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Dear *David*

SPECIAL SUPPORT PROGRAMME (SSP) FOR PEACE AND RECONCILIATION: NI GROWTH CHALLENGE APPLICATION

Further to our telephone conversation last week and my meeting with Denis Ritchie yesterday, I now wish to formally seek your approval to the issue of a grant offer to NI Growth Challenge in response to their application for assistance under Measure 2 Sub-programme 5 of the Peace & Reconciliation Programme.

Background

As you know, a considerable history attaches to this particular application. The NI Growth Challenge (NIGC) initiative was launched over a year ago and is being driven by the private sector. From the outset this Department has given its full support to the aims and objectives which NIGC has set itself and took account of these objectives when producing our own economic development strategy "Growing Competitively" last May. Ministers too, have made clear their support for the initiative which is seen very much as being in line with Government policy, and have encouraged the private sector to become more actively involved in tackling the obstacles to economic growth. In lending their support Ministers have also recognised that there is considerable merit in the private sector taking greater responsibility for determining its own future destiny. Some funding was provided to assist the initial NIGC study (£275k in the form of ERDF/IDB assistance). More recently however the European Union's Special Support Programme for Peace & Reconciliation in NI and the border counties of Ireland, has become a focus for NIGC in seeking to progress the work urged by the earlier study. Under the terms of the Programme expenditure incurred on approved projects is regarded as eligible for grant assistance with effect from 28 July 1995 (the date the Programme was agreed).

We were conscious of the NIGC initiative in negotiating the economic development package contained within the Programme and specifically mentioned this project to the Commission at that time. We have also been working closely with NIGC since the Programme was approved and have pressed NIGC hard to make their action plan more distinct.



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The Proposal

As I explained when we spoke, the Growth Challenge embraces the concept of accelerated economic growth through an integrated series of action initiatives. It seeks to promote a new kind of partnership between the private, public and other sectors. It also seeks to exploit the improved prospects for economic development in the wake of the para-military ceasefires and the increased sense of optimism across all sectors of NI industry following the Belfast and Washington conferences.

The NIGC submission, which you received under cover dated 24th April, represents a highly innovative, radical departure from the traditional approach. I do not plan in this letter to rehearse again the various planned actions contained in the application; I would simply observe that the aim of these is to galvanise private sector interests and convert their energy into cohesive action plans with the goal of achieving accelerated economic growth. While the process is, of itself, helpful in bringing about change, the initiative is very much a targeted, results orientated strategy. This can be seen in the NIGC annual report which we copied to Denis Ritchie earlier this week.

The relevance of the NIGC initiative to the Peace Programme is immediately obvious when one compares its objectives with the stated objective of the SSP, viz "To promote reconciliation by stimulating private sector growth investment leading to sustainable employment especially in disadvantaged areas." Paragraph 1 - 11 of the submission referred to above details NIGC's specific aims and objectives and how they relate to target sectors.

Since we received the NIGC application the BSE crisis has broken upon us with major implications not only for the beef industry but the food and drink sector as a whole. It is apparent that even if the Government is successful in having the current EU ban on the marketing of British beef lifted, it will be necessary for the food industry to reposition itself in order to effect a recovery. The NIGC application recognises this and the relevant taskforce is committed to pursuing a strategy aimed at creating a separate Northern Ireland marketing identity based on premium market positioning of our food products.

As you will have seen from the application, the total project cost to March 1998 is in excess of £6.7 million though NIGC have told us that, if anything, the private sector element is under recorded. At this point it is worth emphasising that NIGC's initial request for grant assistance was of the order of £4.5m. In our negotiations with NIGC however we have managed to dramatically scale this expectation down and propose to limit our grant assistance under the Programme to £1.8 million.



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Consideration

In all of our negotiations and deliberations with NIGC the need to demonstrate public accountability and value for money by way of adequate appraisal has been paramount. Traditional/conventional appraisal methodologies could not be systematically employed and it was necessary instead to forge alternative practical and meaningful techniques in appraising the project.

In this, having gained consensus within the DED family that the NIGC initiative merited support, we sought - as I mentioned earlier - to ensure that public sector finance deployed was kept to a minimum. The negotiation and evaluation phase has involved each of the DED businesses in our appraisal of the sectoral initiatives in which they held an interest, both to assess their worth and to avoid the potential for overlap between NIGC activities and those of central government - notably DED. We have also been at pains in our negotiations with NIGC to ensure that the initiative is consistent with our own economic strategy: indeed the final submission is evidence that NIGC fully accepts this and views its actions very much as complementary to those of DED.

We are satisfied that the proposed offer represents the least possible public sector contribution to ensure that the project proceeds: indeed NIGC have made it clear in the negotiations that they are not enthused with the offer and have made it clear that the principals involved are not prepared to continue their involvement if the concept cannot be delivered. Incidentally we have the facility, under the terms of our proposed offer of grant assistance, to revise it in the event that the funding plan changes materially. Furthermore mechanisms are currently being devised whereby private sector (non-cash) inputs can be measured as part of the overall monitoring and as a means of demonstrating what benefits have been levered by public sector assistance.

In seeking to be satisfied on the overall viability of the project, we have had regard to the fact that NIGC is a properly constituted company, limited by guarantee. Moreover the organisation has within its ranks a number of very senior players within the industrial and commercial sectors in Northern Ireland and possesses an impressive bank of expertise. It was also apparent to us that the membership of NIGC have a considerable personal investment in the project in terms of their own time and their credibility and so have a strong incentive to ensure that the project succeeds. Nevertheless we propose to build into our planned letter of offer conditions which inter alia provide for regular reporting of progress; staged payments based on actual vouched expenditure; the suspension of payments in the event of default, and clawback provisions, as well as the normal conditions relating to ERDF assistance. In



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addition, and because of the unique nature of the project we have, exceptionally, incorporated a clause providing for DED representation on each of the NIGC taskforces to provide an input to expenditure decisions up front and to ensure continuing complementarity.

In coming to the view that grant assistance should be provided for the project the Department considers that it has the potential to make a valuable contribution to economic development and, unlike other applications under the Measure, could benefit everyone in NI directly or indirectly. As already mentioned, it was also clear to us that the project fully meets the criteria under Measure 2 of the Programme. As a result of our discussions with NIGC, we are satisfied that they are conscious of the special needs of TSN areas and have deliberately broadened their approach to ensure that the needs of such areas and those of the widest possible range of sectoral interests are addressed. We have also emphasised the importance of having an effective communications strategy so that the project's aims and objectives are fully understood across the industrial/commercial sectors and that there is effective feedback on the outcome of NIGCs activities. Again, NIGC have taken this requirement on board.

DFP will be aware that DED already has in place the Public Expenditure provision necessary to cover the combined EU and planned matching funding associated with the SSP. In relation to the separate issue of statutory authority, on the advice of DFP solicitors, we are primarily relying on our ID and Tourism Orders.

Conclusion

To sum up, we are satisfied that the NIGC application is entirely consistent with the aims and objectives of the SSP; we are also satisfied that we have the necessary legislative authority to make the matching funding available and the required PE cover is already in place. Moreover we consider that the proposed grant offer, estimated at a maximum of £1.8 million, represents value for money in the context of the expected outputs and in terms of the total project cost of over £6.0 million. Accordingly I would seek your early agreement to the issue of a grant offer to NIGC on this basis.

Yours sincerely

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A W HAMILTON



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