Research and Library Services

Northern Ireland Assembly

Research Paper 15/10 **4 February 2010**

EU STRUCTURAL FUNDS (REGIONAL POLICY) COMPARING ALLOCATIONS TO WALES AND NORTHERN IRELAND

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(1) To outline the European Structural Fund objectives.

(2) To compare the Structural Fund allocations to Wales and Northern Ireland.

(3) To investigate if it is possible to determine the net worth of the European Structural Funds.

SUMMARY OF KEY POINTS

The main findings of this paper are:

(1) Access to funding under the three objectives (Convergence, Regional Competitiveness and Employment, and European Territorial Co-operation) is determined by eligibility criteria agreed by the European Commission. Wales receives Convergence funding of Eur 2 billion however Northern Ireland's GDP per head is above 75% of the European GDP average making it ineligible for funding under the Convergence objective.

(2) Northern Ireland accesses funding through two special EU funding programmes, PEACE III and INTERREG IVA (collectively Eur 417 million), for both of which Wales is ineligible.

(3) It is more objective to compare funds for which both regions have access namely the Regional Competitiveness and Employment objective. The figures show that Northern Ireland is in receipt of Eur 472 million with Wales allocated Eur 136 million. A per capita breakdown is provided on page five. In this respect Northern Ireland receives a higher allocation of funding than Wales both in real terms and per capita.

(4) Identifying the net impact of Structural Funds in the UK regions is complex. The European Committee of the Scottish Parliament inquiry into the implementation of Structural Funds attempted to verify additionality at the Scottish level but this was not possible.

(5) Each devolved administration is set a three year Departmental Expenditure Limit (DEL) consisting of an assigned budget and a non-assigned budget. The non-assigned budget is ring-fenced and specific to a spending priority (for example, EU Structural Funds) while spending priorities within the assigned budget can be determined by the devolved administration (for example, health, education and housing). HM Treasury policy states that Structural Fund expenditure scores within DEL but is offset by Structural Fund receipts which score negative DEL. The devolved administrations are to plan for the expenditure and receipts within their DEL. In light of budgets already being allocated by the Treasury to the regions and from which the commitments for Structural Funds must be provided it is argued that ERDF does not bring additional resources to the region.

(6) For devolved administrations the expenditure for ERDF and ESF falls within the assigned budget and any change to the size of this budget must be determined by the Barnett Formula. There have been instances in the past where the relationship between the Structural Funds and the Barnett Formula have lead to political difficulties. An example of this is provided in section four.

CONTENTS

1. INTRODUCTION

This paper compares the European Structural Funds allocation under regional policy for Wales and Northern Ireland for the programming period 2007-2013. The paper initially provides a brief description of the three Structural Fund objectives: Convergence; Regional Competitiveness and Employment; and European Territorial Co-operation (section 2). The following sections outline the amounts received by Wales and Northern Ireland under the three objectives and asks whether Wales outperforms Northern Ireland with regards to funding received. The final section (4) of the paper examines the possibility of determining the net worth of Structural Funds.

2. EUROPEAN STRUCTURAL FUNDS

Within regional policy the European Structural Funds are a mechanism for reducing economic and social disparity across the 27 Member States through the allocation of monies from the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the Cohesion Fund. For the period 2007-2013 the European Union has earmarked 35.7% of its total budget to be divided between three objectives:[1]

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

CONVERGENCE

The Convergence objective promotes and develops the sustainable economic and social growth of the least developed Member States. This is defined as those Member States who have a per capita GDP of less than 75% of the European average and a number of other Member States who are only slightly above this threshold “due to the statistical effect of the larger EU.”[2]

The European Regional Development Fund (ERDF), the European Social Fund (ESF), and the Cohesion Fund all contribute to this objective.

REGIONAL COMPETITIVENESS AND EMPLOYMENT

This objective seeks to strengthen competitiveness and attractiveness through initiatives which focus on enterprise, innovation and the up-skilling of workforces across the Member States.

The European Regional Development Fund (ERDF) and the European Social Fund (ESF) contribute to this objective.

EUROPEAN TERRITORIAL CO-OPERATION

The theme of this objective is cross-border, trans-national and interregional co-operation between Member States. It is envisaged that partnerships will be developed to facilitate the sharing of ideas and successful working practices.

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[1] European Commission Regional Policy funding available at http://ec.europa.eu/regional_policy/policy/fonds/index_en.htm

[2] European Commission Regional Policy objectives available at http://ec.europa.eu/regional_policy/policy/object/index_en.htm

The European Regional Development Fund (ERDF) contributes to this objective.

3. DOES WALES OUTPERFORM NORTHERN IRELAND?

The European Structural Funds allocations for Wales and Northern Ireland are outlined in the tables below. Match funding from public and private sources is not included in the following figures.

WALES

Objective	ERDF	ESF
Convergence	Eur 1.25 billion[3]	Eur 833 million[4]
Regional Competitiveness and Employment	Eur 72.45 million[5]	Eur 64 million[6]

Under the European Territorial Co-operation objective Wales will participate in four programmes which will invest around Eur 900 million in projects across the EU over the period 2007-2013. The four programmes are:

- Ireland/Wales Cross-border Programme.
- Atlantic Area Trans-national Programme.
- North West Europe Trans-national Programme.
- Inter-regional (IVC) Programme.

A paper provided to the European and External Affairs Committee of the National Assembly for Wales detailed current investment under Territorial Co-operation. The paper notes that "thirteen joint projects have been approved under the Ireland/Wales programme worth some £13m of ERDF funding. Welsh partners are also involved in

[3] Welsh European Funding Office, *West Wales and the Valleys Convergence Programme Operational Programme for the European Regional Development Fund 2007-2013 (2009),* p12, retrieved 2 December 2009 http://wefo.wales.gov.uk/programmes/convergence/?lang=en

[4] Welsh European Funding Office, *West Wales and the Valleys Convergence Programme Operational Programme for the European Social Fund 2007-2013 (2009),* p6, retrieved 2 December 2009 http://wefo.wales.gov.uk/programmes/convergence/?lang=en

[5] Welsh European Funding Office, *East Wales Regional Competitiveness and Employment Programme Operational Programme for the European Regional Development Fund 2007-2013 (2009),* p7, retrieved 2 December 2009 http://wefo.wales.gov.uk/programmes/regionalcompetitiveness/?lang=en

[6] Welsh European Funding Office, *East Wales Regional Competitiveness and Employment Programme Operational Programme for the European Social Fund 2007-2013 (2007),* p11, retrieved 2 December 2009 http://wefo.wales.gov.uk/programmes/regionalcompetitiveness/?lang=en

15 co-operation projects worth another £32m across the Atlantic Area, North West Europe and EU 27 Inter-regional territorial co-operation programmes."[7]

NORTHERN IRELAND

Objective	**ERDF**	**ESF**
Convergence	-	-
Regional Competitiveness and Employment	Eur 307 million[8]	Eur 165 million[9]
European Territorial Co-operation	Eur 225 million[10] Eur 192 million[11]	N/A

Northern Ireland will also take part in other European Territorial Co-operation programmes such as the Atlantic Area, Northern Periphery, Inter-regional (IVC) and North West Europe programmes.

An initial examination of the figures would suggest that Wales outperforms Northern Ireland. However, an appropriate analysis regarding performance cannot be made by totalling the amounts given under the three objectives and using this as a basis for comment.

It is important to ascertain if equal access to funding under each of the objectives is available to both Wales and Northern Ireland. The rules which determine eligibility for access to funding are agreed by the European Commission and vary for each programme. Each region in receipt of EU funding does so because they have met the agreed criteria specific to the objective.

For example, the majority of funding Wales receives comes from the Convergence objective which is the highest level of support. The Convergence funding of Eur 2 billion targets the area of West Wales and the Valleys which, at the time of the EU budget agreement in December 2005, demonstrated "the region's average Gross

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[7] National Assembly for Wales, *European & External Affairs Committee EUR (3)-15-09:Paper 1: 1 December 2009 (2009),* p7 http://www.assemblywales.org/bus-home/bus-committees/bus-committees-other-committees/bus-committees-third-eur-home/bus-committees-third-eur-agendas.htm

[8] Department of Enterprise, Trade and Investment, *The European Sustainable Competitiveness Programme for Northern Ireland 2007-2013 (2007)*, p8-9, retrieved 2 December 2009 http://wefo.wales.gov.uk/programmes/regionalcompetitiveness/?lang=en

[9] As above

[10] Special EU Programmes Body, *EU Programme for Peace and Reconciliation 2007-2013 Operational Programme,* p12, retrieved 3 December 2009 http://www.seupb.eu

[11] Special EU Programmes Body, *Northern Ireland, the Border Region of Ireland and Western Scotland 2007-2013 Operational Programme,* p10, retrieved 3 December 2009 http://www.seupb.eu

Domestic Product (GDP) per head was just below 75% of the European GDP average – the qualification limit."[12]

The increased prosperity of Northern Ireland has made it ineligible for funding under the Convergence objective. As the prosperity of Wales increases the average GDP per head should rise above the qualification limit for Convergence funding meaning that Wales could become ineligible for this type of funding in the next programming period.

To provide another example, Northern Ireland accesses funding through the PEACE III and INTERREG IVA programmes (Eur 417 million) and this accounts for a large proportion of total funding. However, Wales is ineligible for funding from these programmes under rules established by the European Commission. Therefore it would be inappropriate to try to compare the regions on this basis.

It would be a more objective assessment to compare funds for which both regions have access. Both Wales and Northern Ireland are deemed Competitiveness regions and have been allocated funds under the Regional Competitiveness and Employment objective (ERDF and ESF funds). In Northern Ireland this is visible as the European Sustainable Competitiveness Programme (managed by DETI) and the European Social Fund (managed by DEL). The overall aim of the programmes is to strengthen the competitiveness and attractiveness of Northern Ireland as well as strengthening employment within the region.

The UK Government allocates the funding to each Competitiveness region and in a written statement to Parliament the Minister of State for Industry and the Regions explained that ERDF allocations are made "by reference to population, GVA and levels of innovation, enterprise and skills,"[13] while ESF allocations are based on "numbers of workless people, numbers of working age people with no qualifications, and numbers of working age people with low qualifications."[14]

The comparative figures indicate that Northern Ireland is in receipt of a total of Eur 472 million with Wales allocated Eur 136 million (total) of EU funding. The Minister of State for Industry and the Regions provided a breakdown of the funding on a per capita basis for each Competitiveness region:

- England – Eur 91 per capita.
- Scotland – Eur 122 per capita.

[12] Welsh European Funding Office, *West Wales and the Valleys Convergence Programme Operational Programme for the European Regional Development Fund 2007-2013 (2009),* p12, retrieved 2 December 2009 http://wefo.wales.gov.uk/programmes/convergence/?lang=en

[13] *Written Statement to Parliament, 23 October 2006, National Strategic reference Framework for EU Structural Funds Programmes 2007-2013 (2006),* p2, retrieved 8 December 2009 www.berr.gov.uk/files/file34786.pdf

[14] *Written Statement to Parliament, 23 October 2006, National Strategic reference Framework for EU Structural Funds Programmes 2007-2013 (2006),* p2, retrieved 8 December 2009 www.berr.gov.uk/files/file34786.pdf

- Wales – Eur 114 per capita.
- Northern Ireland – Eur 248 per capita.[15]

(The per capita figures reflect 2004 prices. Each year of the period 2007-2013 they are up-rated to reflect current prices).

Looking at the total and per capita allocation it is apparent that on this basis Northern Ireland receives a higher allocation of funding than Wales.

4. IS IT POSSIBLE TO DETERMINE THE NET WORTH OF STRUCTURAL FUNDS?

Identifying the net worth of Structural Funds in the UK regions is complex. In 2000, the European Committee of the Scottish Parliament presented the findings of an inquiry into the implementation of Structural Funds in Scotland. A range of issues were investigated including whether European Structural Funds could be identified as additional to domestic spending in Scotland. To ascertain the net impact on overall expenditure the Committee sought to verify additionality at the Scottish level however this was not possible. The Secretary of State for Scotland noted in a written response to the Committee:

> *The concept of additionality at a level below the level of the Member State is not recognised in European Regulations, and [….] it would be misleading to offer an equivalent set of figures for Scotland, quite apart from the technical problems of trying to produce Scottish figures consistent with the UK returns.*[16]

The European Committee could not secure sufficiently detailed information on departmental expenditure from the Treasury or Scotland Office. Without these calculations the Committee could not ascertain the net impact of the European Structural Funds on Scotland's overall expenditure.

HM Treasury policy in relation to European funding issues states that Structural Fund expenditure "scores within Departmental Expenditure Limits but is offset by Structural Fund receipts which score as negative DEL. Devolved administrations, in common with all United Kingdom Governments Departments, plan for expected Structural Funds expenditure and receipts within their DEL."[17] The DEL is set for a three year period and expenditure is divided between an assigned budget and a non-assigned budget. The non-assigned budget is for specific ring-fenced spending (for example, EU Structural Funds) while spending priorities within the assigned budget can be determined by the devolved administration (for example, health, education and housing). Both ERDF and ESF expenditure fall within the assigned budget. Any change to the size of the assigned budget is determined by the Barnett Formula which is based upon relative population proportions. A 'comparability percentage' is

[15] Department for Business, Innovation and Skills, *Written Statement to Parliament, 23 October 2006, National Strategic reference Framework for EU Structural Funds Programmes 2007-2013 (2006),* p3, retrieved 8 December 2009 www.berr.gov.uk/files/file34786.pdf
[16] European Committee, *6th Report, 2000, Report of the Inquiry into European Structural Funds and their implementation in Scotland (2000),* p19, retrieved 8 December 2009 http://www.scottish.parliament.uk/business/committees/historic/europe/reports-00/eur00-06-02.htm
[17] HM Treasury, Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy (2007), p23, retrieved 5 January 2010 http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf

also applied whereby services delivered in a devolved administration are comparable with those delivered by the relevant UK department.

David Bell, Professor of Economics at the University of Stirling and co-director of the Scottish Economic Policy Network, and Alex Christie, Scottish Economic Policy Network, have in the past claimed that serious political difficulties have been caused, most notably in Wales, due to the interaction between EU funding and the Barnett Formula.

> *The interaction between EU funding and the Barnett Formula has caused serious political difficulties – principally in Wales, but also in Scotland during the last year – which have only been solved by a classic British 'fudge'.*
>
> *The difficulty arises because the Treasury treats such EU funding as UK expenditure, on the argument that the UK is a net contributor to the EU and thus EU grants are ultimately funded by the UK taxpayer. A large prospective increase in EU funding to England will therefore be reflected in the DELs of the relevant English departments. As well as setting limits on departmental spending, these DELs determine the assigned budget of the devolved authorities in conjunction with the Barnett Formula. Scotland, Wales and Northern Ireland will therefore benefit from increased funding even though the intention of the EU was to meet the particular needs of England. The culprit for this unintended consequence is once again the Barnett Formula.*
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> *But what if the reverse occurs? This is exactly the situation that caused crisis in the Welsh Assembly and led to the resignation of Alun Michael. In the 2000-2006 set of Structural Fund awards, the EU decided that the relative need in Wales merited a much higher level of support than in England. But the Barnett-determined Welsh budget did not reflect this EU priority and raised the spectre of the National Assembly having to cut back on its major spending programmes in order to meet its commitments to deliver projects agreed with the EU. Compounding this difficulty is the EU requirement that such projects attract matched funding from local sources. It is often difficult to raise such funding from private sources, but this only returns the funding burden to the public sector and ultimately the Barnett-determined Assembly budget.*[18]

Drawing on his personal experience as First Minister of Northern Ireland Lord Trimble comments that the requirement to draw down EU funding often resulted in key priorities for Northern Ireland being distorted to reflect the priorities agreed within the Structural Fund objectives. He added that funding from regional policy was "sometimes more trouble than it was worth."[19]

David Heald, Professor of Accountancy at the University of Aberdeen Business School and a recognised authority on public spending, argues that "the European Regional Development Fund (ERDF) generally does not bring additional resources to

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

[19] HL Deb 9 February 2009 c987

the beneficiary UK territory or region."[20] He states that the UK Treasury will have already allocated resources to the regions and it is from this that the funding commitments for the Structural Funds must be forecast and provided. However, the UK Government argues there is "additionality in aggregate" because the levels of public expenditure are higher as a result of ERDF funding.

The House of Lords Constitution Committee discussed the concept of additionality in relation to Structural Funds and the devolved administrations. It noted:

> *There has been considerable debate about 'additionality' in relation to this money – meaning not whether the UK Government makes extra public spending available to match the EU funding, but whether the UK Government passes on the extra funding to the relevant administration at all. Historically, it often has not, employing what one witness called 'a consistent scam'. The PEACE TWO funding for Northern Ireland has been one exception to this, however.*[21]

[20] David Heald, University of Aberdeen, *Financing UK Devolution in Practice, Working Paper 01-8 (2001)*
[21] House of Lords Constitution Committee, Constitution – Second Report (2002), paragraph 99 http://www.publications.parliament.uk/pa/ld200203/ldselect/ldconst/28/2801.htm