Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

EU Structural Funds Approvals Process: Evidence from the Department of Finance and Personnel

22 February 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Conor Murphy (Chairperson)
Mr Leslie Cree
Mr Paul Girvan
Mr David Hilditch
Mr William Humphrey
Mr Paul Maskey
Mr Adrian McQuillan

Witnesses:

Mr Martin Tyrrell	Department of Finance and Personnel
Ms Maura Young	Department of Finance and Personnel

The Chairperson: I welcome Martin Tyrrell, head of the North/South policy and programmes unit in the European division, and Maura Young, head of EU structural funds, policy and finance branch in the European division. I ask you to make some opening remarks and we will then move to questions from members.

Mr Martin Tyrrell (Department of Finance and Personnel): By way of a briefing, I want to give you a quick overview of the paper that we gave to the Committee.

As most of the interest at the moment is in INTERREG IVa, I will begin with it. The most recent figures that we have for that programme are that 61 projects, to date, have received letters of offer and have been given a total of €176 million. That is funding that has been allocated to projects as distinct from funding that has been spent; not all of that has been spent. That represents 69% of the budget allocated for the programme.

In addition to those 61 projects, a further seven projects have received conditional approval. Those projects are worth €9 million, and they all need to fulfil various conditions. The largest of the seven projects is the east border region tourism development plan, which is worth €3 million. It probably faced the biggest challenge. It had to clear DFP Supply, which is always a fairly tough call for any project. However, the good news is that it cleared that yesterday and is well on the way to securing final approval and receiving its letter of offer. Therefore, the biggest of the seven projects has been approved. The other six projects are still at various stages of meeting their respective conditions. We hope that, if all seven projects are approved, the entire €9 million will be committed. That would bring the total amount of programme funding that is committed to projects to €185 million, which is 72% of the total worth of the programme.

In 2011, INTERREG spent a total of €20 million, which enabled it to exceed its EU N+2 spending target by €5 million. Therefore, it starts its 2012 expenditure €5 million to the good. However, the programme still has a significant challenge and has to spend €36 million, or €3 million a month, to meet its EU spending target for 2012. That is a challenge because it is higher than the expenditure of €1·7 million a month that was achieved in the previous year. However, as projects mature and bed in it is easier for them to spend money. We hope that that target will be achieved, but we are keeping a regular watch on it and are working closely with the Special EU Programmes Body (SEUPB) to ensure that the €36 million expenditure is, ultimately, secured.

INTERREG needs to spend a minimum of €3 million a month to meet its 2012 N+2 EU spending target. However, it has a spending target every year up to 2015 and will need to spend €4 million to €4·5 million every month for the next three and a half years to meet all of its future spending targets.

In order to meet those targets, it needs to spend an average of €4 million to €4·5 million each month. That is a significant challenge. We hope that it can be met. We hope that we can meet those targets. We do not intend to miss any EU spending targets. In order to spend that amount of money, the programme needs to commit the remainder of its budget. We hope that 72% of the budget will have been committed before the end of April — that is €185 million. It would leave around €71 million or €72 million still to be committed to projects. The expectation is that that will all have been committed before December 2012.

There are currently 16 applications under assessment,. and they are worth €55 million. There is a new call for project applicants. It closed at the end of last week. That call was very successful. It attracted 91 applications, which are worth €212 million. Therefore, there is €212 million from the new call and €16 million outstanding from previous calls. In total, €267 million-worth of applications are under assessment or about to begin assessment. That means that the programme is 3·5 times oversubscribed. There is €267 million-worth of applications chasing the remaining €72 million of the programme budget. Therefore, we hope that the €72 million can be allocated and that there will be enough strong project proposals in that €267 million-worth of applications to enable us and SEUPB to allocate the remaining €72 million of the programme budget.

The expectation is that all 16 applications currently under assessment will be assessed fully by the end of April and that the 91 new applications that came in under the January call will be assessed fully by December. That will be a 40-week turnaround in the assessment process. That assessment time of 40 weeks compares with the previous average of around 60 weeks. Again, that is a significant challenge. However, we hope that that challenge will be met. We will work closely with the SEUPB to ensure that it is.

Moving on to local-authority-based groups under INTERREG; the notional share of the programme for the groups is €60 million. That €60 million is not ring-fenced. The groups have to compete for it by coming up with strong project proposals. To date, they have come forward with 25 successful projects, which are worth €29 million. Therefore, they are pretty much halfway towards achieving their notional allocation of €60 million. In addition, the seven projects that are currently under assessment are all local projects. Those projects are worth €9 million, which has been approved conditionally. They include the tourism development plan, which, as I said earlier, is well on the way to be secured fully. We hope that all seven of those projects will be approved. That would bring another €9 million to the local groups, bringing their total close to €40 million out of a notional allocation of €60 million.

A further six projects are under assessment. They are worth a further €28 million. There are 29 new projects under the new programme call. They are worth €54 million. Therefore, there are significant opportunities for groups to achieve their €60 million notional share. It is certainly not out of the question. In fact, it is well within the bounds of possibility that they will achieve their €60 million notional share.

I will discuss the Peace programme briefly. It is in a good position. It has allocated 95% of its budget. To date, it has spent €116 million. All of its EU spending targets have been achieved. The SEUPB has advised that there is no risk to the achievement of future targets. Therefore, that is a well-performing and strongly performing programme. There is nothing to report by way of issues with the Peace programme.

That concludes the overview of the paper. I am happy to take questions.

The Chairperson: As regards the INTERREG spend, attracting applicants does not seem to be the problem; it always seems to be ensuring that the money is spent. You have stressed the significant targets. Turnaround time has improved. Those targets will be challenging throughout the next number of years. You will, continually, be hopeful, worried and expectant that targets will be met. There was great uncertainty about 2013-14 and 2014-15 in the previous report that we received. You seem to be slightly more optimistic. However, at all stages, we appear to be hoping and pushing to ensure that the money is spent. There is no great degree of certainty in the Department that the money will be spent. I appreciate that this is based on applications and that you cannot, therefore, predict accurately whether all the applications will be fine. The issue does not seem to be about the level of applications. Rather, it appears to be about turnaround in respect of going through the vast bureaucratic system that seems to be attached to INTERREG applications and trying to get approvals for those applications on the other side. That still seems to be a problem that creates a level of uncertainty about spend over the next four years to five years.

Mr Tyrrell: It certainly has been a problem. However, the way in which the programme is administered and projects are assessed has changed. Projects will now be assessed in a two-stage process. First, there will be an initial look at all 91 new applications in a ruthless sift. Previously, if a project looked promising but the paperwork was not in order or there were some gaps in the proposal, the SEUPB would have worked with the project to try to get it up to a standard in which it could go forward and be assessed with the other projects. The result of that was that it took time to fail a project. On average, it took 19 weeks to fail a regional enterprise project, 37 weeks to fail a local enterprise project, and between 24 weeks and 25 weeks to fail a tourism project. That is a lot of time to spend on projects that do not actually make it through. So this time there is a much more cold-hearted approach; there has to be.

If any of the 91 projects in the system waiting to be assessed do not come up to the mark straight away, they will be excluded. No time will be wasted on projects that have not put all their application details in order. There will be no hand-holding. There will be an elite list of projects that make the first cut, and all the assessment time will be devoted to those projects. On that basis, the SEUPB expects the turnaround time for assessments to be cut from the previous 60 weeks to the current 40 weeks. A turnaround time of 40 weeks is good, whereas 60 weeks was clearly not so good. It takes 43 weeks to assess a project under the Peace programme, which, nobody disputes, performs well. So, it takes 43 weeks to assess a project under a strong-performing programme. In respect of assessment time, INTERREG will now do better than the Peace programme by three weeks. Everything will be assessed and finalised by December. That is the plan, and we are confident that that can be achieved.

Two other changes have been made. Previously, economic appraisals, which are a key part of the assessment process, were taken forward in an iterative process. First, private sector consultants would carry out an appraisal and work with the project concerned before presenting that appraisal to the SEUPB's own economists for quality assurance. It would then bounce back and forth between the two sets of economists for a few weeks. There would then be another process whereby departmental economists would provide quality assurance for it. That will now be done in parallel. All the economists will get together in one go and agree upfront one definitive version of the economic appraisal. We expect that to cut the assessment process by between four weeks and five weeks. So, straight away, the 60-week turnaround time will go down to about 55 weeks.

In addition, we are bringing in a delegated limit. Any projects seeking less than £1 million worth of Northern Ireland public expenditure do not need the approval of DFP as the accountable Department.

We are the significant accountable Department for all local projects under this programme. Nothing under £1 million of Northern Ireland public expenditure needs to be seen and approved by the Department. We reckon that that will cut between eight weeks and nine weeks from the assessment process. So, parallel processing plus the delegated limit will take 15 weeks off the assessment process straight away. It will bring it down to 44 weeks or 45 weeks. We expect more efficiencies to be achieved through parallel processing. So there is no lack of realism in the 40-week turnaround time that we expect to achieve this year.

The Chairperson: That may be an improvement on 60 weeks. However, the reality is that it still takes practically a year for somebody to get a response to a project they have submitted. Given the quickly changing and difficult financial circumstances in which we live, the basis of an application for a project might have completely changed by the time people get round to assessing it.

You talked of things bouncing around between the economists of various Departments. There appears to be either too much oversight of the SEUPB or too little. It is hard to put the finger on which it is. All the Departments have to have their say. There are the Departments of Finance in the South and the North, OFMDFM at various times and this oversight body for the EU's spend. Is there co-ordination between those to provide a streamlined measure of accountability as to how the SEUPB is functioning? Are too many bodies trying to have oversight individually, or is there not enough collective oversight?

At the St Andrews negotiations, there was discussion of creating a board for the SEUPB, but that fell by the wayside. When we took evidence from the Department and the SEUPB, it was very hard to put the finger on who is in charge and who is holding the SEUPB to account. The time frame is improving, but for people submitting projects it still takes, even in this improved scenario, almost a year from the submission of an application until its approval. There is still continuous doubt over whether all the money will be spent over the next number of years. That is not a good place to be. As we are the Committee that scrutinises the work of DFP, we can talk to DFP officials. However, I suggest — though I am sure that Committee members have their own views — that we find it difficult to put the finger on who sits on top of all this, and who can change performance.

Mr Tyrrell: As to who is in control, the funding for the projects flows through the accounts of accountable Departments. Therefore, accountable Departments, where the expenditure is significant, need to be assured that that expenditure is legitimate and justified. The delegated limit that we have introduced is an acknowledgement that the SEUPB is an organisation capable of taking significant financial decisions in its own right. So a significant amount of freedom has been allocated to the SEUPB in decision-making.

This has not been a perfect process by any means; we are not in a good place with this programme. That is self-evidently true. We are learning from the experience of administering this programme, and we have put in place substantial improvements that will enable the programme to achieve its spending targets.

You are right; it takes the best part of a year to approve a project but, in the end, significant expenditure requires significant scrutiny. This is public money and we need to be fully satisfied that it is being appropriately deployed. Also, with the programme three-and-a-half times oversubscribed, with €267 million chasing €72 million, we have to make sure that there are no opportunity costs here and that the best projects, the highest priority projects get the funding, and that requires close scrutiny as well. We are trying to make that scrutiny more efficient. It was not a good idea that economic appraisals were bouncing back and forth between different organisations for quality assurance. We are trying to correct that by having a parallel process, whereby the economic appraisal is quality-assured in one go, and then we can move forward on that basis.

There is very close scrutiny of all the allocations under this programme. The steering committees that take the final decisions on all allocations are multi-member organisations comprising social partners, accountable Departments and local government. The SEUPB's allocations are closely scrutinised because they all — even a decision to reject a project — have to go through the steering committee; and, ultimately, there is a monitoring committee as well, that scrutinises those decisions. Any project that feels disgruntled, or that it has been treated unfairly, can appeal that decision and go through a completely independent appeal process. So there is open accountability with regard to the applications in the programme.

The Chairperson: Yet, we are not a good place, and the two Governments have to go back and convince the EU that they are very satisfied with it and ask for another INTERREG round.

Mr Tyrrell: Absolutely. April will be a crucial month. In April, we will know the fate of the 16 projects that are under assessment and the seven projects that were conditionally approved, and we will have the first idea of how the 91 fresh applications are shaping up. By April, those fresh applications will have been sifted into no-chance projects and projects with a good prospect of being funded. We will have an idea of how much funding is likely to allocated by December 2012. That is sufficient time to allocate the rest of the programme. Projects approved in December have ample time in which to spend and achieve the new spending targets.

Mr Humphrey: Thank you for your presentation. I apologise for leaving the meeting earlier; I had to take a call from someone who, ironically, is dealing with one of the applications that you were talking about this morning.
I want to pick up the Chairperson's thread. You have a programme that will require you to spend €36 million, averaging €3 million a month. Having looked at the figures that you have provided, I do not see how you can fulfil your aspiration to reduce the average application period from 60 weeks to 43 weeks. You are quite right when you say that we are dealing with public money, and it is important that the process should be rigorous and that applicants' procedures should be robust. However, people who have secured money from this fund have told me that the required processes are undermining the aims and the delivery of the projects that are being applied for.

When I read through your paper I am amazed by the amounts of money that have been turned down. The paper outlines the main reasons for the slow rate of programme spend and mentions reducing the application period from 60 weeks to 43 weeks. The paper states:

"To date, some three quarters of all Enterprise applications, and close to 90 per cent of all Tourism applications have either been rejected or have been withdrawn".

Do you realise how important tourism is to the Northern Ireland economy? If the figures do not stack up, they do not stack up, but tourism is the fastest-growing sector in the Northern Ireland economy, and we need to continue to build it up. There was a huge tourism announcement yesterday. To be honest, this is about building up capacity in communities and providing employment. If it takes a year for groups to get everything signed off, that means a year of waiting. Those people are, largely, volunteers. Why would they continue to be involved in a process that is hugely frustrating? How can you assure us today that those people, who volunteer across Northern Ireland, should stay the course and wait for a year, and then, when the money comes, having jumped through all the hoops, have to continue to implement all those rigorous procedures?

Mr Tyrrell: All I can say is that we have put arrangements in place to ensure that the 60 weeks is cut to 40 weeks and that there is a two-stage, parallel processing of economic appraisals and the delegated limit. I do not think that 40 weeks is an unreasonable period for processing large allocations of public money that have to be subjected to the right degree of scrutiny. There are criteria for project selection that are agreed right at the start of the programme. The projects that fail — a three quarters failure rate for enterprise projects and a nine in 10 failure rate for tourism projects — are those that objectively fail to meet those criteria. The multi-member steering committee has to agree that such projects do not meet the criteria and makes the ultimate decision on what is funded. It decided, in each of those cases, that the projects in question were not up to standard. If a project was withdrawn, it was because the people responsible acknowledged that it was not likely to meet the criteria.

Mr Humphrey: I suggest, Mr Tyrrell, that 60 weeks is outrageous and 40 weeks is completely unreasonable. I watched a programme recently about companies setting up on the mainland, and about planning permission, for example. A Northern Ireland businessman moved his business to Wales because it took so long to get planning permission here, whereas in Wales it took no time. I am using planning as an example, even though it is completely unrelated to this issue.

I reiterate that the projects are largely taken forward in communities by volunteers. Yes, they have to have the capacity and the professionalism and the skills set to carry the project through, because we are talking about significant amounts of public money. However, it is neither acceptable nor reasonable for groups to wait 40 weeks, even if the wait has been reduced down from 60 weeks. It completely undermines the case being made by those who are asking Europe for a Peace IV programme.

Mr Tyrrell: Forty weeks is close to the 43 weeks achieved under the Peace programme. That programme has met all its targets. It has had no problems in achieving the required level of expenditure to meet its EU targets. The Peace programme has more voluntary and community group involvement. I am not aware of any issues with the turnover time in that programme, and that is why I think that Peace is a good benchmark for how an improved INTERREG IVa programme should look.

Turning a 60-week turnaround time into a 40-week turnaround time is cutting it buy one third. I think that would be a significant achievement. That is what needs to be done for INTERREG IVa to achieve its EU spending targets and for us to make a reasonable case for a future programme.

Mr Humphrey: I am afraid that, in my view from the experience that I have had in working with groups, the length of time that it takes applications to move from concept to delivery means that the money that is being put into projects to deliver in the community may not be maximising the benefit because it takes so long to get out there to make a difference and a change for the better.

Mr P Maskey: Following on from what the Chairperson and William said, I have been speaking to representatives of some groups that, as far as they know, had their applications approved by the steering committee in November of last year. However, they have been told that it could be May before they hear or receive anything. That is five months. Why would that be?

Mr Tyrrell: I do not think that will be the case. I would expect to see the seven projects that were approved conditionally be fully approved by March.

Mr P Maskey: You would expect that?

Mr Tyrrell: I would.

Mr P Maskey: I think that everybody would expect that, but that is not what the groups are being told.

Mr Tyrrell: The biggest of those projects was the East Border Region's tourism development project. That faced, in my opinion, the biggest challenge, which was to get through DFP Supply. It gives a pretty critical scrutiny of any project. The project has made it through, and that makes it very close to being approved. Final approval should now be a straightforward process because the project has met the biggest challenge, which was to get through DFP Supply. That is the biggest project of the seven, and that is why I am hopeful that we will see the projects get through in March. I would be genuinely surprised if they did not.

Mr P Maskey: I think that everybody is hopeful, but we are now into February, and none of the groups that I have spoken to has heard anything yet.

Mr Tyrrell: I can report that the tourism development plan, which was a £3 million project, got through DFP Supply, and that is a positive development.

Mr P Maskey: As far as I know, DFP officials are saying that the projects should happen, but groups are being told that the mechanisms of SEUPB mean that it will be May at the earliest before they hear anything.

Mr Tyrrell: We were told that it would be April for the 16 projects that are still under assessment and March for the seven projects that have been conditionally approved.

Mr P Maskey: Therefore, there is confusion somewhere?

Mr Tyrrell: Yes.

Mr P Maskey: That is bad. Some of the groups have had no funding from December and have been asked to carry over any underspend that they may have as well, although they have not even been given approval for some of that. There are major issues here. To follow on from William's point, people are working away at projects to the best of their ability, but they are being hamstrung by the long delays.

At the most recent Committee meeting with SEUPB present, I raised the issue of cost and how much it takes to get an application from stage to stage, because it possibly passes through four or five stages. I do not think that we have received an answer to that yet. We asked for the answer, but we have not seen it. Once an application is nearly at approval stage, it is passed to somebody else to check it and then passed to another person to check it, and it goes through the stages. That all adds to the cost. Where does that come from?

There are major issues and concerns in our community sector and other sectors that are applying for funding. If funding is to come by March, that is to be welcomed, and even if it is to be April, that is to be welcomed, but when groups are being told that it will be May at the earliest, that could mean that it will be next September, for all I know.

Mr Tyrrell: May I clarify something on the project mentioned? Is that a Peace project?

Mr P Maskey: It is, yes.

Mr Tyrrell: My figures are on INTERREG projects. I genuinely do not know about that Peace project.

Mr P Maskey: It is your responsibility to know about it as well.

Mr Tyrrell: Absolutely.

Mr P Maskey: What I ask you to take from this meeting is to go back and challenge whomever you need to challenge to make sure that work is carried out as soon as possible on applications that have been approved, because this is not good enough.

Mr Tyrrell: Certainly. I will liaise and find out which projects were approved under Peace in November, what issues are outstanding and when projects are likely to be approved.

Mr Cree: I suppose that we have to be grateful that we are all learning. It is certainly a slow process. I remember the Department justifying 60 weeks not long ago, and now we are nearer to 40. I look forward to the time when it will be 20. I do not think that that is unrealistic either.

Is there any risk that, if the expenditure targets are not met, money will be going back? Perhaps you will develop that idea. We have also been told that, under INTERREG IVa, the North/South jurisdictional split has been changed. It was 72·4% and 27·6%. Can you tell me what the percentages are now?

Mr Tyrrell: You asked about risk. When there is an EU target, that target has to be met. Any shortfall between actual expenditure and the target is deducted from the programme, so if we miss any targets, we lose the shortfall. It is cut from the programme's budget and lost to the region, so there is an imperative not to miss EU targets. Where there is a target, there is always a risk. There is a considerable risk at present on the programme. We believe that we have put in place procedures that will stop there being any risk. We believe that we will be able to meet our EU spending targets and that no funds will be de-committed.

On jurisdictional splits, my memory of the situation is that a number of North/South projects were allocated at a ratio of 60:40, instead of the agreed 72:28. On account of that allocation, we had to introduce a corrective. The corrective that was agreed was 77:23. Therefore, for all future projects, the Northern share will be 77% and the Republic of Ireland's share will be 23%.

Mr Cree: What about the current situation?

Mr Tyrrell: That is what it is today.

Mr Cree: Which one of those two?

Mr Tyrrell: The 77:23 ratio.

Mr Cree: Thank you. Can you quantify the risk factor?

Mr Tyrrell: Basically, no, not in terms of probability. I cannot give you a scientific quantification of the likely risk.

Mr Cree: But we do risk management. A "significant risk" — are those the words you used?

Mr Tyrrell: The term "significant risk" is not based on any mathematical data. It is not a statistically significant risk, if that is what you mean.

Mr Cree: What is it then?

Mr Tyrrell: The risk is that the programme has spent £1·7 million and has to spend £3 million. That means that it has to improve its spending performance. The fact that it has not to date spent at that level means that we are concerned that there is a challenge to meet that level of expenditure in future.

Mr Cree: You cannot quantify the challenge?

Mr Tyrrell: No, I cannot put a number on something that is not numerical.

Mr Cree: Is there any plan to address the risk in any other way?

Mr Tyrrell: We have put in place what we consider to be sufficient arrangements to ensure that expenditure is increased.

Ms Maura Young (Department of Finance and Personnel): It is very important for us to keep in close contact with the European Commission on the issue to let it know the corrective action taken and about other issues to do with the programme, and, if there was any possibility of mitigating any risk of de-commitment at the end of 2012, to try to follow up any options that might be open to us.

Mr Cree: The big danger in that is that, if you put any doubt in the minds of our friends in Europe, that could pose a significant risk to the next programme.

Ms Young: The European Commission is represented on our monitoring committee, which is kept up to date with spending profiles, whether or not the managing authority feels that it will meet N+2 targets, and what is being done to address any issues that might prevent it from meeting those targets. It would be wise of us to engage with the European Commission after that point. I am not sure whether it has been told that yet, but we have two monitoring committees this year, and we will obviously have to report to the monitoring committee and the Commission on the state of play of the programme. What I intend to do is to work with the managing authority to ensure that any opportunity that we have to mitigate any risk of de-commitment be taken.

Mr Cree: Therefore, the European representatives are aware of the difficulties of our meeting the spend targets?

Ms Young: Yes.

The Chairperson: You referred to Departments' involvement in the decision-making process for individual applications. Will you give us an idea of the structure? If not today, perhaps you can provide it for us. You talked about going over to Europe to make representations. What overarching body is there? How does it knit together between the Finance Departments, North and South? Who chairs the discussions on SEUPB's performance? Who initiates the discussion? Who liaises with Europe? Who prepares the case for Europe? Will you provide us with some structure?

Although you came here to answer questions about INTERREG, you did not have information about Peace. That raises questions for us about whether there are overarching people straddling both Departments? Does the Office of the First Minister and deputy First Minister (OFMDFM) have an input? Does any other Department in the South — the Department of the Taoiseach, the Department of

Foreign Affairs and Trade, or whatever — have any input? What body sits to pull those factors together to make decisions on performance, to challenge performance and to make the case to Europe? From any information that we have received from the Department, we do not have a clear, overarching structure in front of us to allow us to see how it knits together.

Ms Young: I can certainly provide that. I should explain that I have just taken over as head of the European division, because Brian McClure has moved on temporarily. That is one of things that we will address. On the potential for future funding, I must say that we want to ensure that any lessons that we have learnt from this programme are taken forward but also that we fully understand where the processes lie, in order to get a clearer picture of how they all knit together.

The Chairperson: I assume that there is a structure.

Ms Young: There is a structure, yes.

The Chairperson: That is reassuring.

Ms Young: We will send it to you.

The Chairperson: Thank you very much.