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EU Art
NI

Declassified
M.H. 127WNCI
16.12.04

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FROM: S QUINN
DATE: 22 JUNE 1995

cc PS/Mr Moss (DOE, DHSS&L)
PS/Baroness Denton (DED, DANI&L)
PS/Michael Ancram (DENI, B&L)
PS/PUS (B&L)
PS/Sir David Fell
NI Permanent Secretaries
Mr Blackwell
Mr Watkins
Mr M Williams
Mr Hewitt
Mrs Devlin
Mrs Cavanagh
Mr A Adams, ESL

*cc to Mr Blackwell / urgent
to Mr Watkins*

1. PS/SIR JOHN WHEELER (DFP, L&B) - *noted and agreed SN 23/06/95*
2. PS/SECRETARY OF STATE (B&L)

EU PEACE INITIATIVE

1. In my submission of 2 June I undertook to keep Ministers informed of progress made in certain key areas under the EU Peace Initiative. This submission
 - (a) gives a general progress report on the programme; and
 - (b) alerts Ministers to the few potentially contentious areas which remain.

SUBMISSION OF THE DRAFT PROGRAMME

2. The programme was formally submitted jointly by the NI and Irish authorities, to the European Commission on 9 June - just over 3 weeks after formal adoption of the Guidelines and thus well within the 2 months allowed. Officials from NI and Ireland opened negotiations with the Commission in Brussels on 14 June. The Commission's services reported that they were pleased with the progress made and the general content of the programme. They concluded that the indications are favourable that officials should be able to agree a text in time for the programme to be formally agreed by end July (subject to a few of the points below).



Deborah

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3. There is a lot of interest in the Initiative and officials have been contacted by local media representatives to ascertain the current position. We have agreed with the ROI and EC authorities that, although we will acknowledge that a programme has been submitted, no details of the content should be given at this stage. To do otherwise would risk reopening the consultation process and delaying agreement on the programme. However DFP has briefed a number of the key constituencies (NICVA, NIC/ICTU, UFU, CBI, IOD and NIEC) in general terms.

MANAGEMENT ARRANGEMENTS

4. The 2 June submission referred to the fact that it was hoped that the ROI could agree a text on management arrangements which had been submitted to them. This has now been agreed and was incorporated in the programme before submission. Although the ROI had initially argued that every element of the programme should be jointly managed, the principle of the "exclusive competence" of the Member States was eventually accepted. Each Member State will, therefore, be responsible for actions and decisions falling exclusively within its own jurisdiction, and this will be reflected in the proceedings of the Single Monitoring Committee on which both Governments will be represented. The ROI should, therefore, have no locus in relation to allocations or proposed reallocations of funding within NI or to project selection in NI. Decisions on actions on a cross-border basis will however be taken jointly. This accords with the stance agreed previously by Ministers.
5. In addition to this, NI allocations will be shown separately both in financial tables and measure sheets (the latter will also separately describe NI delivery mechanisms).
6. We believe that these arrangements satisfactorily reflect the political, administrative and financial realities.

FINANCIAL ALLOCATIONS TO PRIORITIES

7. The Commission have suggested some relatively minor reallocation of funding between the various priorities. We are reflecting on this but do not expect it to alter significantly the balance of the programme as presented.

GLOBAL GRANTS

8. Ministers were alerted in the 2 June submission that the issue of 'global grants' might be raised by the Commission. Under a global grant, as defined in the Structural Fund Regulations, a



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contract is established between the Commission and an intermediary funding body in the Member State although, most importantly, the national authorities would remain fully accountable for the proper use of the funds and would bear the risk of the Commission applying financial penalties if misuse occurred. Officials have argued that it would be unacceptable for Government to retain accountability if it was not the principal party to the contract with the intermediary body. Also that the essence of global grants lies not in the contractual relationship but in the fact that **decision-making** is delegated from the Member State to the intermediary bodies. Our proposals provide very fully for this through a large number of "block allocations" from departments to intermediaries outside central government. The Director-General has written to Mr Semple on this issue and our reply, in terms agreed with DTI and UKREP, holds the line; it is possible therefore that Commissioner Wulf-Mathies may join the correspondence. The matter would be referred back to Ministers if it cast doubt on the timetable for approval, but we believe our case to be strong. Nonetheless, it would be appropriate at this stage to alert DTI Ministers to the Commission's arguments and to the stance we are taking.

HURD POLICY - GLOBAL GRANTS

9. One further point should be made in this context. Advice from Central Secretariat confirms that any contract signed by a Government Department should contain a reference to the Hurd policy. Hostility to applying this policy under the Peace and Reconciliation Initiative has been a continuous theme running through the consultation process. If we succeed in persuading the Commission that our position on intermediary funding bodies should stand, it is likely that insistence on such a clause would lead to vociferous protests by local bodies. It is even conceivable that some of the intermediary funding bodies would reject the task of administering the grant if they were bound to apply the Hurd policy. However it would be anomalous, even indefensible, if grants from the programme made by central government and other public bodies were subject to the Hurd provisions but grants made by intermediary bodies were not, especially since the co-funding element of the global grant would be subject to the Hurd provision. However, as we understand that Central Secretariat will shortly be bringing forward advice on the generality of the Hurd policy, Ministers need only note the potential sensitivity and the fact that global grants as distinct from block allocations would not avoid it.



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PARTNERSHIPS

10. Also on delivery mechanisms, we had previously alerted Ministers to the proposal that some funding should be distributed through local **partnership** arrangements. Ministers should be aware that no consensus on the format of partnerships has appeared throughout the consultation process and that various sectors may try to assume a leadership role. Officials have recently received representations from Reg Empey pressing for a strong District Council role and Dr Paisley has arranged to see Sir John Wheeler to pursue this point. There is also a political tension, with the Councils favoured as a vehicle for delivering the programme by the Unionist Parties but regarded with suspicion by Nationalist interests, which may favour the community and voluntary sector. Officials are proposing to make it clear in the programme that it would be expected that representatives of the Councils, along with the voluntary sector and business interests, would feature in partnerships but to leave their composition to be agreed at local level.

MONITORING COMMITTEE - SOCIAL PARTNERS

11. The 2 June submission also alerted Ministers to the fact that there would probably be pressure from the Commission to include social partners (employers' and employees' organisations) in their own right on the Monitoring Committee for the initiative. This would be at variance with normal UK policy, but we have been given to understand that the Prime Minister was receptive to NIC/ICTU arguments on this point when he met them on 3 May. Commission officials are now asking for further details about the proposed composition of the Committee. This is an appropriate point at which to write to DTI Ministers (copied to the Prime Minister) proposing that, due to the unique nature of this Initiative, social partners per se should be allowed a place on the Monitoring Committee.

SOME TENSIONS AND POTENTIAL DIFFICULTIES

12. The 2 June submission pointed to the fact that the commitment to engage local interests in the administration of the programme might slow down its delivery. This is a real risk, which we have specifically drawn to the attention of the Commission, and it could lead to criticism from those who desire rapid delivery.
13. Any devolution of responsibility for the selection of projects from central government will also involve some reduction in the degree of direct financial appraisal and control. Departments will, through careful choice of intermediary funding bodies and the application of suitable conditions and Financial Memoranda, seek to minimise any risk that this might create for Accounting Officers and Ministers.



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14. It is also important to note that, although there is consensus among the main sectors on the broad concepts of the programme, there is no consensus on the details of implementation. Indeed, there are real tensions which may surface when the programme is agreed and publicised. The question of District Council representation in local area partnerships has been mentioned. There is also an emerging concern in the business sector that the Social Inclusion priority might be given too much emphasis relative to the Productive Investment priority and also that the participative mechanisms being sought by the voluntary sector and others might be cumbersome and inefficient. Also, while there is general support for the use of intermediary funding bodies, there is no complete consensus on who the bodies should be and there will doubtless be scope for controversy over their selection.
15. In general, officials have attempted to draft a programme which takes account of the various interests and considerations and which balances them out in as satisfactory a manner as possible. However, there is no outcome available which will please all interests equally and there will also be trade-offs between participation and efficiency. Further advice will be brought forward if necessary to ensure that Ministers are content with how the various issues are developing. It will be important that we emphasise the positive points about inclusiveness, participation and consultation when we announce the details of the agreed programme.

SUMMARY

16. Ministers are asked to:-

- i. note the satisfactory progress on the negotiations and on management arrangements in particular;
- ii. write to the President of the Board of Trade on the issue of the inclusion of social partners on the Monitoring Committee and on global grants. A draft is attached;
- iii. note the potential difficulty in applying the Hurd policy whether the cash is delivered through central government, other public bodies or intermediary funding bodies; and
- iv. note the tensions which might surface when the programme is publicised.


STEPHEN QUINN

DRAFT LETTER FOR SIGNATURE BY SECRETARY OF STATE

To:	Enc:	cc:
The Rt Hon Michael Heseltine MP President of the Board of Trade Department of Trade and Industry 123 Ashdown House Victoria Street LONDON SW1E 6RB		Prime Minister Michael Portillo Sir John Kerr

June 1995

EUROPEAN UNION PEACE AND RECONCILIATION PROGRAMME

As you are aware, my officials (along with their counterparts in the ROI) are currently negotiating with the Commission on the Programme for delivering this special package of assistance. The Programme was formally submitted on 9 June and we are aiming to have agreement by 26 July. There is enormous interest in the Initiative on the ground throughout the Province and I have given a personal commitment to do everything possible to speed the delivery of the funds. I wish, therefore, to mention two areas which impact on general UK policy and where disagreement with the Commission might delay approval of the Programme.

The first issue is the composition of the Monitoring Committee and, in particular, the inclusion of "social partners" per se. It is quite clear that the Commission will press for the involvement of social partners and I understand that the Irish intend to include such representatives on the single joint Monitoring Committee. This is an unwelcome prospect. However, when the Prime Minister visited Northern Ireland in May, he met with officials of the Northern Ireland Committee of the Irish Congress of Trade Unions (ICTU is the

body to which the Irish will give a place on the Monitoring Committee) and, although he gave no commitment to NIC/ICTU having a position on the Committee, he did not rule this out and I am satisfied that he was prepared to contemplate its participation, in the context of this unique and unprecedented Programme. The Prime Minister and I, as well as the Commission, have placed a strong emphasis on the need for the Peace and Reconciliation programme to embrace as many sections of the Northern Ireland community as possible. Indeed part of its purpose is to bring the widest possible range of interests together with a common and constructive purpose, and there is a widespread expectation that the administrative arrangements will be highly inclusive.

While I fully understand our policy of not including social partners per se, it would be counter-productive, in this special context, to have a row with NIC/ICTU, particularly as it has an honourable record of resisting sectarianism in the workplace. I have, of course, considered the possibility that a trade unionist could be appointed in a personal capacity, but NIC/ICTU would certainly resist this and I do not consider it worthwhile going through an unproductive loop. The timetable for agreeing the Programme is exceptionally tight and we must concentrate our resources and attention on agreeing a Programme which will, as far as possible, meet the extremely high expectations which exist here.

I would strongly propose, therefore, that if the Commission insist on the inclusion of social partners, we should not allow this point to delay approval of the Programme. In conceding the point, however, I would propose to stress the unique nature of the Initiative, its joint NI/ROI character, and that the concession must not be taken as

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a precedent for further departures from UK policy on NI Structural Funds arrangements. I would be grateful if you and colleagues could confirm that you are content with this.

The other contentious point, to which I merely wish to alert you at this stage, is the Commission's demand that they should make global grants direct to community and other bodies in Northern Ireland. My officials have argued robustly that Government must be the principal party to any grant contract because it is accountable to Commission and to Parliament for the EU funding. We are, however, prepared to accept the principle of using intermediary funding bodies to assume responsibility for the administration of blocks of funding passed on from government, subject to specific conditions and criteria. We have argued to the Commission that such "block allocations" would provide similar terms and conditions as the "global grant" arrangement and would, therefore, be indistinguishable from a global grant to the intermediary bodies and final beneficiaries. I understand that your officials have indicated that such intermediary funding arrangements would be acceptable.

It would appear, however, that Commissioner Wulf-Mathies is personally committed to the inclusion of global grants to partly deliver this Programme. It is possible that the Commission will take a stand against UK policy in this particular instance and may even threaten to delay the Programme to insist on this point. This could be embarrassing politically if the Irish, who incidentally have already conceded the inclusion of 2 global grant arrangements in the Programme, sought to make capital out of the fact that the UK Government is delaying funding over a point of principle.

The Commission have already sent a warning shot across our bows at official level and I have enclosed our response to show you the line we have taken. However the Commission is equally committed to early agreement and delivery of the Programme, and we will continue to hold our line as we consider that the compromise arrangements we are proposing fully meet the Commission's legitimate concerns, if not its wider political objectives. I would only envisage coming back to you on this issue in extremis.

I am copying this letter to the Prime Minister, Michael Portillo and to Sir John Kerr.