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**EC SPECIAL AID FOR NORTHERN IRELAND:
AN INITIAL ASSESSMENT OF DEPARTMENTAL PROPOSALS**

Introduction

1. You and copy recipients are aware of the current state of play as regards the possibility of special aid from the European Community. Northern Ireland Departments were asked to put forward very urgently proposals for inclusion in a "reconciliation" or "social reconstruction" programme as the basis for such a special EC measure. You and I have just completed hasty discussions with Departments. Central Secretariat takes the view that there is an urgent need to assess the material prior to further consultations with Whitehall. Also, from the DFP perspective, I think it is important that we should now take stock of whether it is feasible to to move forward under a "reconciliation" banner as

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opposed to changing tack to another theme, more in line with spending realities. This paper makes a first stab at that evaluation and provides a basis for discussion with Mr Spence on Thursday 23 January.

Main Aims

2. There have been suggestions about simply giving EC aid to a common International Fund. While I know little of the details of the latter, prima facie this proposition appears more attractive than having to cope with the restrictions which a special EC measure seem likely to impose upon how the aid is spent. The Irish are reported to like the idea and although it may not be a top option for the Commission we should, I think, consider putting it top of the UK's shopping list even though it might delay the US negotiations.
3. However, if it is definitely decided to keep the EC aid separate, then a new EC measure, combined with HMT's agreement to additionality, is our goal. It is, I think, unrealistic to expect the Community to provide 100% of the total cost of any package. A split of EC 70%/NI 30% would be a more realistic target. We must aim for our (say) 30% contribution to be financed by an appropriate volume of "eligible" projects already within public expenditure plans. Our line of argument would be that the United Kingdom had already accorded a high degree of special recognition to Northern Ireland; this is already incorporated in the level of public expenditure here. In this scenario the Commission would accept that their additionality test (which caused endless problems on URR) would be limited to the extent of the EC contribution - 70% of the total "reconciliation" programme.
4. It is, however, possible that the Commission will insist that the United Kingdom should put up a proportion of new resources required to fund a "programme". The corollary of this is that they might just insist that the additionality test would be based upon 100% of the total programme cost. In this and in a number of other scenarios we might be faced with the need to rejig existing PE priorities to find some new money to trigger EC aid for (relatively) high priority programmes. Say, for example, 20% of our share of a package was within PE, but NI had to put up another 10% "new money" in order to bring in 70% EC aid for relatively high priority programmes. I do not think we should rule this out as a bottom line option. Senior colleagues in DFP will wish to consider the extent to which we might be prepared to find "new money". One factor is, of course, the relative PE priority of the programme being enhanced. For

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example, if we could attract a lot of extra resources for the Hospital Programme, would it be worthwhile finding say £10-20m at the expense of other things? If on the other hand the EC aid was going to an international swimming pool it might be a questionable proposition.

Public Expenditure Priorities

5. From the above you will realise that I think one of the paramount issues underlying our assessment of this package is the relative PE priority of the programmes proposed for additional resources. While there are a number of other interacting variables in the equation, what counts is the extent to which we can secure EC aid for projects which are high on our list of priorities. (In this context it is significant that the Commission are aware, through the Belfast ID Document of many of the infrastructure projects inside and outside current plans).

Criteria for Assessment of Departmental Proposals

6. In assessing bids it seems to me that we should be asking the following key questions.
 - 6.1 Does this project/programme fit within a "reconciliation/cross community/cross border" package?
 - 6.2 Is the project etc already included within existing PE plans; if not is it a high priority in PE terms?
 - 6.3 To what extent is the project etc likely to be acceptable to the Commission in the light of existing EC aid to Northern Ireland and their current policy objectives?
 - 6.4 The usual value for money questions.
 - 6.5 Are there revenue, manpower or other difficult implications?
7. What follows does not attempt to address questions 6.4 or 6.5 above.

Categorisation of Proposals

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8. Bids have been split into 3 separate annexes:-

Annex A - Projects/programmes already within public expenditure plans which, if aided by the EC, would release resources for List B or List C items.

Annex B - Projects/programmes outside public expenditure which departments feel are possibilities for a "reconciliation" package. Only a cross section of the large number put forward have been included in this annex.

Annex C - Projects/programmes already within PE which could be enhanced/expanded by EC aid for a "reconciliation" package.

These three annexes should not be regarded as definitive documents. The demarcation between categories A and C is somewhat blurred and the contents will need to be refined before any substantive proposal is advanced.

9. Unless indicated to the contrary, all figures below are approximate estimates of the public expenditure totals for the 3 years 86/87 to 88/89; in many cases the proposals have implications for later years.

Overview of Departmental Bids

10. DENI's proposals contain a number of promising items:-

<u>Project</u>	<u>Total in PE £m</u>
Magee College Development	7.0
European Studies	0.3
Community Relations Grants	11.0
Integrated Education	3.0
Fourth Belfast College of Further Education	3.0
Transfer of Responsibility for Mentally Handicapped	3.0
Development of Mentally Handicapped Facilities	7.0
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TOTAL	34.3

11. All these projects seem to meet the criteria established for List A (and a number could also fit List C). In addition to the above projects DENI have provided an attractive list of new proposals falling under List B.

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12. DHSS have advanced a full list, mainly of capital projects some of which are in "relevant" locations, for example:-

<u>Project</u>	<u>Total in PE £m</u>
Royal Belfast Hospital for Sick Children	4.0
College of Mental Health Nursing Purdysburn approximately	1.0
Various hospitals in "relevant" areas including Altnagelvin, Erne over	10.0
Creggan Day Centre	0.5
Bannvale Home for Mentally Handicapped	1.5
Various adult training centres over	5.0
[Antrim Hospital	17.0
 TOTAL	 39.0

13. Much of the above is already within existing public expenditure plans and therefore falls into List A (again some may also be List C). Obviously there is a considerable capacity for enhancement of the hospitals programme, particularly at the Royal Victoria. DHSS have also identified a list of attractive List B items, for example, increased grants to voluntary bodies in the community welfare field.
14. DOE have, surprisingly, not suggested their mainstream housing programme, despite the fact it is a top PE priority which has had to be cut back (please see paragraph 22 below). They have, however, offered the voluntary housing sector (bid unquantified); the roads programme (including Newry/Dundalk), improvement of the environment; and important water and sewerage developments. Apart from housing, their most attractive proposition is a proposed Area Development approach to urban renewal (see the extract from their submission at Annex D). £30m is already provided for associated urban programmes in PES and DOE have identified a capacity to spend a further £15m on Area Development over a period of about 5 years. This programme must be a possibility in any new infrastructure orientated package. However, the policy issue of an Area Development approach to urban renewal has yet to be considered by PCC.

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15. DED have a number of existing employment orientated programmes already within PE which could absorb relatively small amounts of extra resources for example:-

<u>Project</u>	<u>Total in PE £m</u>
Action for Community Employment	75.0 approx
Youth Training Programme	100.0 approx
Local Enterprise Initiatives (LEDU)	45.0 approx

It has been suggested that these 3 programmes together could absorb approximately an extra £7m.

16. DED have also put forward quite a number of measures to create and maintain jobs and to improve the effectiveness of business in the community; a main component being the enhancement of the Standard Capital Grants programme; other IDB bids include substantial sums for provision of land and buildings for advanced factories etc.
17. DANI's input contains only one substantial possibility which is already within PE plans - a further stage in the Blackwater Drainage Scheme - PE cover approximately £12m. But this, taken with their other suggestion of the agricultural development programme, is one of a number of instances in which departmental proposals are complicated by eligibility under existing structural funds.

The Terms of a Reconciliation Package

18. DANI's plans seem to hold about £25m (in the Survey years) which could be broadly described as reconciliation orientated. Most of the remainder of List A is infrastructure work. The extent to which this could be described as part of a reconciliation package is a matter of judgment. Chambers Dictionary defines "reconcile" as "to restore or bring back to friendship or union: to bring to agreement or contentment: to passify: to make, or to prove consistent....." This prompts some key questions.

- 18.1 Can we hope to have a high proportion of infrastructure projects in any "reconciliation" "cross community" or "community action" package irrespective of its label?

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- 18.2 Is it sufficient that such infrastructure projects simply serve both communities; or that they improve the environment in a "troubled" area; or that they alleviate deprivation of one side or the other. Would the European Commission and other interested parties not expect to see some coming together of the two sides under any such banner.

Would the EC support an overtly infrastructural package?

19. A more promising course would be to find a rather different label, under which one could advocate schools, hospitals and urban development etc, without having the difficult, if not impossible, task of explaining how they contribute to cross community reconciliation or cross border understanding? To retain some form of cross border dimension could the Commission be presented with two complimentary (but separate) North and South infrastructure programmes? Presumably the South would be happy to spend their aid in this general area. We would, of course, not wish to exclude the possibility of aid for non-infrastructure projects.

20. Time is not available for me to develop this thought further in this paper. However, one thing is clear if we are to try and gather a largely infrastructure package it must not simply be an extension of URR. NI has run out of suitable projects which satisfy the criteria laid down in that Regulation; and there are a number of other serious difficulties, including the additionality test.

Liaison with the Commission

21. We must not underestimate the importance of the input of the European Commission to the shape of a package. Their experience of URR and other funds will, I suspect, provide them with a clear perspective of what is and is not acceptable. There are many technical issues which taken with HMG's non additionality policy might be absolutely critical from the NI point of view. We must explore this area as soon as possible and certainly before we get committed to the shape of NI's proposals. Our meeting with White and other Cabinet members pointed us to Mr Larsen in the Commission; no doubt he will want to draw on DGXVI (with which we have had much fruitful liaison in operating URR). I should like to tap into this as quickly as possible.

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Interface with USA Aid

22. I am not in the picture on developments on USA aid but I am clear that there is a need for co-ordination between it and the EC package. It is not enough to say the USA aid will be for "economic" purposes and that the EC will be for "social" programmes. When I queried why DOE had not suggested mainstream housing for their EC package, I was advised they thought it more appropriate for the USA fund! On the other hand I see mention of the Newry Dundalk road in the US context. If it is absolutely essential to maintain confidentiality on the US proposals as a result of which the two packages cannot be co-ordinated at working level then at least we need a clear demarcation line between the two.

Other Considerations

23. It is not always appreciated that there is a finite limit to the amount of money which the Northern Ireland public sector can deploy effectively, efficiently and economically in a limited period. The "Times" suggests £350m from the US; we might aim for £250m from the EC. (I suggest we use this figure as the total for a 5 year programme for the purposes of further internal discussions). Such an injection, even over a period of 5 or more years will be a substantial enhancement of spending in the public sector. It will require imaginative management and planning and, I think, possibly some enhancement of the existing staffing and systems if we are to make the best use of these opportunities.

Summary

24. So far this has been an extremely hasty exercise and all concerned have had insufficient time to generate and develop ideas.
25. We should consider making EC aid for an International Fund our top negotiating objective.
26. 100% Community funding for a package is unrealistic; we could hope for a NI 30%/EC 70% split with the NI share being found without distorting existing PE plans. But we may have to consider finding some new money at the expense of existing plans in order to trigger EC aid for high priority programmes.

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27. Departments have only identified about £25m within existing PE totals which would fit within a strict interpretation of a reconciliation package: on a NI 30%/EC 70% split this could trigger EC aid of only about £60m.
28. Existing PE plans present a much better foundation for a larger and overtly infrastructural package (hospitals, schools, housing etc); we should assess the extent to which this would attract European support.
29. The European Commission will have an important influence on the shape of any new measure. We must explore their perceptions urgently and before we get committed to any particular type of NI proposal.
30. There is an urgent need to co-ordinate US and EC project lists or at least draw a clear demarcation between them.

P.P. [Signature]

R A H MILLER

Department of Finance & Personnel

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