document that states that as a requirement. However, the groups in the 2000-06 INTERREG III programme managed the money themselves. The project assessment function has now moved into SEUPB, but the groups previously managed it and issued the letters of offer. They did that under a control framework that required all projects over £300,000 to be referred to SEUPB and those over £500,000 to be referred to the Department.

There was no letter as part of the multi-annual plans that stated that those groups were required to produce something else for each project. However, the groups would have been aware that a control framework had existed for the previous six years, which meant that every project over £500,000 required that type of appraisal. They would have been aware of that for all of the years that they had implemented the programme.

Ms Purvis:

Therefore, it was not made clear to them at the start that they would need to do that.

Mr Pauley:

It would have been known to them that a control framework existed.

Ms Purvis:

But it was not made clear to them.

Mr Pauley:

As managers of the INTERREG III programme, they would have been aware of the requirement for projects over a delegated limit to have further appraisal and approval.

Ms Purvis:

Yes. I am just trying to work out how the delay came about. You have said that after 3 September 2009 all of the groups are now clear on what is required. Why was it not made clear to them when they were asked to submit their plans?

Mr Pauley:

Guidance had existed previously. The INTERREG programme sets out a strategic objective and framework range of activities for the eligible region as a whole. The purpose of the multi-annual plans is to demonstrate that there is a need for, and an added value in, a locally based approach within that wider regional approach. If there is no added value or locally based addition, there is no need to have the separate bid, and it could be run centrally for the region. However, from the beginning, everyone believed that there would be added value in taking such an approach: that was the approach taken under INTERREG IIIa and INTERREG IVa.

There is a requirement to set out, at a strategic level, what one is going to do to deliver those objectives in one’s local area, and the multi-annual plans do that. For this funding period, as for the last one, there is a requirement for further appraisal and approval of individual projects or commitments of expenditure.

Ms Purvis:

I am well aware of all of that. I am just trying to work out where the confusion or uncertainty crept in. The groups possibly thought that the multi-annual plans provided sufficient detail, and it seems to me that the delay has been created by working up thematic applications for each individual project, and in providing the level of detail in order to meet that economic appraisal.

Mr McNarry:

I apologise for my lateness, Chairperson. I am looking out of the window at the weather and it seems that we might be here —

Mr Weir:

It was summer when we began the meeting.

The Chairperson:

We could be snowed in

Mr Pauley:

That is great.

Mr McNarry:

I have another Committee meeting tomorrow.

Mr McLaughlin:

It will be about INTERREG V. *[Laughter.]*

Mr McNarry:

I noticed that none of the projects actually tell us how to deal with snow. There is no funding going in that direction.

The supported structural fund has a distinctive aspect in the inclusion of western Scotland. That brings in a new and innovative aspect for the development of cultural and social links with that region. I have listened very intently to the discussions that have gone on about delays, and, taking into account the witnesses' responses, I am not going to say that everyone else is wrong and that the witnesses are right. However, the Hansard report of the meeting might give that impression. I understand the explanation that you have given. Are you aware of, or might you inquire into, any similar delays in the distribution of funds in Scotland?

Mr Pauley:

I do not know the detail of the Scottish programmes, but I do know that the Highlands and Islands programme did not meet its expenditure targets for 2009. I do not know the reasons for that, or what the analysis of that is. I also know that the INTERREG IVa programme takes an approach to match funding that is different from our approach. The Scottish projects are expected to provide all of the match funding themselves, and that applies across all European funding in

Scotland.

Mr McNarry:

That is an interesting development. One would think that Northern Ireland would naturally be looking to develop traditional, cultural and social links with Scotland and build on the experiences there. In relation to the delays that you have been talking about this morning, are you aware of any links that some might wish to develop between Northern Ireland and Scotland, and whether the culture — I hesitate to use the word; you can correct me if I am wrong — of delays, of inabilities, and of being unable to formulate applications without one or two tries, has any potential damaging effects if such links were to be built on or looked to between Northern Ireland and Scotland?

Mr Pauley:

The programme as it currently stands has a range of projects — I do not have the exact figure — that are approved and operating that involve Scottish partners. I can think of at least one example, and possibly two, where some questions about the development of a project were asked at the appraisal stage, because the exact same requirements are made of the projects outside the cross-border groups and more widely in relation to the justification of expenditure. I know that Scottish partners and potential partners have, at times, hoped for faster decision-making in relation to some of those projects, and that that was also related to their match funding requirement.

Local authorities, for example, have a budget for a year and they hope to use that for their match funding, but if it strays into the next year that raises a question about whether they can provide it or will have to go through another approval process to check that they still have it for the year after. Some questions were asked about that.

However, while some of the projects that have been brought forward have been subjected to objective comment, criticism and refinement, and some have been offered less than they first asked for as part of the appraisal process, in the normal way, it is my understanding that the vast majority of those, if not all, have come through to receive some form of project funding or support. It certainly has not always been exactly what they asked for in the first instance, as it rarely is for everyone. However, I do not think that we have a damaged relationship with Scotland. I think we have a positive relationship.

Mr McNarry:

I am not suggesting that the relationship would be damaged. I am suggesting that damage might be done to potential projects because of delays on this side.

Mr Pauley:

I am not aware of any specific example of a project that has been damaged because of delays at either side. Delays have happened on both sides. As I said, some Scottish programmes did not meet their expenditure targets, whereas we did.

Mr McNarry:

Will the delays currently envisaged in implementing local government reforms have an impact on the distribution of funding?

Mr Pauley:

I hope not. In the programme that we have some form of responsibility for, there are three different mechanisms for intervening with local authorities. The DETI/ERDF programme is distributed to each of the 26 district councils through the local economic development officers. Whatever position prevails, or how quickly or slowly we move towards local government reform, that programme can continue.

At departmental level, we have not had any formal or informal discussions with the Peace clusters: I do not know whether SEUPB have had similar discussions. The first expectation is that the Peace clusters have a finite period for 2011. If it emerges and becomes clear that that will not be a new beginning, their life could be extended. That is not a perfect position: it would be better if we all knew. I think we could cope with the other situation. With regard to the cross-border groups, our mechanism for bringing different combinations of local government together can cope with whatever structure of local government exists here. The question is whether the groups would have three councils or 11 councils as their members. I hope that we could cope, but it would not be perfect.

Mr McNarry:

From your position in the Department you can look at the local resources and see the difficulties that we appear to be in, not only here in Northern Ireland but nationally, and the economic situation in Europe, with France and Germany improving but others remaining in serious difficulty. When I talk about delays, I mean that they occur in fits and starts. Given the current economic situation, is it too soon for you to be able to give an overview of the future prospects of funding from Europe for Northern Ireland?

I would not expect you to put a time frame on when we will come out of the current difficulties — if you could do so, then you are in the wrong job, Bill, and we would send you to Number 11 straight away. What I am really getting at is that you must be taking notice of the situation. How is DFP preparing for changed circumstances, if they are to arrive and if there is to be a marked decrease in funding in the coming years? As the Chairperson rightly mentioned, lots of groups will have been set up and will have gone through all the hoops. It is about what we will do. Does the Department have a contingency, or bale-out plan, if, all of a sudden, there were to be a marked decrease in the flow of money from Europe in coming years?

Mr Pauley:

The end of this EU funding period comes in what will be the next, or maybe the following, CSR period. As you know, the detailed planning is done in CSR periods. In budgetary terms, we have not looked at what might be available in the CSR period. However, it can be thought of in terms of some of the chunks. We get approximately £70 million to £80 million per annum through structural funds money, and we get approximately £250 million from the CAP and intervention payments, which go directly to farmers. People do not expect the EU budget as a whole to be smaller, or very much smaller, than it is now. However, it might have a new priority on climate change in the environment. Most people expect the CAP to be reformed a bit, but I could not tell you confidently whether I expect our £250 million to become £225 million, £200 million or £150 million from that reduction. The agriculture industry has strong support in Europe. It was its first programme.

Mr McNarry:

I am thinking of dependency. I get anxious when people become dependent on funding to the extent that they rely on it. If there were to be a decrease in funding, how would they cope with the shortfall? Can we think that far ahead, if only to encourage people to do so themselves? I am not sure whether many people do think that far ahead.

Mr Pauley:

I think that we can do so in broad terms with respect to where the needs might be. There might some reduction in agricultural intervention that the agriculture sector will want to deal with. With regard to the structural funds element, the ERDF money is used to finance some important projects in DETI, such as energy efficiency, the next generation of broadband and the activities of Invest Northern Ireland. I do not imagine that the Executive will want to fundamentally change those.

Mr McNarry:

Would you be willing to give the Committee a paper on the Invest NI aspects of what you have just said? The Committee would be interested in anything that Invest NI does that is worthwhile to the economy. Could you spell that out, or could you return with a couple of paragraphs detailing the benefits of the usage of such money?

Mr Pauley:

We can report on Invest NI's contribution against the objectives of the ERDF competitiveness programme. We do so to monitoring committees, where the information is collected and monitored. We also prepare annual reports for the European Commission. It is not of the nature of the evaluative studies that have been produced recently more widely of Invest NI, but we can tell all our stakeholders and this Committee about Invest NI's participation in our ERDF competitiveness programme, which schemes have been financed by that, and —

Mr McNarry:

— the value gained from it?

Mr Pauley:

The targets are all set out in the EU programmes, and we could report against those targets.

Mr McNarry:

I understand that. It would be useful if that could be done.

Mr Pauley:

We will work up something.

The Chairperson:

Thank you, Bill and Martin, for that briefing, which lasted longer that we anticipated.