



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

**EU Structural Funds: Proposals for
Improving Approval Processes**

9 November 2011

NORTHERN IRELAND ASSEMBLY

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**EU Structural Funds: Proposals for
Improving Approval Processes**

9 November 2011

Members present for all or part of the proceedings:

Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Mr David Hilditch
Mr Ross Hussey
Mr Paul Maskey
Mr Adrian McQuillan

Witnesses:

Mr Brian McClure) Department of Finance and Personnel
Mr Martin Tyrrell)

The Deputy Chairperson:

I welcome Mr Brian McClure, the director of European division of central finance group in the Department of Finance and Personnel (DFP) and Mr Martin Tyrrell from European division of central finance group in DFP. Gentlemen, you are welcome, and I invite you to make an opening statement.

Mr Brian McClure (Department of Finance and Personnel):

Good morning everyone. At the previous Committee session in September, the Committee raised a number of concerns about the delivery of the INTERREG IVa EU programme, including the

time that it was taking to process funding applications, the perceived bureaucracy and duplication of the process and the resultant risk to the achievement of EU spending targets. I am here this morning to update the Committee on what has happened since then.

It goes without saying that the Special EU Programmes Body (SEUPB) and the accountable Departments need to increase the pace of project approvals because the INTERREG programme has been slower than expected in allocating funds to projects. A Northern Ireland Statistics and Research Agency (NISRA) review at the end of last year found that, on average, it took a year for an application for INTERREG funding to progress from application stage to final letter of offer. Of course, the Committee has asked why it is taking around a year on average to reach a decision on an INTERREG application. There is no single reason for that but one important factor has been that each application needs to be carefully scrutinised against the relevant selection criteria, which include value for money. There is no getting around that type of close scrutiny. INTERREG money is public money for which there is significant demand — more demand than there is money to go around — so it is imperative that we ensure that it is allocated to the best projects. Time doing that is often time well spent, providing of course that the effort is proportionate and providing that things keep moving. That is the issue.

So, there are areas that can be improved. For instance, economic appraisal is an important aspect of the assessment process. The economic appraisal for any project needs to be sufficiently detailed to meet the decision-making needs of SEUPB and the relevant government Departments. Not all economic appraisals have been of a sufficiently high standard. There has often been a back and forward process whereby a Department queries aspects of the appraisal with SEUPB, which then has to relay it back to the consultants who carried out the appraisal in the first place, who then relay queries back to the project. There can be as many as five iterations along the way, and that back and forward process is clearly not helpful.

Since I spoke to you in September, we have been working with SEUPB to eliminate those problems. Our agreed way forward is that, from now on, the initial assessment of any application for funding, including the economic appraisal, will be carried out jointly by SEUPB and the accountable Departments rather than happening consecutively or sequentially. Departmental economists and SEUPB will look at an application together and reach a common view on it. That parallel processing has been in place for about a month now, and eight enterprise projects of a value in excess of £22 million are already being assessed under the new arrangements. That is

one significant change since we last spoke.

Another significant recent change has been to transfer departmental responsibility for local enterprise and tourism projects from the Department of Enterprise, Trade and Investment (DETI) to DFP. Prior to that change, DFP was accountable for some local projects — those that came under the public sector collaboration theme — but DETI was accountable for local enterprise and tourism. However, all local projects — collaboration, tourism and enterprise — are now under DFP accountability. That means that, from now on, there is a one-stop shop for local projects. The projects will be seen by one Northern Ireland government Department in DFP and one steering committee, and they will go through a single process that will take account of any linkages and synergies between the projects. In addition, it is particularly important to note that this one process will take account of the partnership aspect of the projects. So, the intention is to give the local groups a clear run at things, and this process is already approved and in place.

Since September, we have been working through two dozen local applications. Most of those are enterprise projects dating from the project call that closed in February. Our aim is that all those will have gone through the final steering committee stage before the end of the year. As I have also mentioned, our colleagues in DETI are processing eight applications under the enterprise theme. They aim for those to reach the steering committee in January. Early in the new year, we expect all of the current batch of applications to have been processed and a decision to have been taken, either to approve them for funding or to reject them.

That is just a quick update. I want to say something about the risk to the achievement of EU spending targets. The first thing to say is that there is a risk if we continue at the current pace. SEUPB first brought that risk to our attention in June at the programme monitoring committee meeting. Since then we have been working closely with SEUPB to see how best to manage it — not just simply to manage it, but to eliminate it. When a programme fails to meet the EU spending targets, any shortfall between the target level of spending and the actual spending is decommitted — taken from the programme budget. SEUPB told us in June that the risk years for the INTERREG programme are 2013 and 2014. However, we do not intend to allow any amount to be deducted from the programme. Pat Colgan, SEUPB's chief executive, has already advised Ministers from Northern Ireland and the Republic that no Peace or INTERREG programme has ever missed an EU spending target, that, because of that, no funds have ever been decommitted from either programme and that he does not intend to start now. As I said, we intend not so much

to manage the risk but to eliminate the risk.

The way we intend to deal with the risk is, first, for SEUPB to clear the existing backlog of applications. As I have said, that will be achieved by the start of next year. Once that is done we will see how much resource is remaining in the programme to allocate. Early in the new year, SEUPB will present us with options for implementing the remaining programme budget. It will advise us of how many project calls there should be, the timing of those calls and the policy themes that those calls should address.

In conclusion, there are two full years left to commit that resource. We are not complacent about it. We are taking steps to ensure that the pace of allocation is increased substantially. Once we have dealt with that issue, we intend then to address the issue of the pace of spend so that no funds are decommitted from the INTERREG programme.

The Deputy Chairperson:

Thank you very much. You said that you intend to take steps to eradicate the risk of funds being decommitted. Are those the steps that you have outlined, for example, the parallel working arrangements and the collaboration between public sector bodies, or are there additional steps?

Mr McClure:

As I said, there are additional steps in relation to the pace of spend. There are two aspects to that. One is the pace of commitment, getting projects approved on time, and the second is making sure that, once those projects are approved, they spend within the required programming period. After we have dealt with the issue of commitment we are going to work with SEUPB to ensure that it is equipped to deal with the pace of spend and to increase the pace of spend so that we come in on target.

The Deputy Chairperson:

In relation to the parallel working arrangements that you outlined at the beginning of your presentation, how will you address the issue of the quality of the economic appraisal, and how will the turnaround time compare with what we have at present?

Mr Tyrrell (Department of Finance and Personnel):

For a start, we are going to get a lot better at getting projects turned around in one year. At the

moment, the issue is that there are oversights and gaps in some of the economic appraisals. Often, you get frustration when you have a very strong project but the project has not presented itself as effectively as it could, in a way that would enable it to sail through the selection process. You have to take a decision there to go to that project and try to help it by impressing upon the project leader that they need to improve their presentation and fill some of the gaps in the information that they provided in order to allow us to take a decision. Alternatively, you can take a decision to let that project go. To date, SEUPB has, to its credit, been keeping projects alive if it thinks they have merit, and encourages groups to present themselves to best effect to the steering committee.

What happens is that SEUPB looks at the project paperwork and economic appraisal, then economists in the Departments look at them, and maybe DFP looks at them at some stage. We are going to try to get everybody together at the start to look at the economic appraisal and make their critical comments about it in one go, cutting out those five or six iterations. There will be just one analysis of the economic appraisal and one set of criticisms put to the economic appraisal consultants, and they can then write back, fixing and filling those gaps, and we can proceed to proper assessment of the project.

The Deputy Chairperson:

Will there be a framework in place to clarify the roles and facilitate deadlines whereby the parties can agree a final version of the economic appraisal without undue delay?

Mr Tyrrell:

Yes.

Mr McClure:

We have got all the parties together, including ourselves, DETI, SEUPB and others, to ensure that that does happen. Those processes are already in place and we have exchange of correspondence to get them in place as quickly as possible. There is already a clear understanding, I think, between SEUPB and DETI. What we have to do, of course, is to monitor this to make sure that it happens as intended. At the moment, it seems to be working effectively. Time will tell but we have got to get the amount of time down and I think we are going to do that. I did demonstrate the large number of projects that will be through the approval process by the start of next year. That is what we are working to, and we fully expect that to happen.

Mr McQuillan:

Why has it taken the Department so long to catch on to this? We are into the last two years of the INTERREG programme, and this is the second round of it. Why has it taken so long? One of the biggest complaints I get about European funding from people coming into my office is that it is a far too long and drawn-out process. By the time it comes round, you are scunnered working with it and you just throw it from you.

Mr McClure:

We are not the managing authority for the programme.

Mr McQuillan:

I understand that.

Mr McClure:

SEUPB is. It was brought to our attention in June that there was a risk of decommitment. Once we realised that there was going to be a major problem if we kept doing things the way we were doing them, we took action to try to stop that. It is something we have attended to. We were not aware of the scale of the problem until June but since then we have been working to improve that, particularly so since we last spoke to this Committee.

Mr McQuillan:

Is that just because SEUPB was not telling you there was a problem?

Mr McClure:

It is something that has materialised. It is dependent on a lot of factors. It is also dependent on the quality of projects coming through and that is something that you cannot control. You can try to inform with outreach programmes and educate people to try to bring forward more quality projects. However, if they do not materialise, that is a loss.

Mr McQuillan:

That is what I am worried about here now. I think that the Department has started to panic, and SEUPB has started to panic because there are just two years left and it will not meet its spending targets. Any quality of project may now slip through, and not the quality we are looking for and

could get.

Mr McClure:

We will be through the current round of assessments early in the new year and we will then take stock about future calls. None of us is in panic mode quite yet. There are two years left in the programme. There is time enough not to be complacent but there is time enough to do this in a proper way, and I think we have attended to it in time to ensure that there is no decommitment.

Mr P Maskey:

One year to approve an application is totally disgusting. I cannot say anything else. There are groups out there that are working very hard in putting their proposals, and if they are not good they could be eliminated at a very early stage. They should be told that if their submissions do not meet the specifications, they will be eliminated. However, for the ones that are continuing to go forward, the time, pressure and even the expense for some of those groups to deal with that is just unbelievable. It is absolutely scary stuff. Some of them are just saying: "There is no point in even going for that any more. We are just going to move away from it."

As Martin explained, some of the economic appraisals could be looked at three, four or five times. That is absolutely crazy. That has been going on for years. What we are looking at is nothing new. European money has been going for many years. As far as I am concerned, it is just bureaucracy gone mad. If somebody seeks an economic appraisal, you either agree with it or disagree with it. You pass it on to someone else, who will either agree with your decision or disagree with it. It then goes on to someone else. It could go on four or five times. What is the point in that?

Mr McClure:

We agree. That is why we are trying to put in place parallel processing. As Martin said, some worthy projects are poorly presented. Every project has to prove that there is a need for it. It has to prove that it meets the criteria for the programme. It also has to prove that it is value for money. As part of that process, there has to be a critical examination. Because of that, there was that sequential iterative process. We think that we can just telescope that and try to sort it out at the outset, so that poor projects will then fall by the wayside. Worthy projects will quickly be knocked into shape and be in a position to be approved.

Mr P Maskey:

The point that I am trying to get at is that if someone agrees or disagrees with an economic appraisal and someone else looks at it, you might have three or four conflicting stories on one particular economic appraisal. The idea of getting everyone into one room at the same time to look at it makes sense. It should have happened a long time ago. Have there been instances when someone has said that an economic appraisal looks good and someone else has disputed that? Is that the reason for some of that delay, which, in some cases, has been for over a year? It is not good enough. As Adrian said, groups out there are frustrated with the entire process. They are saying, “Stuff that. What is the point?”

Mr McClure:

It is the case that accountable Departments will take issue with some aspects of the economic appraisal, particularly around proving the need for it; establishing that there is not duplication of provision; establishing that it meets the criteria for the programme and — last, but not least — establishing whether there is value for money. It has been part of the process that accountable Departments have not accepted some aspects of that. It is the management of public money. It is public expenditure. It has to go through the rigour of an assessment process. However, we are asking whether that process is proportionate, causes duplication or takes too long. I think that the answer is that all of those things need to be sorted out. That is why, when we realised that there was a problem, we moved very quickly to try to encourage that parallel processing.

Mr P Maskey:

OK. I will continue for a wee second, Chair. I do not think that anybody has moved quickly on that. It has been going on for years. That is the problem. It is all right saying that, in June, we got to hear that there might be an issue with spending money. Five months later, we are still no further on. There have, probably, not been any applications to prove that in the meantime. Things have not moved quickly. The Department needs to take that on board. It is a serious issue.

We have a situation in which some groups that deliver tremendous work may not be able to fill in their applications or do not have the experience to deal with economic appraisals or anything else for that matter. They are being hindered and restricted every step of the way. However, certain groups, which may not do half of the work that others do, but have additional resources, will pay someone to come in and fill out applications. That problem is still alive and

well. It needs to be resolved.

Mr McClure:

It is a problem that the SEUPB, as the managing authority, actively addresses in its outreach work, educational work and workshops that it holds regularly to try to encourage good ideas, so that they are presented properly and can get approval.

Mr Cree:

I must say that I was surprised to hear that about June 2011 because, as Paul has said, it has been going on for years. This Committee and, indeed, the Committee for Enterprise, Trade and Investment have been flagging up difficulties with the managing authority, the lack of guidelines, the change in guidelines, economic appraisals being refused, appeals, and so on. I was at one such meeting. It was quite clear that the consultants did not have a basic notion of the subject. They had to go to another set of consultants to produce another appraisal. The entire process is a shambles. Having said that, I am pleased to hear that there is parallel working. I think that you said that it is in place now.

Mr McClure:

It is in place; it has been in place for the past month.

Mr Cree:

That is great news. Can I just ask for your assurance on this? Part of the difficulty for the past couple of years has been the lack of clarity from SEUPB. We were waiting for information on the guidelines, the guidelines were changed, and all the rest of it. Are all those anomalies now ironed out?

Mr Tyrrell:

One of the issues of clarity at the start of this programme had to do with the local groups' projects. There was a misunderstanding as to what was expected of the local groups. They were under the impression that SEUPB required them to prepare multi-annual plans, and that these multi-annual plans —

Mr Cree:

They did. They prepared multi-annual plans.

Mr Tyrrell:

Yes, and the expectation on the groups' part was that those multi-annual plans would be approved once and that they would be given a single grant to deliver the plans. Subsequently, they were advised that they needed to produce projects and that those projects would be presented one by one to the selection process and would be assessed like any other project.

As a result of that, projects that were not meant to be stand-alone were presented on a stand-alone basis, were assessed and were often deficient and had to go back through that iterative process until they were up to standard and could be approved. That was very unhelpful. It was an unfortunate misunderstanding and I do not want to understate it as a problem, but that problem has now been cleared up. The groups are in no doubt about what is required of them: they are required to produce projects and put them forward for assessment like any other projects. They currently have a batch of about two dozen projects that either have been assessed or are under assessment. A number have already passed the steering committee and been approved by it for funding. Six networking projects, and a tourism development plan from the East Border Region group, were approved at that level in October.

The process is working, the clarification has taken effect and the new system is operating. Also, the transfer of departmental accountability from DETI to DFP means, at the very basic level, that DETI is no longer processing the same volume of projects. Some of that project assessment work has passed to DFP. We are looking at it, and we are going to the steering committee as the accountable Department. Work is now happening, projects have been approved on the local side and the clarification is taking effect.

Mr Cree:

Are you saying that there are no doubts at all in your mind or the Department's mind that everyone now understands exactly what has to be done, including the SEUPB itself, which was in disarray, I have to say, on many occasions about this? Is everyone now onside, understanding what has to be done and in a position to deliver, so that we do not have any decommitment or any money returned?

Mr Tyrrell:

I can only speak on the DFP themes of the programme. I can say definitely that the local groups

that are the drivers of local projects are fully up to speed with what is required of them. They have their applications in; the applications have been in the system since the call closed in February and are being assessed.

Mr Hussey:

My apologies for being late; the rain in Tyrone seems to have followed me all the way to Stormont. Looking at some of the notes that I have taken, I see “parallel working”. At times, I think that we are in a parallel world when we hear some of the different comments about the problems that there have clearly been. We are told about when you realised that there was a problem — apparently, everybody else realised that there was a problem long before government Departments did. You say that we are not yet in panic mode, but I think we are. I think that we are beyond panic mode. The panic button has been pushed, and that is why we are where we are today.

You made reference to applications going back maybe five times, and Paul covered that. There is no reason why that sort of thing should happen. I would have thought that if an application was made, you would go through the entire application and process it. There are three government agencies involved, and we are talking about public expenditure. Obviously, there is public expenditure in those three agencies as well. I am not of the opinion that this has been sorted out yet. Maybe I am a cynic by nature, or maybe the bad weather has put me in bad twist, I do not know, but I am not convinced by the evidence that you have presented. Time will tell; we will see.

We are told that events are going through the steering committee by the end of this year or early next year. Hopefully, by the end of this financial year we will see a lot more clearly whether or not we should be in panic mode. To be honest, I think the panic button has been hit, and I feel that this is as clear as mud. I do not think that we have cracked it yet.

Mr McClure:

I am certainly not suggesting that we have cracked it, but we have put in place major process improvement. You are right: time will tell, and we will have to monitor this closely. There are two other aspects to ensuring that there is no commitment. One is to get quality projects presented, not just by local groups, but throughout the programme; the other is to increase the pace of spend.

Mr Hussey:

Without doubt, but again we refer to the SEUPB outreach. At times, they talk over people's heads, and have people sitting there without a clue. They will have to realise that they are dealing with people who are attempting to deliver projects and who are not used to listening to a lot of gobbledegook. Plain English is easier understood by groups. As I say, time will tell. We will see if the outreach works. At times, they are told one story and, by the time they come to deliver, there is a second story. We have already covered that. We hope that all that has been pushed aside and we are now going down a straight road. If not, we will be back sitting here in another couple of the months' time, tearing at the pieces again.

Mr Hilditch:

Like other members, I welcome this morning's news, but I am not convinced or confident of where we are. That stems from a meeting that I attended last week with groups. The proof of the pudding is in the eating, and we will probably need to revisit this topic very early in the new year just to get a handle on where we are with this. Like others who have spoken this morning, that is certainly not the message I am receiving on the ground. That is only by way of comment. I have no specific question.

Mr McClure:

I am more than happy to return to the Committee in the new year when we have been through the approval process. As I have said a couple of times, this is dependent on quality projects. We will have to take stock early in the new year. I will come back to this Committee and let you know how successful the process change has been. I will also advise you as to how successful we have been in getting quality projects approved. I am more than happy to appear before the Committee early in the new year on that.

Mr McQuillan:

I want to come back on Martin's answer to Leslie. I think that you said that four projects went through the steering committee in October.

Mr Tyrrell:

I think there were six. There were six networking projects, and then the tourism development plan as well.

Mr McQuillan:

How does that compare to the previous month?

Mr Tyrrell:

Off the top of my head, I do not think that any projects got through in September. To be blunt, there were some rejections. I said at a meeting and I will say it here, though it almost goes without saying: this has not been a vintage year for project approvals. There has been a long hiatus between the close of the enterprise call and the start of those projects getting to the steering committee. That is regrettable. We are now trying our best to make that good.

There are two issues. We have to clear the backlog of projects. We have undertaken to clear it early in the new year, by January or February. Then there is the big challenge, and I do not want to understate it, of allocating the money left. That could be as low as €30 million or €40 million, or as high as €65 million. Allocating that amount of balance in the programme, getting it out to good projects and getting those projects spending so that we do not miss our targets is a major challenge. We have not yet hit the panic button, but we are challenged at this point.

Mr McQuillan:

So we are seeing it get better? The measures you have put in place are improving the situation and we saw that in October.

Mr Tyrrell:

Very much so.

Mr McQuillan:

Can we look forward to January and see a big improvement?

Mr Tyrrell:

We hope so. That is our expectation.

Mr Cree:

Martin said that the money left could be as much as €65 million. Some €70 million is unallocated at the moment. We are told that around €50 million of that:

“relates to the 40 or so regional and local Enterprise and Tourism applications currently under assessment.”

If I were to extrapolate from your figures, you could be pessimistic about very little of that €50 million being approved. That would mean a whacking €65 million left over at the end, I would have thought.

Mr Tyrrell:

I do not know the exact figures for the number of projects under assessment. A worst-case position is that it could be as much as €65 million.

Mr Cree:

So virtually all the unallocated money would simply be left unallocated?

Mr Tyrrell:

Some of it has already gone to networking projects and some to the tourism development plan, so the steering committees have met and allocated that resource. You might be working off old figures. I do not have access to the figures that you are using.

Mr Cree:

I would be very disappointed if that were the case. They are contained in letters dated 13 October from DFP.

The Deputy Chairperson:

Can we have an update on that?

Mr McClure:

Yes; absolutely.

Mr P Maskey:

Just on a small point, is there a cost for the economic appraisals that are carried out?

Mr McClure:

Yes.

Mr P Maskey:

So there could be five different costs for economic appraisals.

Mr McClure:

Three different sets of economists will look at a project. The economist who is commissioned to do the initial economic appraisal will be an independent private consultant, and there will also be a SEUPB economist and an accountable departmental economist.

Mr P Maskey:

So, at least three economists are paid to do that job. That is a serious issue, and I do not know why the witnesses do not have figures for that spend. I am interested in what the cost of that has been over the past couple of years.

Mr McClure:

I am happy to get that information for you.

The Deputy Chairperson:

You said that the response to the application will be issued through a single package of questions to the economic appraisal consultant, and that those will then be issued to the applicant. Would it not expedite matters if those issues were flagged up and addressed earlier, rather than at the end of the process when it is likely to cause further delays?

Mr McClure:

This is before the economic appraisal has been drafted.

The Deputy Chairperson:

You describe it as the response to the application.

Mr Tyrrell:

There is some initial analysis of any application. However, the economic appraisal is an integral part of the assessment process, and that is when the project's value for money is established. If a project cannot demonstrate that it provides value for money or any other aspect that is picked up in the economic appraisal, such as whether there is a need for it or whether it will address that need in some measurable way, the project will not stack up for the steering committee that takes

the final decision on its funding. The economic appraisal is integral, and there is a limited to how much assessment of any project you can do before you have the economic appraisal information in front of you.

The Deputy Chairperson:

The local enterprise and tourism projects are being considered under the collaboration between public sector bodies theme. You said that those projects are assessed by a single steering committee. How is that steering committee made up?

Mr Tyrrell:

Steering committee are subgroups of the monitoring committee. They include stakeholders of the programme such as local government representatives and elected councillors; a social partner representative, usually from the environment sector; representatives from the trade union or equality sides; representatives of the member state — DFP performs that role; and representatives of the accountable Departments in Northern Ireland, the Republic of Ireland and Scotland.

The Deputy Chairperson:

Is the local dimension of the project assessed by the local government element in those steering committees?

Mr Tyrrell:

Everyone —

Mr McClure:

The whole committee reaches a consensus on a particular application.

The Deputy Chairperson:

Some of the other themes that are spending well were not reviewed. Are there any lessons or examples of good practice that can be learned from those themes and applied to help the process that needs to be accelerated?

Mr Tyrrell:

I have to say candidly that the slow-spend problem with INTERREG IVa is, generally, across the board. The one exception is the telecommunications theme, and the reason that it has spent pretty

much up to its maximum is Project Kelvin. That one project accounts for more than half of all the expenditure of the INTERREG IVa programme, and, basically, up to now, INTERREG IVa has been heavily reliant on one project to meet its N+2 targets. That is why I said that we are challenged, and there is a significant challenge in the year ahead.

The Deputy Chairperson:

We requested some information from you, and, no doubt, we will receive that in due course. Members are interested in hearing from you again early in the new year, and possibly in February. It might be appropriate if we were to hear evidence from SEUPB on the same day, and, if members are happy, we will ask the Committee Clerk to try to arrange that. Thank you very much, gentlemen.