

## **Annex K**

### **ADDITIONALITY**

This is the extent to which an activity is undertaken at all, on a larger scale, earlier or within a geographical area of policy concern as a result of being supported by expenditure under the Structural Funds.

Thus, Structural Funds must be additional to the funds provided by the public purse.

The Funds must not replace public expenditure.

The projects would not have proceeded without Structural Funding.

The United Kingdom has always accepted these principles and additionality must be built into each programme.

### **Background**

The concept of additionality has been redefined many times since 1975, and in Article 36 of Regulation 1787/84 on ERDF there were two definitions and the choice between them was left to Member States!

Article 11 (1) of Regulation 1260/99 sets out the new definition which is: "In order to achieve a genuine economic impact, the appropriations of the Funds may not replace public or other equivalent structural expenditure by the Member State".

### **Decommitment: An explanation**

If an SPD has a programme lasting 7 years and has 700 million structural fund grant available, let us assume that this 700 million is divided equally between the 7 years. This gives 100 million allocated to each of the 7 years.

When the programme has been formally approved by the EC, the UK government can draw down 7% of the total allocation as an advance. In this case, the sum would be 49 million, (i.e. 7% of 700 million).

The 49 million is drawn down in the first year of the programme. This advance effectively operates as a "float" in terms of transferring cash from the EC via the UK Government to the regions and thence to projects.

Programmes have to declare expenditure at the end of  $n+2$  equivalent to the commitment in year  $n$ . However, for year 1, the amount of the declaration is less the advance. The outcome of this financial transfer is that if the programme has not spent 51 million, (i.e. 100m – 49m), by the end of year 3 and 100 million per year thereafter, the provision for decommitment is activated. Using the quoted example, if only 40 million was spent by year 3, (as opposed to the required 51 million), the shortfall of 11 million is repaid to the EC, i.e. decommitted and is lost for the duration of the programme. However, if 60 million was spent instead, the extra spend of 9 million is reduced from the following year's spending requirement.

### **Major projects and aid schemes**

When major projects under Article 25 of Council Regulation 1260/1999 and aid scheme go to the Commission for authorisation subsequent to the Commission decision on approval of the programme to which they relate, clearly there is a disruption to their implementation that will have an effect on the attainment of the  $n+2$  targets.

A Commission guidance note deals with the application of the  $n+2$  rule for such projects, referred to in Article 31(2), which provides a deferment of part or all of the Community contribution to these projects. The treatment of major projects and aid schemes is identical.

For each project an annual financing plan is required covering the total Community contribution to the project. In the absence of such a plan the Commission will determine one on the basis of information in the project. This plan is then applied to the programmes annual commitments, and may start from the earliest open commitment.

For each year of the plan the Community contribution is deducted from the relevant annual programme commitment. Therefore the  $n+2$  targets relating to these commitments, which are two years hence, are correspondingly reduced. In the year in which the Commission takes its decision on the project, the total of reductions in preceding years is added to that year's commitment and the  $n+2$  target two years hence similarly increased.

Clearly the greatest immediate benefit to reducing  $n+2$  targets is to apply the whole of the Community contribution to a project to the earliest open commitment. The Commission may have a view on the efficacy of this, but they have promised to deal with it with a light

touch. However there is no rule that says how many years the financial plan shall cover, nor to which year's commitments it can be applied.

In the case of venture capital, loan and guarantee funds, when these are set up, payments into the fund are treated as "expenditure actually paid out" – Rule No 1.1.3 of Regulation 448/2004. Therefore these payments count towards n+2. There is a question whether this treatment can be obtained in addition to deferment of n+2 targets. Further guidance will be provided in due course.

Where a project or aid scheme does not receive approval from the Commission, or it is not subsequently implemented, then it should be assumed that any reduction in n+2 target(s) as a result of the above process will be cancelled.

Examples of deferment of n+2 are given below based on a project with a Community contribution of 10m euro sent to the Commission for a decision in 2003, with the earliest open commitment 2001:

#### Case 1

The financing plan covers a single year and is applied to the 2001 commitment, reducing it by 10m euro. There is a corresponding reduction in the 2003 n+2 target. If the project receives a Commission decision in 2004, then 10m euro is added to that commitment, and the 2006 n+2 target is correspondingly increased.

#### Case 2

If the financing plan covers two years, each of 5m euro, then it could be applied to the earliest commitments ie 2001 and 2002, reducing them each by 5m euro, with corresponding reductions in the 2003 and 2004 n+2 targets. Again if the project receives a Commission decision in 2004, 10m euro is added to that year's commitment with a corresponding increase in the 2006 n+2 target.

#### Case 3

If the financing plan covers five years, each of 2m euro, and is applied to the years 2001 to 2005, then the commitments for these years are reduced by 2m euro and the n+2 targets for 2003-2007 correspondingly reduced. Again if the project receives a Commission decision in 2004, only the Community contributions to preceding years are taken into account, ie 6m euro, and these are added to the 2004 commitment, with a corresponding increase in the initial 2006 n+2 target. The 2007 target remains at its initial value.

