

NW Objective 2 Programme 2000-06

Information Note 7

ERDF Terminology

A Glossary of Terms

(April 2001)

The “Information Notes” Series

These notes aim to help applicants through the processes of putting together and completing a successful application. They should also assist in the proper appraisal of projects. Copies may be obtained from the address on the front page. The aim is to answer the most frequently asked questions, and concentrate on areas where applicants often misunderstand what is required and so provide insufficient or inaccurate information. If your question is not answered in this series of notes, please let us know in the Secretariat and we will try to provide you with an answer (it isn't always possible to be definitive immediately) and consider whether these guides need to be amended or added to.

Note There are also two notes for guidance on Action Plans published by DETR which the Secretariat can supply.

Acknowledgement

The NW European Programmes Secretariat gratefully acknowledges the work done in the SW and NE Secretariats on which this note is based.

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ERDF TERMINOLOGY

Introduction

For organisations with little or no experience of ERDF funding, the application process can appear a little daunting. The terminology associated with ERDF funding is of a specialist nature and requires a degree of involvement before an organisation can feel at ease with the range of issues involved.

The NW of England Partnership encompasses a wide range of community organisations, private sector interests and other agencies. This means that a number of project applications may be submitted by organisations that have little, if any, experience of ERDF funding. In

order that the Partnership can enhance its understanding of the application process, the Secretariat has prepared this Information Note on terminology used in ERDF funding. The list is not exhaustive but covers a number of terms commonly used in ERDF funding. For ease of reference, the terminology is presented in alphabetical order.

Terminology

Accountability

The obligation of one person or body to answer for the performance or the duties assigned usually to the line with a delegated authority or financed by another body

Accountable Body (Action Plan)

The accountable body is the organisation that enters into the funding agreement with the Government. To enter into such an agreement the Accountable Body must be a legal entity, nominated to act on behalf of the Partnership in taking responsibility for the receipt and use of funding and for the realisation of the Action Plan. The Accountable Body can be either the Partnership itself (if it has formed a company limited by guarantee) or one of the members of the Partnership acting on behalf of the rest.

Action Plans

The term Action Plan means the Action Plan partnerships defined in the Department of the Environment, Transport and the Regions (DETR) Guidance Notes 1 & 2¹. These provide for partnerships to develop Action Plans, which make a strategic analysis of the area/theme, covered and identify the actions needed for the plan period. The partnership undertakes to bring forward projects which will deliver the outputs/impacts identified – these outputs being commensurate with the Single Programming Document/Programme Complement – and nominates or creates a body to take the financial and administrative responsibility for the Action Plan- the Accountable Body (AB). Once the overall programme partnership has appraised and accepted an Action Plan, an offer is made and resources are firmly committed to the Action Plan. The AB undertakes appraisal of applications from within the partnership (up to certain size limits, when the Secretariat must appraise). The AB makes offers to projects, collates and submits regular progress reports and payment claims and distributes payments to the partnership.

Action Plan Approval Letter

Letter from the Government Office to the Partnership offering grant according to the details contained in the Action Plan, and setting out the details of the grant offered and any conditions.

Added-value

Added-value is a core principle of ERDF funding and is designed to ensure that European funds do not merely substitute for existing funds. To ensure that ERDF funds are not used merely to substitute expenditure, the European Commission insists that individual projects must demonstrate the added-value that will result from ERDF funding awarded to a project.

Applications have to demonstrate that their project meets one or more of the following criteria:

1. the project would not have gone ahead without ERDF funding;
2. the project would go ahead but on a smaller scale or at an inferior level of quality
3. the project would go ahead but on a longer timescale.

This is also referred to as additionality.

¹Copies are available from the Secretariat

Annual Reports

These are mandatory Annual Reports from Member States to the European Commission detailing progress towards meeting the programme targets set out in the Single Programming Document (see below).

Annual Review

A new and very important part of the increased emphasis the Commission places on assessing the effectiveness of the programme will be delivered through a meeting between the Member State, partners and the Commission.

Annual Business Plan

The Programme Monitoring/Regional Committee (see below) will agree at the start of the programme and annually thereafter a pattern of application and approval rounds and spending profiles which will help it assess progress towards meeting targets. The Plan is drawn up by the European Programme Secretariat.

Articles

Structural Funds are governed by legally binding agreements signed up to by all Member States of the European Union (see Regulations). These are written agreements, and each section tends to be called an Article and has a number.

Audit

All approved projects are subject to audit at any time, both from the Secretariat and/or the European Commission. Applicants are, therefore, required to maintain adequate records relating to a project. Inspections are made throughout the life of the Programme and beyond, and organisations are required to present regular monitoring information relating to physical completion, outputs and impacts, and financial performance. Applicants are required to keep records relating to ERDF funded projects at least until the end of December 2008.

Auto de-commitment

The process whereby money can be taken back by the European Commission from programmes that are not spending or delivering to a particular profile (see Berlin Profile and Performance Reserve).

Baseline Information

Contextual information on the state of the programme area so that the SPD/Action Plan can be adjusted if trends change.

Berlin Profile

The commission, as a way of ensuring programmes are managed in a more disciplined way, now insist that they spend to a particular annual profile also known as "n+2" (see below). The shape of the annual spend was agreed under the German Presidency and is known as the Berlin Profile.

Capacity Building

A commonly used term for projects which improve the ability of communities to take the lead in their own social and economic renewal.

Capital Projects

Capital projects are those which relate to physical works and the provision of infrastructure which results in the enhancement of an existing asset or the provision of a new, permanent asset. Examples of appropriate capital projects include: construction of business/ training premises, site servicing, community facilities etc.

Commitment

When a project is approved for funding, it receives an offer letter setting out how much funding it will get. The sum of all these offer letters is referred to as the commitment and it has a very specific definition in terms of the Berlin Profile in that what has to be spent (see n+2 below) two years later.

Community Initiatives

In addition to the Objective 2 Programme in the North West, the Structural Funds also support a number of more specific sectoral or area-based programmes, known as Community Initiatives. Some of these programmes are aimed at specific areas, e.g. LEADER, which supports local development Initiatives; EQUAL, which tackles inequality and discrimination at work; and, URBAN which promotes innovative strategies for economic and social regeneration of cities.

Concentration

The principal by which resources are focused on a particular area, community or sector so that there is real impact and visibility

Core Criteria

Each project application is assessed against a set of scoring criteria designed to assess the overall suitability of the project for ERDF funding. These criteria are known as the core criteria. In the NW Objective 2 Programme, there are eight core criteria which applications should address: added-value (formerly known as additionality), effect on targeted communities, compliance with equal opportunities; environmental impact; evidence of demand; participation of other agencies; and leverage of private sector investment. In addition, projects are scored against **Measure Criteria** (see below).

Clawback

In the event of an ERDF-assisted asset not retaining the status for which funding was provided the European Secretariat can require that ERDF grant be repaid or “clawed back” from the applicant organisation. An example of when such arrangements would be enforced is if an ERDF-assisted industrial site was sold to a multinational company. Provision for clawback arrangements, where appropriate, should be included by the applicant in a submission for ERDF funding.

Cross-cutting themes

In the main, environmental sustainability, ICT and equal opportunities (which, for the Commission, means gender). There is an expectation that these themes should run through all projects and programmes.

Deadweight

Projects where a proportion of the benefits would have been achieved without ERDF assistance are said to display “deadweight”, i.e. the benefits to the Programme Area that would have occurred anyway. Deadweight is usually expressed as a percentage of the overall benefits from a project, e.g. where 20 of the 40 jobs generated by an ERDF-assisted project would have been created anyway, the project is said to display a deadweight figure of 50%. Deadweight is often difficult to estimate at the application stage and is normally assessed during an interim or final evaluation.

Defrayment

Claims for grant can only be made when expenditure has been paid, not when invoices are received.

Delegation

The entrusting of authority from one official or body to another official or body usually at a subordinate level.

De-minimis

Member States must notify the European Commission of any measures that involves State Aids except for those that comply with the de-minimis rules. Under the de-minimis rule:

- aid must not exceed 100,000 euros (approx. £70,000) per company over 3 years
- such aid must be cumulated with other de-minimis aid from other local, regional and national resources up to the 100,000 euro limit
- companies may be assisted many times provided the ceiling is not breached and the programme authorities will establish checks to ensure this does not occur
- aid received by companies from notified and approved schemes does not count towards the de-minimis ceiling
- companies which fall under the sectoral restrictions cannot receive de-minimis aid

Development Plans

Part of the Objective 2 Programme is directed towards maximising the regions key locational assets. The expectation is that projects in these locations will come forward within one coherent and integrated development plan.

Directorate General

These are the sections of the European Commission that deal with Structural Funds and are usually abbreviated to “DGs”. The Secretariats main dealings are with DG Regio (formally DG XVI) and DG Employment (formally DG V).

Eligible and Ineligible Activities

European Structural Funds support is only available on the elements of a project that are classified as eligible. The broad range of activities eligible for support is described in the European Council Regulations governing the Structural Funds. Activities, which are eligible for support in the North West England programme, are described in greater detail in the SPD and the Programme Complement (see below). Activities not seen as appropriate for European funding are classified as ineligible, with grant calculated on the total cost of the project minus those elements that are ineligible. Details of eligible and ineligible activities are given in a separate guidance note.

European Regional Development Fund (ERDF)

Financial resources from the ERDF are provided for a range of physical works and support activities aimed at promoting economic development. Examples of activities which could be ERDF funded are: provision of workshop units, building a new training centre, grants for the expansion of business advice services, support for tourism marketing.

European Social Fund (ESF)

ESF projects are designed to focus on human resources and skills issues. Although there is no ESF element within the North West Objective 2 Programme, ESF can be accessed through the Objective 3 Programme and it is expected that projects will be able to demonstrate links with this Programme.

Evaluation

There is a legal requirement to comprehensively evaluate Structural Funds programmes at three points. These are before the start of the programme (and this exercise becomes part of the programme document); half-way through – known as the interim evaluation; and after the

programme has closed (known as ex-post). These evaluations will always be undertaken by an independent, external evaluator and assess the performance and delivery of all aspects of the programme.

Excessive Profits

In conjunction with the clawback arrangements, similar provisions exist for projects which generate “excessive profits”, e.g. an industrial development which generates substantial income for a private sector developer. Excessive profits are defined as those generated over and above what could reasonably be expected from that type of development. ERDF funding is not appropriate for projects that are commercially viable, particularly in the short-term. Where the applicant is a private sector body, the need for ERDF funding should be fully justified, i.e. why the project is not commercially viable without structural funds support.

Financial Tables

The section of the programme plan which shows how funds will be spent by year; by fund; by priority; and with what match funding contributions. A vital part of the programme and the key to the Berlin Profile.

Government Offices for the Regions

Set up in 1994, these bring together the regional offices of three departments: Environment, Transport and the Regions, Trade and Industry and Education and Employment. The Home office also has a senior member of staff in each Government Office. In addition to the task of delivering main Government spending programmes and other functions, they are largely responsible for co-ordinating a number of Government regeneration programmes, including European programmes.

Grant Rates

Projects are awarded different levels of funding, depending on the nature of the project. The maximum grant available is 50% of eligible project costs. Applicants must apply for the minimum grant required for the project to proceed. Elements of a project may be awarded different grant rates. There is a more detailed note on grant rates for the range of eligible activities.

Impacts

Impacts or final outputs are those outcomes which occur as a result of a project's activities, e.g. in a business development project, an impact would be the number of jobs created and/or safeguarded as a result of ERDF support.

Implementation

Any process necessary to deliver the objectives in the SPD following its approval by the European Commission.

In-kind contributions

Further information is included in a separate Information Note. Contributions made by individuals or organisations that add value to a revenue project and can be given a monetary value may be considered as eligible expenditure. Applicants must demonstrate that the in-kind contribution represents a cost to the contributor during the lifetime of the Programme. In-kind contributions are ineligible for capital projects. Each project is considered on its own merits and in-kind contributions must be capable of being audited. Further information is included in a separate Information Note.

Indicators

The targets a programme elects to use to judge its performance.

Integration

Projects that demonstrate linkages with other economic development activities are desirable and can lead to *synergistic effects* (see below). In relation to the Structural Funds, integration between projects across each of the Funds is a priority. Examples of integration are: provision of ESF-funded training courses through objective 3 within a facility which has received ERDF funding; a cluster of ERDF projects within a strategic area, e.g. provision of start-up workshops, a new visitor attraction and a number of environmental improvements and visitor interpretation facilities. Linkages between ERDF funded projects and other economic development programmes, e.g. the Single Regeneration Budget are also desirable.

Intervention Rate

The regulations, which govern the use of Structural Funds, give a limit to the maximum amount of grant that a project can be awarded. Direct aid schemes in respect of investments in individual enterprises will be limited to a grant rate of 30%. This maximum is called the intervention rate.

Leverage

The level of private sector investment, which results from a project, is known as leverage. Applicants should be aware that financial contributions from the private sector included as match funding are not considered as leverage.

Lottery Funding

Three of the original five “good causes” which benefit from revenues from the National Lottery provide grants for projects. The relevant three Lottery funds are Millennium, Arts and Heritage. Grants from each of these three are suitable as sources of match funding for ERDF projects. Applicants should be aware, however, that the priorities of ERDF and Lottery funding can sometimes differ. The focus of ERDF is on projects that directly assist or promote the economic regeneration of the Programme Area. It is recommended that organisations intending to submit Lottery proposals as an ERDF application examine carefully how adequately these proposals address the scope of the SPD and the scoring criteria. For some applications, additional supporting information may be needed to allow a comprehensive appraisal to be undertaken.

Managing Authority

The organisation deputed by the Member State to have overall responsibility for the running of Structural Funds. In England this is the Department for the Environment, Transport and the Regions (DETR), which in turn discharges the function to the Government Office.

Matching Funding

Public or private sector finance put forward as a contribution to eligible costs is called matching funding or co-funding. European funds are designed to fill the funding gap for a project when all other possible sources of finance have been exhausted. A wide range of public organisations and voluntary agencies are designated as eligible for grant purposes, e.g. local authorities, SBSs, the RDC, higher and further education institutions. Private sector finance is also a suitable source of match funding for projects that have economic benefits for the wider region. A minimum of 5% public sector matching funding is required for ERDF projects and 10% public sector matching funding for ESF projects.

Measure

Each SPD has a number of main headings, known as Priorities (see below) which outline objectives for the overall programme. Each Priority is further broken down into a number of measures that outline the scope for activities, which are appropriate for funding. Each Measure is linked to one out of three of the four main Structural Funds and has its own financial allocation, e.g. in the North West Objective 2 Programme Measure 1.1 relates to

Creation and Establishment of Entrepreneurial Business Starts and has a total ERDF allocation of approximately £51m. However the Commission only agrees the Financial Table at Priority level and the PM/RC can decide to move money between measures in a Priority.

Monitoring

There are two definitions of monitoring. In the first case, all applicants are required to state in the application form how the performance of the project will be monitored. Monitoring arrangements are designed to determine progress towards project outputs (see below) and involve the collection of data and other evidence relating to project performance.

Organisations are required to submit detailed monitoring data to the European Secretariat as part of the conditions for receiving ERDF grant. Projects that dramatically underperform can be required to repay ERDF grant awarded. The second definition refers to the regular reports the PM/RC will receive on the progress of the programme as a whole and most notably on the extent to which it is meeting its targets.

N+2

This is the principle by which the spend required of a programme under the Berlin Profile is calculated. N is the commitment year and +2 is the year by the end of which funds committed in N have to be spent or returned (see auto de-commitment).

Objective 2

The regeneration of industrial areas which are experiencing economic and social problems is one of the six objectives of the Structural Funds. Objective 2 areas are those which have been affected by the loss of industrial employment and are lagging behind the EU average in terms of unemployment rates. In the North West, of the 25 authority areas with eligible wards, only Allerdale district in Cumbria is fully eligible, although the bulk of the population in the City of Manchester, Salford and Halton are eligible for assistance under Objective 2.

Objective 3

A training and development programme aimed principally at the unemployed and other groups with disadvantage. Available throughout the region.

Offer Letters

Means of Partnerships offering grant to successful project applicants – contains details of the grant offered and conditions which must be satisfied in order that grant will be paid.

Outputs

The physical products, or measurable results, of Action Plans or projects e.g. number of jobs created; number of people obtaining jobs.

Partnership

Co-operation and collaboration between different organisations is a key principle of Structural Fund programmes. At the project level, funding may come from a number of agencies in partnership. The creation of inter-agency partnerships is desirable as a means to prevent duplication of activities and facilitate a comprehensive approach to economic development. At the Programme level, a Partnership has been established between all the relevant organisations, e.g. public, private and voluntary sectors, the European Secretariat, the Government and the European Commission.

Performance Reserve

The Regulations require Member States to hold back a certain amount of funding. At the end of 2003 all programmes will be assessed to see how effective they have been. Programmes which have been demonstrably effective will receive more money from this programme reserve.

Physical/Activity Outputs

Physical/activity outputs are the results which occur as part of the activities of a project, e.g. a business development project would have a physical output of the number of SMEs assisted, a new business centre would have a physical output of the number of square metres of floorspace.

Priority

Within an SPD, there are a number of main headings that identify an objective for the overall programme. Each of these headings is known as a Priority. For example, the North West England Objective 2 Programme has three priorities: Business and Ideas; People and Communities; and Strategic Regional Investment. Each Priority has a certain amount of money allocated to it in the Financial Table and the PM/RC can only move money between Priorities with the endorsement of the Commission.

Private Sector Leverage

Private sector funds which are committed to the programme as a result of the programme gaining Structural Fund support and which would not be spent in the area or on that strategy without the influence of the Structural Funds.

Programme Complement

For the 2000-2006 period, the Commission approves the programme plan only down to the level of Priorities. This leaves a significant amount of detail to be agreed locally and therefore gives real flexibility and power to local decision making. The document that takes this second level of detail forward is called the Programme Complement.

Programme Monitoring/Region Committee (PM/RC)

Overall responsibility for monitoring progress of Objective 2 lies with the relevant PM/RC, which normally meets a minimum of twice a year. These responsibilities include: providing strategy guidance, monitoring and evaluation against targets, agreeing significant changes to the Programme, e.g. the transfer of financial allocations between individual Priorities.

Project Appraisal

Consideration of project applications against SPD and project selection criteria, to ensure the project is worthwhile and gives value for money.

Project Selection Criteria

Projects coming forward seeking funding must be assessed fairly, transparently and speedily. The PM/RC will agree a selection framework where this can happen with the full confidence of all concerned. The selection framework will be a written document containing criteria to assess, among other things, Structural Funds eligibility, fit with the Regional Economic Strategy (RES) and quality.

Proportionality

The North West Objective 2 Programme covers a significant part of the geographical area of the North West. ERDF funding can only be used for projects where the benefits are realised in the relevant Programme Area. Project applications which propose to offer services across a larger geographical area must identify the proportion of project costs which relates solely to the Programme Area. These costs can then be identified as eligible for ERDF grant with the costs relating to the geographical area outside the Programme Area classified as ineligible.

Propriety

Relates to the way in which transactions are handled; for example, ensuring that purchasing procedures are secure against fraud, grant claims are properly completed, and proper checks are carried out before payments are made.

Regularity

Means applying funds only to the extent and for purposes for which they are authorised. It also entails the observance of administrative rules such as those which appear in ERDF/ESF grant application forms and in these and other Action Plan guidance notes.

Regulations

These are the written “do’s and don’ts”, agreed by Member States by which the Structural Funds are administrated.

Retrospectivity

Under the current rules, expenditure incurred prior to receipt of a grant offer letter is deemed ineligible. The only exception is for projects coming forward under the Programme's first bidding round. Expenditure prior to receipt of an offer letter is regarded as retrospective funding and will not receive ERDF support. Applicants must ensure that eligible expenditure relating to a project does not commence until a grant offer letter has been received and accepted.

Revenue income

The income likely to be generated by projects is a factor in assessing the most appropriate level of grant to be awarded. In general, capital projects with revenue generating capacity, e.g. visitor attractions are subject to a maximum grant of 35% of eligible costs.

Revenue Projects

Revenue applications encompass the provision of advice, services and other business support and promotion without any element of infrastructure development (e.g. advice to businesses; R&D collaboration; tourism promotion; etc). Eligible revenue costs are those directly linked to the delivery of the project. Examples of appropriate revenue costs: additional staff costs, and operating costs of premises.

Rules

A number of specific aspects of the Regulations are interpreted and explained further in a set of guidance rules. They were formally known as the SEM 2000 Datasheets

Secretariat

The Secretariat administers and implements the Objective 2 Programme in the North West on behalf of the Partnership. These Secretariat functions are provided by the Government Office based in Manchester. The European Programmes Secretariat has responsibility for servicing Programme Committees; the appraisal of Action Plans; appraisal of those ERDF project applications above the limits of delegation to Action Plan partners; making recommendations to the Project Selection Groups; monitoring of the Programme and systems; and payment of grant claims.

Single Programming Document (SPD)

Plan agreed between the local Partnership and the European Commission on how Structural Funds will be spent in the North West. The SPD incorporates a strategy outlining the objectives of the Programme and a series of priorities and measures (see separate definition) which outline the scope for projects which the SPD will fund.

Small and Medium-Sized Enterprises (SMEs)

SMEs are defined by the European Commission as companies with less than 250 employees. The Commission has recognised the importance of promoting the development of SMEs as an effective way to create employment and wealth. This policy is a key element of the Objective 2 in the North West with a number of activities specifically aimed at promoting the creation and growth of SMEs. The NW Objective 2 SPD contains the full definition of SMEs.

Standard Clauses

Each SPD contains a set of conditions on the administration and implementation of the programme. These cover the principles governing monitoring and evaluation; the role of the Monitoring Committee; procedures for amendment of the SPD; Annual Reports; procedures for using Technical Assistance; publicity; financial implementation; mechanisms for payments; use of the ECU; financial control; and compliance with Community policies.

State Aids

The European Commission recognises the important part that the provision of State Aid to companies can play in strengthening the competitiveness of the regional economy. However, such aid is considered to distort competition between companies and pose a threat to the operation of the internal market.

A project involving the granting of State aid can only be approved if:

- the aid is granted under a notified or approved aid scheme
- the aid relates to one of the Commission's adopted frameworks
- the aid granted satisfies the de-minimis rule, or
- the project has been notified separately and authorised by the Commission (ad hoc aid)

Five notified schemes, which together effectively comprise the successor to the Partnership Investment Programme (PIP) managed by RDAs (and formerly English Partnerships - EP), have yet to be approved by the Commission. The outcome of these notifications will have clear repercussions for the strategic capital investment measures of the Objective 2 programme. At the time of writing this note (January 2001) it is expected the Commission will approve the schemes, since coverage will be limited to companies located within the Assisted Area Map. Any approval will determine the maximum intervention rate for infrastructure projects having a public/private partnership.

Structural Funds

The financial resources agreed by the European Commission and national governments to promote the economic and social development of regions perceived to be lagging behind. There are four Structural funds: -

- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- European Agricultural Guidance and Guarantee Fund (EAGGF/FEOGA)
- Financial Instrument for Fisheries Guidance (FIFG)

Synergistic Effects

Whilst applicants must provide evidence of outputs and impacts from each individual project, it is recognised that additional benefits may occur collectively from a number of related projects. Synergistic effects are those benefits that occur over and above the combined outputs from a number of activities. In many cases, it is only possible to examine these effects ex-post, i.e. after they have occurred. Nevertheless, it is recognised that an integrated approach to economic development should be regarded as a priority. If appropriate, applicants should provide details as to how their project integrates with other ERDF funded schemes and what additional benefits are likely to result from these linkages.

Targeting

The Commission is keen that resources should have maximum impact. In its view, this only happens when resources are focused (targeted) on, for example, particular sectors, businesses, locations and, especially, communities.

Technical Assistance

A section of the Structural Funds budget which can be used to assist with measures to prepare, appraise, monitor and evaluate Structural Funds operations, and for pilot and demonstration projects. Each SPD contains a section describing the scope to which Technical Assistance can be used to fund activity under each programme. Programme Monitoring Committees are responsible for proposing use of each programmes Technical Assistance budget.

Third Sector

The Voluntary and Community sector.

Transitional Areas

Some areas, though eligible for Structural Funds in the 1994-1999 period, have not met 2000-2006 eligibility. These areas are deemed to be in transition from Structural Funds and will leave the programme in 2005.

Value for Money

This term is widely used to describe the optimal balance between outputs and inputs. Good value for money gives efficiency (the ratio of an activity to the resources input), economy (the purchase of goods or services at lowest cost) and effectiveness (the extent to which objectives are achieved).

Votes

Expenditure authorised (or voted) by Parliament for a single financial year, classified by function and purpose. From 1 April 1997 virtually all ERDF payments, including those made on Action Plans, have been accounted for on a single ERDF vote.

Further information is available from:

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