

Northern Ireland Affairs Committee

Oral evidence: [UK Shared Prosperity Fund](#), HC 880

Wednesday 14 October 2020

Ordered by the House of Commons to be published on 14 October 2020.

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Members present: Simon Hoare (Chair); Mr Gregory Campbell; Stephen Farry; Mr Robert Goodwill; Claire Hanna; Ian Paisley; Stephanie Peacock.

Questions 1 - 60

Witnesses

[I](#): David Babington, Chief Executive, Action Mental Health; Professor Steve Fothergill, Professor, Sheffield Hallam University; Roger Pollen, Head of External Affairs, Federation of Small Businesses Northern Ireland; and Suzanne Wylie, Chief Executive, Belfast City Council.

[II](#): Bill Pauley, Director, Strategic Policy and Reform, Northern Ireland Department of Finance.

Examination of Witnesses

Witnesses: David Babington, Professor Steve Fothergill, Roger Pollen and Suzanne Wylie.

Q1 Chair: Good morning, everybody, and thank you for joining us for a one-off special, as it were, on European funding. May I, on behalf of the Committee, thank all of you who are now involved in policing, implementing and supporting the new lockdown restrictions that the Executive have recently announced? It is clearly a huge impact on civil society, business life and the third sector. We wish you well. Our thoughts are with you, and we hope these new lockdown regimes do what they are supposed to be doing.

Can our witnesses introduce themselves for the record, giving both their name and their organisation?

Roger Pollen: Good morning. My name is Roger Pollen. I am head of external affairs for the Federation of Small Businesses in Northern Ireland. We are a membership organisation and we have about 6,000 members in Northern Ireland itself. It is the business owners who are the members, so between them they would represent many more businesses. We have quite a large interest in this inquiry and the direction of travel of future funds.

Professor Fothergill: I am Steve Fothergill. I am a professor in the Centre for Regional Economic and Social Research at Sheffield Hallam University. I seem to have acquired the reputation of being something of an expert on the proposed UK shared prosperity fund.

Chair: As long as it is a reputation that has been foisted upon you, rather than one you have grabbed for yourself, that is a reputation well earned.

David Babington: Good morning. My name is David Babington. I am chief executive of Action Mental Health, and I am currently delivering on the existing ESF programme in Northern Ireland. I am also here with a second responsibility, in that I am one of two representatives of the delivery organisations that sit on the Programme Monitoring Committee, which oversees all the work from the ESF programme in Northern Ireland.

Suzanne Wylie: I am Suzanne Wylie. I am chief executive of Belfast City Council, but I am here representing Solace in Northern Ireland, and also NILGA, the local government association. I also sit on the core cities group across the UK, so I am aware of their representations in relation to the shared prosperity fund as well.

Q2 Chair: You are all most welcome. We would be enormously grateful to you in ordinary circumstances for finding the time to join us, but particularly so today.

Scotland and Wales have made an awful lot of the running with regards to European structural and investment funding. Northern Ireland appears



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to have been rather quiet or passive on the issue. Why?

Suzanne Wylie: There is no desire to be quiet about this. In fact, it is quite the opposite. There are real local discussions going on at this point in time about how we can influence what this new approach and funding programme will actually be. We have been hit by all sorts of challenges, and perhaps that is partly the problem with having our voices heard at a regional level. I would not want that to be interpreted as what is going to supersede European structural funds not being important to Northern Ireland, because they are absolutely critical to our future.

Q3 **Chair:** Is it merely a question of bandwidth, if you deal with protocol, New Decade, New Approach and Covid?

Suzanne Wylie: Some of it is certainly bandwidth. Understanding where the UK Government is going with the shared prosperity fund, so that we know exactly how we can put our position in front of UK Government at this point in time, is part of the issue as well. Local government has just commissioned a report here, similar to some of the core cities in the UK, carried out by Ekosgen; that report will be available in the very near future and we will be presenting it to the Executive Departments here. We can also make it available to this Committee. It makes recommendations about the future fund.

Chair: That would be enormously helpful.

Roger Pollen: I echo quite a lot of what Suzanne has said. In January this year we had a lot of engagement around where we were going with Brexit, in parallel with New Decade, New Approach. That was settled. The new Executive came in, started to take up the reins, started to see what needed to be done from the three-year hiatus, and then we were rapidly hit with Covid and the Northern Ireland protocol.

Again, I echo what Suzanne said about the importance of these funds, but when we have a new Administration coming in and getting hit by all of those issues at one time, looking at the specifics of where the funding comes from has probably not been top of the agenda, because there has been so much new money coming in around Covid for very specific reasons. I am not suggesting for a moment that we are awash with money, but the whole of the UK had the Budget in early-to-middle March and then within a week of that we had announcements of phenomenal amounts of new money coming in for specific issues. Truthfully, everybody has just been getting to grips with that and trying to ensure that the immediate things in front of them are done—keeping the economy on track and assisting with the maintenance of health and the economy. That has overtaken focusing on how we are going to replace these funds.

Another point is to look at the manifesto commitments of the Conservative party. In 2019 it committed to a minimum match of the size of the structural funds in each nation, so there has not necessarily been a



sense of threat or urgency around it. There has been an expectation that it will be there; however, it is yet to be delivered.

Q4 Chair: That all makes sense, but do you think there is any fear that the Government's manifesto is perhaps an analogue document in a digital age? There were lots of commitments pre-Covid, where clearly there is going to be a very dramatic reappraisal of how national finances are raised and spent. Do you have any anxiety that that pledge, made in good faith last December, may be a casualty of realpolitik in a post-Covid or long Covid-management world?

Roger Pollen: I am not being facetious, but we have to take politicians at their word. When they produce a manifesto, we have to say that is at least the foundation on which things will be built. Realistically, we have to say that an awful lot of things have happened and have been learned, even in the last few months. The way we work, travel and engage is undergoing a lot of scrutiny from companies and Governments alike. We will rely on the manifesto commitment for the spirit and then we will look at whether it is delivered in a different way of detail, but we would not expect for a moment that the Government would resile on that.

Suzanne Wylie: Just to reiterate some of that, the commitment becomes all the more important in a Covid and post-Covid world, particularly looking at the levelling-up agenda of the UK Government at this point in time. The replacement of these funds is absolutely essential to levelling up, so it becomes all the more important. When you look at the impacts Covid is going to have across the UK, particularly here in Northern Ireland, it speaks for itself.

David Babington: I agree with Suzanne's comments about the levelling-up agenda, which have been made by the Government as well. From a delivery organisation perspective and across the sector, there has been a void. We were engaged back in November 2018, but since then there has been no engagement whatsoever at a national or local level. One of the problems, looking at what is being delivered now, is that it is complicated. About four or five Departments are involved in it, and a whole range of agencies as well. There are also 66 third-sector organisations delivering. It is complicated to engage them and to understand what is going on on the ground.

That is one of the reasons it has been pushed to the side in the last year or so, particularly with Covid. It has really been side-lined. It is difficult. There are big decisions to be made, and clearly, in terms of the worth and the levelling up on the value of the programme, the organisations are doing that. We are at the point where we have people on those programmes who are now going to fall off a cliff, because some of these programmes last two and a half or three years. There is growing anxiety, not among the delivery organisations quite so much but certainly among the beneficiaries, as to what is going to happen.



Professor Fothergill: Let us be clear: the proposal for the shared prosperity fund long predates the 2019 general election. It was actually first made in the Conservative manifesto for the 2017 general election. We have had almost three and a half years since it was first mooted as a proposal. Indeed, the need for a replacement for the European funds has been obvious ever since the 2016 referendum. It really is somewhat inexcusable that so many people in so many parts of the United Kingdom know so little about what the new fund is going to involve, how it is going to be managed and how it is going to be allocated, going beyond the commitments on the four nations.

To pick up on your point about the Covid crisis, there must be a danger that the Treasury in particular will look again at this budget line and wonder, in the light of circumstances, not just whether the budget line should be reduced but whether the whole fund should be repurposed. I am certainly not arguing for a reduction in funding or for a repurposing, but if the Government were to decide that the priority is to pick up the pieces from the present coronavirus crisis, that could result in a fund that is focused very differently, and indeed distributed across the country and the whole United Kingdom very differently. Clearly the coronavirus crisis has hit all parts of the United Kingdom, whereas the shared prosperity fund was originally intended to replace the European structural funds, which were very much targeted at the poorest areas in the country. There must be question marks. I am not saying there is a high probability of going down that route, but the issue is real.

Q5 **Chair:** That segues very well to this question. In terms of game-changer, middling, marginal or not at all, can you give a very brief overview as to what effect European structural and investment funding has had on Northern Ireland, both societally and economically?

David Babington: The impact has been significant in terms of delivering jobs for people, productivity, social inclusion and effectively levelling up and addressing the equality agenda. I do not have statistics specifically for this current call; there will be external consultants delivering an evaluation by the end of this calendar year, and that will have those statistics. The fact we have had this over many years demonstrates that there is an inbuilt infrastructure ready to deliver and that the expertise is ready to deliver this type of agenda.

It is complicated. The people on the current programme are the furthest away from the jobs market, and knowing how to reach them and give them support over the longer term to deliver that equality and inclusion agenda is really complicated. I cannot give you any statistics, but, on the current call, 77,000 people will be going through this and the outcomes they have been measured against are going to be outperformed by something of the order of 20% to 25%.

Professor Fothergill: You should always be a little suspicious of hard statistics in this area, because it is very difficult to actually measure the impact of a spending programme, even one as big as the European funds.



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So much else is happening simultaneously and, to accurately measure the impact, you have to ask the question, "What would have happened in the absence of...?" That is a very difficult question to set up.

Counting the number of people who have gone through training programmes or the number of firms that have received assistance with R&D, business advice or whatever it might be counts inputs, if you like, but it does not necessarily answer the question, "How much of this is extra, over and above what otherwise would have happened, and what is the real impact on the economy?"

Having said that, I cannot believe, given the scale of European funding intervention in Northern Ireland, and indeed in other parts of the United Kingdom over the years, that there has not been quite a substantial positive impact. Many of the economies that have been helped by European funding have undergone an enormous structural change over the years. The industries that originally underpinned their wealth and prosperity have often disappeared or shrunk to a fraction of their former selves. European funding has been a key building block in moving away from that world and helping to create a new economy, but putting hard numbers on things, despite the best efforts of consultants, is a very difficult game.

Chair: At least you did not say it is impossible, so you have not decimated the consultancy sector. That is one bit of good news.

Roger Pollen: I will focus on the tangible things that are easier to see, but with no intention of negating what David was talking to, which is the harder-to-reach, because they are a vital part of the mix. If we do not focus on that and get achievements in that area, everybody else suffers in other areas, but I will look at some of the things where money has come in and facilitated stuff. I will pick out three quick examples.

One is the Giant's Causeway visitor centre, which got nearly £6 million of ERDF funding towards the £12 million total. It achieved a visitor centre that has acted as a magnet for tourism. In the first two years, 1.4 million visitors came from 178 countries around the world. A small amount of money acted as a catalyst in a programme that a range of people and industries have been able to come in on the back of. An awful lot of private sector business has been developed on that, which has no awareness, knowledge or direct connection to that catalyst funding. It has come in and created an industry around it in so many layers, whether it is transport, accommodation, catering or whatever else.

Similarly, I suppose, is the investment in the dynamic and sustainable screen industry, which again is about bringing wealth from other parts of the planet into Northern Ireland by selling product outside. The first one is bringing people into Northern Ireland. The second one is bringing revenues in because of people watching product that has been generated in Northern Ireland. How does that filter down to our members? I was looking at some of the ways people have engaged with it, and we have



one member who is a blacksmith who made some of the swords that were used in the throne for *Game of Thrones*. I do not imagine for a moment that he really had a sense of getting ERDF funding coming in to sustain his business, but none the less that is an example of somebody who has benefitted from investment coming in.

Finally, it is almost going back to the Adam Smith principles about providing transportation and infrastructure. This is where it is quite interesting where you get UK Government and regional Government working in tandem. For the broadband programme, the UK Government have set a direction of travel and an ambition, and the devolved Administrations have then had their part to play in delivering it to reach that ambition. Broadband has been quite a big success for us. We are still on a journey, and a new contract has recently been awarded, but certainly the broadband provision now is vastly transformed compared to what it was 10 years ago. As we see with the current crisis, it needs to be, because we are then able to do many more things like this meeting.

Chair: Can I ask for short answers? We have a lot of territory to cover.

Suzanne Wylie: There was clearly a big impact on infrastructure development in the early days. An example of that is the convention centre in Belfast, which created more business, more tourism and more hotels, et cetera. That is a really good example of how that has impacted the local economy. In terms of businesses, we are a small business economy. Many more businesses have now invested in research and development because of this fund, which is important. We also have more growth in our high-growth sectors because of investment. We have obviously had financial assistance to bring in more foreign direct investment to Northern Ireland, which has been really important in creating wealth-creating jobs and increasing productivity.

Of course, in terms of social inclusion interventions, we have about 50,000 participants who have been through access to employment programmes. The apprenticeships programme has also been very successful recently. We will come back and talk about the measures.

Q6 Stephen Farry: Just for transparency, I was previously the managing authority for the European social fund when I was Minister for Employment and Learning, between 2011 and 2016. I want to ask the witnesses a four-pronged question. Some of this has already been touched on, so you do not necessarily have to re-tread that if you have previously covered it. First, Northern Ireland is classified as a transition region. What significance should we take from that regarding the importance of the European structural funding that is available?

Secondly, to what extent are there any difficulties in measuring the impact of the structural and investment funds? Thirdly, what lessons can future policy makers take from the history of ESI funding in Northern Ireland? Speak freely about the past, if you need to. Finally, what level of awareness—or not, as the case may be—of EU funding is there among



the public in Northern Ireland?

Professor Fothergill: I will try to answer the first of those questions, about the significance of transition funding to Northern Ireland. There are three categories of EU funding. There is the very highest category, which is less prosperous regions. Northern Ireland does not qualify for that. There are then transition regions. Below that there are more prosperous regions, which get very modest amounts of funding. The significance of transition area funding for Northern Ireland is that, although Northern Ireland accounts for only about 2.5% of the UK population, it ends up getting about 5% of the EU funds coming into the United Kingdom. This funding is concentrated in the first two categories of areas, especially the less prosperous, I have to say, but transition areas get far more money than their share of population. That is the significance there.

Roger Pollen: I take that point. We did a number of focus groups with our members just after the referendum, looking at what the opportunities might be as much as what the challenges were. What came across very clearly from our members right across Northern Ireland was ambition. It was ambition to have the infrastructure and the systems in place to allow them to get out and do their business, trade with the world, make a net return and become a contributor to Treasury, rather than a net recipient all the time. I do not like the sense that we are seen as always needing funding. You have to look at the purpose of the funding and the outcomes you are trying to achieve. I take the point that transition is something we should all share pride in, because it is actually trying to get to somewhere else rather than being content with where we are.

Your fourth question, about awareness among the public, is an interesting one. There is a lot of awareness of the PEACE funding. It gets a different profile, and it is very highly valued in lots of quarters. When you scratch below the surface in other areas, people are unclear about quite where the money comes from. You will probably hear about that later from Mr Pauley in the second session. That is because the money largely comes through Stormont, so people do not really care how it gets there. They want to focus on the outcome you achieve with that money.

In terms of lessons from the history of funding, one of the lessons is that we can certainly do a lot better. We have done quite well. We have achieved a lot, but the very fact that we are still in transition means there is still a lot to be done.

David Babington: If I could focus on the latter two questions, picking up on the issue of the awareness of the current programme, the evidence is that we are meeting formal targets, but I would agree with Roger that perhaps the wider population are not very aware of how things are delivered. I know that some of our match funders, the Departments, are not precisely sure where the money is coming from in terms of the match funding that is provided through the ESF.



In terms of the lessons, one of the big lessons from the current programme is that Northern Ireland sometimes does not do these big programmes very well and it all gets very messy. What is uniquely happening here is that we have cross-departmental policy driving direction for a particular programme, and it is being delivered really successfully. It has been delivering outcomes for people over many years as well. I already mentioned the inclusion agenda, the cross-party buy in, it tackles the equality agenda and it is cross-community. The big lesson is that we can do this, and the European funding has shown us how we can do these things efficiently and outperform our targets.

Suzanne Wylie: The transition question is really important. That is the rub in terms of the first question you asked about the allocation of that level of fund and the commitment that has already been made to give the regions the same levels. It is 5% because we were designated as transition. It is important that we articulate that as an argument, as some of the other witnesses have said.

The public have become more aware because they know they are losing something, or potentially may lose something. There is now more awareness about what money went to and how it has supported regeneration and skills. There would be an outcry from the public if this was not replaced by the fund across the UK.

In terms of learning, you have heard how successful some of the programmes and investments have been, but of course we could have been more successful in terms of integrating, joining up, pace of delivery and flexibility, so being fleeter of foot with some of those programmes as other challenges came our way. We now have the opportunity to do that in designing how we are going to bring forward new programmes.

Q7 **Stephen Farry:** Could any of our witnesses elaborate a little further to explain why Northern Ireland is in that transitional status, and to explain some of the particular structural problems we have? Without being overly detailed, is it things like the highest levels of economic inactivity in the UK or problems of lack of inclusion in the labour market, et cetera?

Professor Fothergill: It is purely defined in terms of GDP statistics. The parts of the United Kingdom that have transition region status at the moment are those that, at the time the present EU funding round was initiated, which is going back to 2014, were between 75% and 90% of the EU average GDP per head. That is what drives it.

Q8 **Stephen Farry:** Does anyone else want to comment on the transitional point around the structural issues? There are issues that lie behind our lower level of productivity, around labour market issues. Does anyone want to comment on any of those structural problems that lie behind the fact that we have much higher dependency on the structural funds?

Suzanne Wylie: Some of the issues that lie behind that are economic inactivity rates, for example, and they are much higher than in any other



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part of the UK—27%—and that has been an intractable problem for a long time. Part of that is due to the level of ill health hidden within that statistic. Part of that relates to the trauma, et cetera, that people have been through during the conflict and coming out of the conflict.

There is then the dependence of Northern Ireland on the small business sector, which is a good thing, but 90% of our businesses are in the small business sector of fewer than 50 employees. We can provide you with many statistics around GDP and GVA, and particularly the impact that Covid has had.

Q9 Chair: That would be helpful. I am picking up clearly that there is support for it, but everybody would welcome greater transparency and more robust traceability and governance arrangements. Can I have a simple yes or no?

Suzanne Wylie: Yes, and simplicity.

Professor Fothergill: Yes.

Roger Pollen: Yes, I would agree with that.

Chair: David is nodding as well.

Q10 Mr Campbell: Moving on from the issue of greater simplicity, there is a criticism and a cynicism among many people in Northern Ireland about the whole grant-making process, whoever the administrators are. Looking at ESI and the criticism it has attracted in other parts of the UK in terms of complexity, administration and bureaucracy, is that criticism valid here—equally so, more so or less so?

David Babington: Looking at the current programme and how things work now, the current ESF programme is held up as an exemplar of good practice across the rest of the EU. The managing authority staff are travelling around to other European countries saying, "This is how it is done." In terms of what is happening now, it is a well-oiled machine. There have been problems in the past with things like databases and simplified cost options, et cetera. The key thing is that quality and accountability in what is being delivered are all there. Just to reassure you in terms of the current programme, what is being delivered now may seem complicated, and it is complicated to the outsider, but it is actually running very smoothly.

Q11 Mr Campbell: I am thinking more from the perspective of feedback from recipients. David, you talked about it from the other side—how it looks from the inside—in terms of it being an exemplar. Is the feedback from recipients that they think it is equally so, or have they got a more cynical attitude to it?

David Babington: Being a service delivery organisation, I can speak from my own experience. There has been very little negative feedback. Indeed, people highly welcome what is there. You hear comments, particularly with respect to mental health and in the midst of Covid, that



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the service they are getting is a lifeline and a lifesaver. Those are the sorts of words and feedback we get, and we take feedback from our clients on a regular basis.

- Q12 **Mr Goodwill:** I probably do not need to ask the first part of my question, which is about the witnesses' assessment of the UK Government's progress in developing the shared prosperity fund. Steve Fothergill has highlighted the lack of progress. Unless anybody dissents from that, perhaps I can move on to the next part, which is about discussions that have taken place with the UK Government or the Executive on the shared prosperity fund and what the key areas are that require qualification. I will start with Suzanne from a local government perspective. Where are those negotiations, and how clear are you about what is likely to be there for you?

Suzanne Wylie: NILGA has only been involved in one session of negotiations, which took place in January 2019. Since that there has not been any other follow-up. It has also input into a number of sessions like this with various panels, et cetera, but there has not been direct communication with UK Government at this point in time. Through local government channels, we have been able to filter some of our thinking into what is going back through UK local government circles, but there have certainly been very few direct conversations with local government here so far.

- Q13 **Mr Goodwill:** Roger, would the same apply to the business community? Have you been in the dark, or have people been engaging with you?

Roger Pollen: It is a reasonable comment to say we have been pretty much in the dark. We have had one engagement, which is probably the same one that Suzanne is referring to with NILGA. We all had our great first engagement and thought that was the start of a process, but in the event it was a singular occurrence.

- Q14 **Chair:** Can I just check, because I am not clear: which UK Government Department was leading that? Was it MHCLG or Treasury?

Roger Pollen: Our engagement at that time was through BEIS.

Suzanne Wylie: MHCLG were involved in that as well.

Chair: Those are the two Departments. Treasury is not involved as yet.

Roger Pollen: Not with us. To be fair, or to share blame equally, we have not had engagement with the Executive either. That may be a symptom of the fact that it was in abeyance until January of this year, but we therefore do not feel there has been a consultation within Northern Ireland to get input so that the Executive can go out and bat on behalf of its constituency. It is maybe just a sense that the ball has been dropped all round.

- Q15 **Mr Goodwill:** Is there a danger we are approaching a cliff-edge at the end of the year with so much uncertainty? Obviously some of the grants



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would involve individual schemes and projects, but others, particularly in David's sector, are continuing projects, employing people and delivering services. Are you worried about a cliff-edge at the end of the year?

Roger Pollen: Speaking on behalf of our members we are not, but that is not because we have comfort. It is simply because it is not on people's radar and there is not that granular knowledge about where the funding goes or where it comes from. There is an expectation that the path we are on at the moment will be rolled over, on the basis of the assurances we have had to date from Government, but we have no detail around that or design around the future fund. It is blissful ignorance that is leading us to that conclusion, rather than a sense of assurance.

Q16 **Mr Goodwill:** David, do you have concerns about a cliff-edge at the end of the year?

David Babington: Yes, very much so. I have hinted at it already. There is a worrying void in terms of consultations, as I mentioned before. The last we heard was back in November 2018, which was a very light-touch engagement, but since then there has really been nothing. The worrying thing is that we are marching on to a cliff-edge, and those people who are currently on various programmes are going to be caught by a cliff-edge. In terms of where we go for the future, there is absolutely no sense of where we are going. We all know about Covid, and it is a worrying time anyway. If you add this to it as well, it is a particularly anxious time for everyone.

Q17 **Mr Goodwill:** Do you think there is time? The last week of December is Christmas, so you can probably write that off. We are already in the middle of October. Perhaps Professor Fothergill could indicate whether he thinks there will be time to get all that needs to be done completed between now and the end of the year.

Professor Fothergill: Could I try to clarify a couple of things, first on departmental responsibility, before coming back to the point about the timescale? Initially, the responsibility for developing the fund was managed within the Cities and Local Growth Unit, which was a joint body between BEIS and MHCLG in London; MHCLG has now completely taken over responsibility for developing the fund for the whole of the UK, but of course it does talk to other Departments. The Treasury is certainly not uninvolved in this, because the overall financial envelope will obviously involve them, but MHCLG is the one that is specifically targeted at the moment.

In terms of the potential cliff-edge at the end of this year, let us be absolutely clear about what is happening. At the end of this year it will not be possible to make any further commitments of EU funds to projects, but spending on committed projects can roll on into next year. Indeed, it can roll on until the end of 2023. In practice that does not mean actually spending right up to December 2023, because it would not



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leave enough time to be completed, but projects will certainly be rolling on and spending money on a large scale well into 2022, even early 2023.

- Q18 **Mr Goodwill:** When you talk about an individual project, would that be a project where a farmer is building a building, or would it be the programme where farmers can build buildings?

Professor Fothergill: It would be specific projects that have been agreed and signed off. If there is a spending programme to provide R&D support to small businesses, say, and it has been agreed that that is a commitment made now that could trundle on for two or three years, then the spending will still happen.

- Q19 **Chair:** Who is providing the money?

Professor Fothergill: The European money will still come from the European Union. It will still be drawn down by Britain from the European Union, but we will not be able to make new commitments for new spending. This is all tied up with the financial contribution the UK has to make because of Brexit, because we are still getting some of our money back again because projects roll on.

- Q20 **Mr Goodwill:** It is the alimony from the divorce settlement, is it?

Professor Fothergill: Yes, absolutely. The problem is that from January we cannot commit to any new projects. That is why we need the shared prosperity fund to be up and running. In truth, we can probably live with a few months' hiatus. We have faced these sorts of short hiatuses before in the context of European funding. When one programme has ended at the end of 2013, we have not always been in a position to get the new programme up and running on 1 January 2014. The longer that hiatus continues, the bigger the problem that is created for all sorts of players a little further downstream.

Suzanne Wylie: One thing to add is that, traditionally, in Northern Ireland it takes us longer to get new programmes in place because of the process we go through here. That is something we need to be much more fleet of foot on when we design the new programme. Across Europe it is about 26 weeks to get programmes off the ground, but in Northern Ireland it is about two years. The challenges that Covid has brought mean we are going to have to do that much more quickly.

David Babington: On the timelines, in the current ESF programme all the providers have been told it will run until 31 March 2022. It is not quite the immediate cliff-edge you were perhaps referring to. Having said that—given past experience—if you were to throw it all up in the air and say, “We need a new programme,” that does take a considerable amount of time. As Suzanne has said, it is probably about two years. There are considerable risks here in trying to start something, in the teeth of a pandemic as well, to try to get something up and running. There are huge risks with throwing it all up in the air and trying to get strategic thought and focus from various parts of Northern Ireland involved.



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As I said, the Department of Health does not really recognise that there is significant ESF funding going to support and match funds. For instance, there are some of the disability organisations, and there are 22 that we are delivering now. That will be lost as a referral route to the NHS on 1 April 2022, so there is a major issue there for the whole health sector as well.

Q21 Chair: It sounds like it might be correct to say there are some operating within the nexus of governance that are not actually aware of the side benefits that the fund provides to their discipline.

David Babington: Yes, absolutely. I said that in answer to an earlier question as well. Health has been so distracted by Covid, and we need to get their attention on what is being delivered for them. My organisation gets hundreds of people with mental health issues referred to us by the five health trusts. That will be lost as a pathway for them. It is also for physical disabilities, brain injuries and autism. That will all be lost on 1 April 2022.

Q22 Claire Hanna: Looking at north-south co-operation, and co-operation between the Irish Government and the British Government, on potential cross-border projects, which of course are very possible at the moment, what is your understanding so far of how that is going to work?

Suzanne Wylie: There are a lot of discussions happening at this point in time about cross-border projects. We obviously have the North/South Ministerial Council in place as well, set up under the Good Friday agreement. A lot is happening in the border regions because there is an interconnection there between labour, businesses and trade. In terms of the new design of these funds, we believe there needs to be scope for joint projects, particularly in the border regions, but we also have the main cities, for example.

You will have heard the announcement from one of your colleagues about the high-speed rail project down to Cork, but also, in terms of things like broadband and innovation zones, we have the concept of an economic corridor between Belfast and Dublin, which is based on innovation. There needs to be scope for that type of joined-up work going forward. Yesterday the Irish Government talked about a shared island initiative. We do not have the details on that but we need to join up with what that means.

Q23 Claire Hanna: What needs to be in place in terms of managing infrastructure to allow that to happen in a way that connects Governments in the south and the UK, respects devolution and also allows projects to be fleet of foot, as Suzanne put it? How should that be working?

Suzanne Wylie: That is obviously a very political question, but, in terms of the new fund coming forward, there needs to be a framework at a national level that sets out the priorities. Following that, at a devolved, regional level, they need to agree the local priorities going into this. In



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terms of that framework, they should be encouraged to work with other jurisdictions as well. That framework has to be set at a UK level and an Executive level. Those negotiations need to happen with the Irish Government and with the structures that are already in place, which have been set up under the Good Friday agreement.

What is also needed is ideas of what projects are likely to come forward on a joint basis, because that makes those conversations real, does it not?

Q24 Claire Hanna: Does anybody else want to chip in on what needs to be in place in terms of managing north-south projects? Suzanne is correct to point to the existing implementation bodies.

Roger Pollen: I would mention PEACE and INTERREG continuing as a joint fund under PEACE Plus. Separate but related is the shared island fund of €500 million that has been committed to by the Irish Government. Thinking about how that impacts on our members, there is also the importance of the land bridge, so how the connectivity on the island works for getting to market. Producers in Northern Ireland accessing markets in the rest of the UK will still use that land bridge, so the co-operation and the continued improvement of facilities and connectivity through there, however those are funded and approached, is something that our members will want to be kept to the fore.

Q25 Chair: Do you have any anxieties vis-à-vis protocol stuff on that?

Roger Pollen: Yes, we have anxieties. We are waiting for detail, but you said you wanted to keep this meeting relatively tight.

Chair: My only worry is that so many manifestations of Northern Ireland seem to be waiting for the detail. At this rate there is going to be a hell of a lot of detail coming through letterboxes with letters to send through and God knows what else. We had all better brace ourselves.

Q26 Ian Paisley: I thank the panel. I must say that their evidence has been very helpful and factual. With regards to the shared prosperity fund, if you had a blank sheet of paper, what are the main opportunities that Northern Ireland could actually get out of this? What should the priorities be?

Suzanne Wylie: It goes back to the very first question about the whole recovery from Covid. I believe this fund is and has always been about our being able to address some of the intractable problems that we have, but also trying to get us to stand on our own two feet and grow the opportunities that exist. It is that match between deficit and opportunity that we really need to focus on. Innovation is something that businesses here will really gain from. There is a lot of opportunity at this point in time in terms of our growth sectors and more investment in innovation. We are doing some of that through a city deal, as you know, and that includes your part of the region. That is about being able to



commercialise the research and development that is happening. That is a big focus.

Skills are clearly another huge focus that Stephen will understand very well. Given Covid and what is going to happen in terms of job losses, reskilling and upskilling people for those new jobs of the future should be a real focus as well.

In terms of rebuilding and creating more resilience in business and digitising everything that we do, investment in digital infrastructure is incredibly important, as is connectivity for people in terms of social inclusion across our communities, including our rural communities. That balance between a place-based, bottom-up approach and a top-down approach will be very important in terms of designing this new funding programme.

Q27 Ian Paisley: Roger, should we try to flagship a couple of really key programmes for Northern Ireland, or should we try to spread this as thinly as possible and reach as many people as possible? What is the priority?

Roger Pollen: It reminds me a little of when the National Lottery was introduced. It was meant to be additional funding for the arts and was not meant to be used to supplement anything else, and then gradually it got plundered and plundered and plundered until it effectively became just part of the budget. The risk is that, if we try to spread things thinly, we will not notice when it is taken away. The beauty of some of these things is that the flagship projects like Titanic Belfast and Giant's Causeway are things where this additional investment is coming in.

Going back to the point I made about ambition and vision, this fund is a tricky one, because obviously you have to respect devolved competencies and so on. If we look back eight years to the Olympic Games, that was something in which every country and every part of the UK felt they had a stake. They could rise up and play their part in something with a bigger vision and benefit from it. In some ways we need to make sure that we keep these big flagship projects that we could not otherwise achieve on a regionalised or localised basis. There is a lot of value in that, in terms of both the pride but also the opportunity they bring.

Q28 Ian Paisley: We are picking up on things like innovation or skills development. For example, if a project such as a hydrogen hub in Belfast or County Antrim was identified as a flagship programme, should they be taking programmes or resources like this and saying, "Let us put it into something very significant that will make a difference"?

Roger Pollen: That is a very tempting piece of bait you just put in front of me.

Chair: Are you going to nibble?



Roger Pollen: We should not be missing opportunities. That is the key thing. If we are going to take any opportunities, we need to look at how we can make sure that the maximum number of people and businesses benefit from those, have that vision, get out on the front foot, bid for things, win contracts, win support and create new industries.

Just to pick up on something that Suzanne is leading on, we have now got Northern Ireland identified as the world-leading sector in cybersecurity, with the potential for thousands of jobs. Whether you put it in County Antrim, as I am sure some people will bid for—

Ian Paisley: Belfast is County Antrim.

Roger Pollen: Parts of it are. The point is that we have identified a collective opportunity there from which thousands and thousands of people will benefit. That is where we need to keep our focus and just raise our sights a bit, rather than looking at little bits of funding here and there.

- Q29 **Ian Paisley:** Suzanne, obviously we want the notion of joined-up politics, governance and finances. In principle, this should of course be aligned with what the Northern Ireland Executive want to do, with their principles and their programme of government as it emerges, but I am tempted to underscore what Roger said in his initial comments to me: we do not want to dilute it by saying, "We will pop this into the Northern Ireland Executive." It may then end up just going away. This should really be seen as a programme that can be labelled, "This was shared prosperity funding," and it is identified solely as that. Am I right that you would like to keep it protected and ring-fenced?

Suzanne Wylie: Yes, absolutely. That is certainly one of the recommendations in the report we have commissioned, so that it can be transformative and we can address some of the issues that we are now facing coming through this Covid crisis.

Just to go back to your other comment about big projects, there will be a balance between some of those big, transformative projects and also supporting our local business sector and picking up on the skills deficit.

- Q30 **Stephen Farry:** Picking up on Ian's points about funding, does the panel see this being outside or inside the Barnett formula? Are there any fears in that respect? There have been some suggestions that the shared prosperity fund may be held centrally by the UK Government, with some form of competitive tendering. What would your reaction be to that type of scenario? Finally, should funding be on an annual basis or a multi-annual basis?

Professor Fothergill: This really has to be managed outside the Barnett formula. At present, EU funding is managed outside the Barnett formula. That means Northern Ireland gets more money from Europe than it would if it was just put into a UK pot and carved up through the Barnett formula. You will find a strong ally in Wales, in particular, on this point,



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because they already receive a great deal more European funding than their share of the population and would similarly expect to receive a high share of the shared prosperity fund. That needs it to be managed outside the Barnett formula.

I realise this is interfaced with some of the provisions in the UK Internal Market Bill. The powers that the UK Government seem to be giving themselves to spend money directly with partners in the devolved nations has raised a few eyebrows in several quarters, but there could be a quite simple explanation for this: if the Government really want to allocate money outside the Barnett formula, they actually need those powers. It may be little more than that, but I am not a constitutional expert on that point. I can see that they need the legal power to do so.

Suzanne Wylie: I tend to agree that it would be much better outside the Barnett formula. If it is decided that it comes over as part of that block grant, it absolutely needs to be ring-fenced for these purposes. In terms of how much centralisation there is, at a UK level there should be a framework with the high-level strategic direction, but Northern Ireland itself, in terms of its Programme for Government, its own industrial strategy and its social strategy, certainly needs to design this and design the priorities for where this investment is going to go. That needs to be done across a partnership such as we have on this call: the Executive working with local government and partners in the private and third sectors to design this programme.

There are challenge funds already available in the UK that will supplement this. There is probably a lot more money available through some of those funds than through this replacement. For example, there is UKRI, in terms of innovation approaches, and through some of the challenge funds that are coming out of the UK industrial strategy as well. All of this needs to be joined up. We should not be looking at this in isolation, because what we have is our Programme for Government and our priorities here in this region. We should be looking at where all the funding streams are coming from. The shared prosperity fund was very specific to levelling up across the UK but also across our region as well. That is why it is so important, and that is why it will be so important to keep it as a separate entity.

Q31 **Stephanie Peacock:** Good morning. How should the responsibility for administering the shared prosperity fund be divided between the devolved Government, the UK Government and stakeholders on the ground? Within that, what scope is there for joint administration between the two Governments, and how could it be made less administratively burdensome or less complicated than its predecessor?

Chair: David, as somebody who fills in lots of forms to get their hands on the lucre, what do you think?

David Babington: I have an immediate response to that, and indeed it follows up on what Stephen said about centralised versus devolved. I



have already told the Committee about how successful the current programme is, both administratively and for those people who are receiving services. Let us learn from what we are doing right now. It is a success. It is cross-party, cross-community and is delivering productivity and value for money. We know the needs of the people in Northern Ireland, and you are all aware of that. We are very different to Yorkshire or parts of Scotland or Wales. It has to be a devolved solution and a devolved delivery, with input from all sectors, as Suzanne said, getting involved with the councils, the Departments and the third sector. We particularly need to tap into the expertise we have there right now. I cannot stress enough that what is currently being delivered is a benchmark exemplar for the rest of the EU. We should start there, with that as our starting point.

Professor Fothergill: That is a very positive and rosy view of the way structural funds are managed at the moment. What I pick up around the country is that it can actually be a bit of a bureaucratic nightmare, but, at a stroke, by removing the EU from the whole jigsaw we have the potential to considerably simplify the management of the funds. That is something that should be embraced.

If you are looking for a way forward on the responsibilities of local players, the devolved Administration and central Government, I would strongly recommend that the Committee takes a look at the recommendations of the Welsh Affairs Committee in a recent report, which grappled with this very same issue. Within that Committee there was some divided opinion among the members, but they came up with a form of words about partnership that everybody should be able to buy into.

Q32 **Chair:** This may be more for you, Suzanne. How can the city deal issues fit into the administration, the magnetising and the like-for-like funding? What role can city deals play in getting more bang for the buck?

Suzanne Wylie: City deals in Northern Ireland are structured to look at how to improve productivity and create jobs. That is really what they are about. They have been designed to address some of the structural issues we have here, but of course they are not going to do that on their own. Remember that they are primarily capital programmes. They will then spark or be a catalyst for other things. There will need to be revenue programmes put around those as well. They need to be integrated together with this fund so that we understand the different elements on how they can support each other and improve job creation collectively.

We are now much more sophisticated in looking at not only the regional economy but the sub-regional economy and the different economic footprints we have here in Northern Ireland. That is what city deals have done. That information and the ideas about what needs to be done to grow the economies in those sub-regions are now there, and they are very well formed. That can be fed into the redesign of this new project and the partnerships that have been created between local and central



Government in terms of that match funding. Remember that some of this money is coming direct from Treasury, some is coming from the Northern Ireland Executive and some is coming from the universities and the local authorities. As we go forward we will see more and more of that kind of arrangement being put in place. There is scope for that in the design of these funds as we go forward.

- Q33 **Chair:** Should we have desperation to avoid duplication in the forefront of our minds? Duplication of responsibility can lead to a huge amount of buck-passing. As we all know, success has many fathers but failure is usually illegitimate and thrown into the workhouse.

Suzanne Wylie: If we get the design of this new funding programme right, they should complement each other. We can do some really transformative things, utilising not just city deals but other funds that I have just talked about and how they all fold together. Doing this right needs a partnership approach to designing and shaping what this will look like. We have to do that at a local level. It cannot be done centrally, otherwise we will potentially get that level of duplication.

- Q34 **Chair:** David, from your sector, is there an opportunity here for a more granular understanding of the needs and solutions, by downscaling it down from a European platform?

David Babington: There is, and there is a lot of information coming forth. I mentioned there is an evaluation that will be available in December. That will be able to inform what we do going forward. What I am worried about, as was mentioned before, are the deadlines for all this partnership working and strategic thinking to happen. We are in the middle of the Covid pandemic. I honestly do not believe we are going to have anything ready in time, I really do not. I know there are great thoughts and goodwill, but the distractions we are all facing—even today, with all the new restrictions coming in this morning—mean we all have these bigger operational issues to deal with on a day-to-day basis. My feeling is that we need some sort of extension or interim programme for the current programmes as a get-by, to allow us some breathing space to think about what this new partnership and programme is going to be. Otherwise, as Robert said before, there is going to be a cliff-edge, and that cliff-edge is going to look pretty messy in the midst of a pandemic.

Chair: I thank our witnesses this morning. You have been incredibly helpful. We are particularly grateful to those based in Northern Ireland, discharging all sorts of duties and responsibilities, for joining us today. Thank you very much indeed.

Examination of Witness

Witness: Bill Pauley.

- Q35 **Chair:** Bill, you are very welcome. I apologise for a slight overrun on that first session. I know you were listening in, and I am sure you will agree that it was useful and interesting. Just for the record, would you mind



introducing yourself?

Bill Pauley: My name is Bill Pauley. I am the director of strategic policy and reform in the Department of Finance here. I currently lead, as part of our work, some of the work going on for the Executive in terms of EU replacement funding, and I report on that to the Executive sub-committee on Brexit. I have submitted a letter to you.

Chair: Yes, thank you. That was helpful.

Bill Pauley: That paper is an Executive paper. It is a position on the shared prosperity fund that has been cleared by the Executive, so I am happy to try to answer any questions members may have on the detail of that.

Very briefly, by way of introduction, the Executive position on the shared prosperity fund comes back to something that is very simple. We are seeking at least full replacement of the funding we get from the EU, and of the spending power we get from that at the minute. We would wish to see delivery structures that respect the devolved competence. I suppose a subset of that would be "and that are as simple as possible."

That is sufficient from me by way of introduction. There are lots of points I could make, but hopefully I will get the opportunity as we go.

Q36 **Chair:** Could you give us a heads-up on where you and the Executive are with regards to discussions with HMG on the future of the fund?

Bill Pauley: At slightly different levels, we are engaged almost daily, certainly weekly, with different Departments in terms of the replacement of all EU funding, but our focus today is on the shared prosperity fund. We engage regularly with the Treasury at ministerial level. There are ministerial quadrilaterals that happen at least every quarter, and the shared prosperity fund has been an item on the agenda for those in the last several quarters. Even if we have been raising the fact that we wish to have more information about exactly what might happen, those points have been made at those levels.

At official level, we have raised it with our Treasury colleagues in the devolved spending team, in relation to the replacement of this as an EU fund and in relation to the other European funding programmes from which Northern Ireland benefits at this minute in time. We would have raised that with them as well.

My team has weekly meetings with MHCLG and the team leading the development of the shared prosperity fund to have updates on that. We would also engage in quadrilateral meetings with Scotland, Wales, ourselves and Whitehall Departments in the same way. Some of those meetings are bilateral and some are quadrilateral, where there is new information or as things develop.



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It is ongoing, at least weekly and usually more than that, at official level, and we would also have engagement at ministerial level. We were to have meetings with MHCLG Ministers and our Finance Minister in the last three to four weeks, but both of those were cancelled at short notice. The MHCLG Minister initially resigned and was replaced, and then, subsequent to that, we had a meeting established with his replacement, but that too was cancelled at short notice and we await a new date to have that discussion. I suppose we feel we are getting a little close to the wire and have been wanting to hear about the structures for that.

In terms of the replacement money, the Government have given us, in many places, guarantees that the devolved nations and regions will at least have full replacement funding, but they say that a full announcement will not be until the spending review. In terms of the amount of money not being announced until the spending review, that has been a consistent position for some time. It is just that the spending review has slipped. We feel that we are getting close to a time when we need to know details of that amount and details about structures, and we are becoming a little anxious. We are engaged daily, et cetera, but we are becoming a little anxious that some of those details are not available to us yet.

Q37 Chair: It is undoubtedly true, as you say, that we are getting uncomfortably close to Mr Goodwill's cliff-edge. If you were to give us the benefit of your assessment, and if you were to percentage where you think you are in terms of finalisation of the replacement, as you understand it, are you 80% or 90% of the way there, or closer or further south?

Bill Pauley: I really do not know where the Government are with this. We heard an earlier witness talk about engagement. I agree that we would have either helped or facilitated some of what was organised by NIO when we did not have our own Ministers in some of that first engagement. There would have been engagement jointly with BEIS and MHCLG. What was presented then in 2018 would have very much covered how the shared prosperity fund may very well address the priorities of the UK industrial strategy. We did tell them we had our own industrial strategy but we were told that there was at least some focus that would address issues of industrial strategy. We asked questions at the time as to whether it would cover the European social fund issues in terms of the labour market or whether it would cover the rural development programme-type issues, and we have not had answers to that.

Q38 Chair: Bill, when did you ask those questions? Did you say 2018?

Bill Pauley: Yes, 2018. When lead responsibility moved to MHCLG, we are no longer clear whether the UK industrial strategy and the delivery of that will become one of the priorities of the programme, and we are still not sure where we are in terms of whether and what priority will be afforded to labour market initiatives and other rural development aspects



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of that, what the objectives of the programme will be or what the criteria for assessment will be. We do not know any of that at this minute in time.

Q39 **Chair:** Without putting words in your mouth, on the percentage degree of confidence, clarity and detail, my takeaway from that very full answer is, at best, 5%.

Bill Pauley: It is very low, yes.

Q40 **Chair:** We heard in the earlier session, and I am sure you will have heard it, about the risk/opportunity, depending on through which end of the telescope one looks at it, with regard to the UK Internal Market Bill. How anxious are you that whatever new fund emerges may very well all be administered by Westminster, whether it is in Edinburgh, Belfast or Cardiff?

Bill Pauley: We are very anxious as to what exactly clause 46 of the UK Internal Market Bill means. At the highest level, it could be taken as powers that would replace at least three and perhaps five of our Departments' powers here. They are worded in such general language in one clause of the Bill that the powers appear hugely broad and could enable almost anything in terms of that. We have had discussions at official level and have tried to clarify with officials in the Cabinet Office what is intended by the power, because there is no explanatory memorandum that explains clause 46 in relation to that.

We have had officials assure us that these are intended to be complementary powers, as opposed to replacement powers, in Northern Ireland. In terms of the status, we are not exactly clear what the Government are intending to do in terms of replacing that, and we believe the possibility exists that it is inconsistent with our 1998 Act in terms of the devolved powers and where we would have the primary source of responsibility for the activities that are listed there. We have not seen anyone explain to us how that is not the case, and we have pointed out that our 1998 Act, of course, also supports the Good Friday agreement and all of the aspects to that.

We have pointed out that we would expect any services delivered in those areas in Northern Ireland come under section 75 of our Northern Ireland Act, which, of course, would not happen if it was delivered from Whitehall, were they equality issues, et cetera, so there would be huge issues, depending on what exactly is planned or not planned for clause 46. At this minute in time, we do not know exactly what is planned within it.

That is a general issue irrespective of whether it relates to EU funding or whether it relates to anything else such as city deals or any other national initiatives that Government are planning to take. We have seen our Welsh and Scottish colleagues refer to where Government Ministers—often junior Ministers—might have referred to specific investments that



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might happen in their areas and where the Government could help take that forward, usually relating to very large infrastructure, et cetera. We are no longer clear what the relationship with the devolved Administration would be in either the planning or the delivery of those projects.

Coming back to the shared prosperity fund, we would be very anxious that we are going to replace European bureaucracy with national bureaucracy in terms of how we might have to apply for a scheme and report to a scheme. Our first preference on delivery priorities would be that the spending power we are going to lose from European programmes would be allocated to the Executive in a one-off adjustment to our block grant, and our Executive can then allocate the money as they please within whatever delivery structures they see fit to meet our local needs in areas that are very clearly devolved matters in the 1998 Act.

Q41 Chair: So you would not want to see it ring-fenced by Westminster for, effectively, a replication of the purposes we have at the moment? You would like more discretion?

Bill Pauley: Our Executive can ring-fence it for particular areas that they see fit within their priorities, as they wish. A point I need to make is that, if we do not have full replacement funding here, it is taking away spending power from us to give it to Whitehall. We have the spending power currently. It is part of our core budgets. It is additional to the spending power that we get from Barnett but, in 2006-07, there was an adjustment to our block grant to reflect the fact that, from that date, the EU income we earned was additional to the block grant, where, prior to that year, it was not. This reflects core spending in core activities of the Executive and, if you take that money off us, we will not have it to spend in those core areas going forward. That will be a loss to us that would be replaced with a priority set by the UK Government, if, indeed, that is what they intend to do. We do not know.

Q42 Chair: Bill, lastly from me at the moment, can you give us a handle on the sort of sum of money we are talking about for, say, this financial year?

Bill Pauley: I have to caveat what I say here with the fact that I do not know yet, as we have not been told exactly which European funding programmes the shared prosperity fund is to replace.

Q43 Chair: What I mean is, from the existing EU moneys, what are you receiving in Northern Ireland this financial year?

Bill Pauley: Across all EU funding, Northern Ireland, in the 2014 to 2020 period, will have had just under £4 billion. About £2.1 billion of that is in agricultural support funding.

Chair: We have to take that out because of the Agriculture Bill.



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Bill Pauley: We think the shared prosperity fund is to replace the European regional development fund structural programme, the European social fund structural programme, the rural development fund programme and a small programme that we have for fisheries. We do not know if it is to include other programmes that you have to apply for, like the Connecting Europe Facility. Claire asked a question earlier about the north-south and cross-border issues, and that Connecting Europe Facility is about infrastructure on a cross-border basis. We do not know if that is to be in or out of the shared prosperity fund, but we do know that the Government do not plan to participate in that in the future.

If it is confined to the structural funds that I have mentioned, it is about €110 million a year, or, in round numbers, £100 million a year. We see that as a substantial sum but also, set against the Executive's total budget of £22 billion, it is both a substantial sum and an amount of money that will not do everything for us.

Q44 **Chair:** Do you think it is justifiable to seek parity of replacement?

Bill Pauley: Yes. As I have partly alluded to, the history of structural fund expenditure has been initially where the EU decides which regions are eligible to claim the EU income under the structural fund programmes. After that, we devise programmes that will claim that EU income from them. Prior to 2006-07, it used to be that we did not get any additional departmental expenditure limit and budget cover for the EU programmes; we had to cover it with that. That changed at that time. Also what changed was there was an adjustment to our block grant. Not to give us it now would be a reversal of the decision taken then on how EU funding worked in the statement of funding policy for the UK.

Q45 **Chair:** A potential ministerial defence might be, "That is all well and good, but do not forget to factor in New Decade, New Approach." What would your response be to that?

Bill Pauley: There have, over the years, been a number of sources of funding and resources provided to the Executive for specific purposes within specific funding agreements, and not just New Decade, New Approach. We could go back to St Andrews and different agreements.

Q46 **Chair:** So in essence, it should not have any bearing at all. It is not a fig leaf.

Bill Pauley: It is a different issue, as indeed are city deals and other areas where we have funding that is delivered outside of and in addition to Barnett. That happens across a number of different funding programmes.

Q47 **Stephen Farry:** Good morning, Bill. Just picking up from the Chair's last questions, could you perhaps elaborate on the significance of Northern Ireland being classified as a transition region and give some of the underlying context as to why that is the case? Without being overly leading, there are areas such as higher levels of economic inactivity, lack



of inclusion in the labour market, infrastructure deficits, et cetera.

Bill Pauley: The designation of European regions is made by Europe, initially at a high level, and that goes to GDP per capita. GDP per capita is, of course, a reflection of all your other economic indicators in terms of your productivity, your labour market performance, your unemployment and those who are in the labour market and those who are not. There is a range of economic indicators that determine that. The fact that we are a region in transition is something we achieved by growing out of what would now be called a less-developed region and, in old money, would have been called an objective 1 region.

We moved out of that, but two things happened as we moved out of that: we got less money as a region when we moved out of being a higher-level region; and the range of activities that Europe would agree to finance within our structural fund programmes narrowed towards those that are most directly targeted at initiatives such as research and development, the five productivity drivers and the higher levels of skills attainment, as well as targeting the most disadvantaged groups in the labour market schemes—those who would be economically inactive but also face multiple issues that disadvantage them in the labour market and make it that much more difficult for them.

It is a historical level of underperformance as a region. Across my 35 years as a civil servant, we have bounced along the bottom of most of the major economic indicators. We have struggled one or two times to lift ourselves over those, but we have not really made any long-term structural progress in terms of moving up or closing the gap in the levels of prosperity, and that reflects structural issues in the economy. The sectors we have that predominantly had the higher focus are agriculture and low-productivity sectors. We used to have a larger textile industry and others sectors traditionally regarded as lower skilled, lower added value and lower profile. That has led to our designation in Europe as, initially, an objective 1, less-developed region. We moved out of that in 2007 to be a transition region, as they are now called. That affects the amount of money you get, and it affects the eligibility of activities within your programme for which you can claim things.

One of the major things that is not allowed so much now is investment in infrastructure. We could not put a whole amount of money into building a road, the York Street interchange or whatever it might be. They want us to focus on those drivers of productivity, and that European priority is set at that level.

Q48 Mr Goodwill: It has been very interesting to hear what you have to say, Bill, and, in particular, the fact that we are very close to the wire, although it will not be a cliff-edge. There will be a glide-path of programmes that we can draw down from our money. Secondly, Simon's estimation that 5% of the progress that needs to be made has been made, with only 10 weeks to go until the end of the year, puts you in a very difficult situation indeed. How realistic is your proposal that it would



make sense just to give it to the Executive as an annual block grant and allow you more flexibility in allocating it, rather than have a bureaucratic scheme with rules set here in Westminster? Is that something your political masters are keen to press forward with?

Bill Pauley: The position is that, first, whatever delivery structures are put in place, they should be as simple as possible to deliver. If it were put in our block grant for us to decide that, we could decide if we want to retain the type of social partnership structures that European programmes are delivered under, using their language, a managing authority that encompasses social partners as well as local government and political representatives. We can decide then to do as we please. If this is money for the Executive to deliver in areas that are devolved under the 1998 Act, we believe that we should be responsible for deciding how and where that money is spent.

When we are participating in a European programme, the 1998 Act makes it very clear that international relations are not devolved, so we are happy to participate in the European structures as an Executive. Indeed, we are obliged to. We have no powers in those areas, so we will report through on that basis. If we are replacing this as a fully national expenditure programme, financed by money raised from UK taxpayers or borrowing, as it is at the minute, for areas that are devolved to us as an Executive, we can design for ourselves the delivery structures that we feel most appropriate to deliver those services for ourselves.

That may well include, and is likely to include, the ideas of co-design and co-production with our third sector, because we also believe that those initiatives strongly improve the effectiveness of both the delivery and the design of public services. It is not a lack of commitment to that sector or whatever; it is simply that, if this is being delivered in an area for which there is devolved responsibility, we are happy to deliver that for ourselves. We are not clear why there would be a plan that we would report to a Whitehall Department on the delivery of such services or that that Whitehall Department would also report directly to the UK Parliament on that issue.

As I have said, in terms of the UK Internal Market Bill, we have not seen any explanatory memorandum, but the Gov.uk website has some comments from some Government Ministers that are very clear about how this will give them the ability to design programmes that can be administered across the UK and reported to the UK Parliament, having taken that back from Europe. We think those powers should have come further back from Europe to Northern Ireland for these devolved areas.

Q49 **Mr Goodwill:** Is there a potential problem, given that you may, for example, decide not to prioritise agricultural development grants or rural development, and maybe concentrate on the urban areas that have been more severely hit by the pandemic? That could create some competition issues with trade with the Republic of Ireland or even with GB. Is that something central Government might want to have a handle on in terms



of the split between the different areas where money is allocated?

Bill Pauley: That is not a problem we envisage. The paper we have submitted to you lists all those as areas of priority that the Executive see for this expenditure. If we do not have a model where they give us all the money and we decide how we spend it, whatever is designed and put in place, we have submitted that paper describing the priority areas of expenditure that we feel it needs to cover, because that is where we are spending money on core services now. We need that replacement spending power so that we can deliver the type of services that you have described and that are identified in the paper we provided, in slightly more detail, in terms of listing some of the areas of activity that this money finances now and that we need the replacement spending power to finance going forward into the future.

Q50 **Mr Goodwill:** That is very clear. Finally, as we stand today, what level of economic damage is happening or will happen in the new year, given that, in a normal situation, businesses, charities and local authorities would be gearing up to bid for these new schemes? Because they do not know the detail, they cannot put forward their bids. Are we going to see some economic problems next year for the economy in Northern Ireland because we do not have that pipeline of schemes being prepared and delivered? Will there be a gap that could be a problem?

Bill Pauley: We had some discussion earlier of the cliff-edge and how it is not a 31 December cliff-edge. The current programmes can spend out for the next two years beyond that, and they will be able to do that. The potential problems come if we have no idea of what is going to replace it and, depending on what structures are put in place, how much work is to be done to design and deliver those. If we were still a member of the European Union and were writing European programmes for agreement with the Commission now, we could not have one agreed by 31 December.

The European regulations governing structural funds that will apply across Europe are not yet agreed by Europe. Our understanding is that we are liaising with them, obviously, for the design of the PEACE funding, which, should I not say it at any other point here, is to be replaced and is much appreciated by the Executive here and by all the beneficiaries of that programme. It is a structural fund programme as well. It will be replaced and will not be part of the shared prosperity fund.

We cannot complete the design of that programme until we know what the European regulations that govern the programme will be, and our latest information is that they are not likely to be agreed until at least February next year. No programme anywhere in Europe for structural funds can exist until at least February, and there is a lead time after you know the regulations to design your programme. People are talking and are working on stuff, but there is no final agreement on the regulations yet.



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Mr Goodwill: I suppose many would argue that leaving the European Union gives us a chance not to have to move at the speed of the slowest in terms of getting agreements, but I appreciate how refreshing it is to get straight answers to straight questions from a civil servant, something that we do not always get in this Committee. Thank you.

- Q51 **Chair:** That had been noted. Bill, can I ask you a very specific but quick question? What would you say to Ministers and officials in Whitehall who say, "We are desperately keen, as a Conservative and Unionist Government, to quell the forces of nationalism in the devolved areas of Wales, Scotland and Northern Ireland"? I think the SNP call it "slap a jack", which is that, if you slap a Union Jack on something funded by Westminster, people feel warmly disposed towards the benign philanthropy of the Exchequer and Whitehall. That may very well be an argument that you need to face in the devolved responsibility, priority-setting and spending allocation versus a very strong desire—and I do not comment on the merits of it—from Whitehall and from the present Government to strengthen and make more obvious the dual benefits of a tandem approach of central Government funding and involvement and devolution.

Bill Pauley: Having just been complimented on straight answers, Chair—

Chair: You are now going to obfuscate. Thank you, Sir Humphrey.

Bill Pauley: I certainly do not think my Minister would see that as anything that would help in the delivery of public services here. We have to deliver public services across Northern Ireland on the basis of equality of opportunity, and anything that would inhibit that, or even be one more thing to make it possibly more difficult or to make some more reluctant to participate, is something we could do without.

- Q52 **Chair:** So your argument, in essence, would be, "Whitehall, if you want to strengthen the appreciation of the Union, go and find new money to do it. Do not recycle what is already identified"?

Bill Pauley: I am not sure if that is the proposal in the shared prosperity fund.

Chair: No, but were it to be, that would be your answer, I presume.

Bill Pauley: We would say that we would like the delivery structures to be as simple as possible, and the simplest of those would be to give our Executive the resources it needs so we can design our own priorities and our own delivery structures for that money and where it would come from. We can report back to Treasury on that £100 million a year in exactly the same way as we report back on the other £22 billion a year, which seems to meet the requirements, and we would be happy to do that.

- Q53 **Claire Hanna:** I want to look briefly at north-south operation and co-operation, and at the management of existing and potential new north-south projects. What is your understanding of how that is going to work



between the relevant Governments? What needs to be in place for those projects to be protected and to be able to be delivered in the future?

Bill Pauley: The north-south structural funds are the PEACE and INTERREG programmes that are to be replaced. They will be designed, delivered and operated with at least the same amount of money as now in relation to that. We are working to design and deliver those and, indeed, the Executive has another paper this Thursday on the next stages of working through the programme for doing that.

In terms of the current structural programmes for Northern Ireland only, as a region, that expenditure must be spent in Northern Ireland to be determined as eligible within Europe for a Northern Ireland programme, and so there are no formal north-south links with either the current European regional development fund programme, the European social fund programme or the rural development fund programme in relation to that. That comes through the other structures of co-operation and where we would use that under NSMC with the national resources that we have from our block grant and other things.

There is one small European programme called the Connecting Europe Facility. The Connecting Europe Facility is one that the Department for Infrastructure here has used for many years to support cross-border development of either road or rail infrastructure in Northern Ireland. The Government have, in the approach they have taken, announced and made it clear that that Connecting Europe Facility will not be one of the smaller EU programmes in which we will participate in the future. It is going to be combined with Horizon, perhaps Erasmus and a number of space-exploration-type programmes that we participate in with Europe.

We are still taking the position with the UK Government that we would wish to see that the negotiation processes with Europe would enable Northern Ireland to continue to participate in that programme, if it so wished, and indeed a number of the other EU programmes, if it so wished, and that we would buy our way into that programme, if you like. The Government would replace what we get from the Connecting Europe Facility and we would use that to say to Europe, "We would like to continue to participate in that programme and to design some infrastructure projects," in the same way that we did under the Connecting Europe Facility programme.

They have said that no part of the UK will be participating in that programme. They have said the same thing to Scotland and Wales, where the devolved areas have been united in suggesting that we would have wanted to continue to participate in some of the broader EU programmes, such as Horizon, Erasmus and the Connecting Europe Facility.

There are a couple of other parts to the INTERREG programmes, the transnational and interregional elements, in which we would also like to participate in the future.



Q54 Claire Hanna: In your opinion, based on what you have just said and on your written submission, are you confident that north-south projects, both currently conceived and in the future, will be able to operate and that that opportunity to enhance north-south co-operation is going to be protected?

Bill Pauley: Separate from the shared prosperity fund—we do not know what is in the shared prosperity fund—we are seeking full replacement funding for any expenditure that we currently have here under the Connecting Europe Facility. If we had that expenditure, the Executive would decide how it is spent, whether it would be an Executive decision or whether they give it, for example, directly to the Department for Infrastructure to replace the expenditure it has lost on those north-south infrastructure projects. That is a future decision the Executive would take on that spending power, if we got it in that way.

Claire Hanna: That is getting into the realms of what a future Executive will do, unfortunately.

Chair: I do not know if this is going to be career enhancing but our excellent Clerk, Mr Beech, tweeted a moment or so ago that you are providing us with candid and interesting answers. I do not know what that does for the future knighthood, or it might just be a Commander of the Bath. Who knows? Your candid response is enormously helpful. Do not let that inhibit you as you turn to face Stephanie Peacock's questions.

Q55 Stephanie Peacock: How, in your opinion, should responsibility for administering the shared prosperity fund be divided between the UK, devolved Government and stakeholders on the ground? Is there scope for a joint role between the two Governments, and how do we reduce the administration of it?

Bill Pauley: That goes back to our first position. We would like the administration to be as simple as possible. We believe that the areas covered by structural funds are, indeed, areas that are fully devolved, and that we should have sole responsibility for designing and delivering how those resources should be spent.

Q56 Stephanie Peacock: What are the implications of the clause 46 financial assistance powers in the UK Internal Market Bill for the shared prosperity fund and for the Good Friday agreement? I do not know if you are aware of that.

Bill Pauley: I am aware of clause 46 and of all the issues in it. We need to understand in much greater detail what exactly the Government are planning to do and how they are planning to use this power. We have had some first discussions, where they were saying it is very much intended to be a concurrent power, but the workings of the UK Internal Market Bill and clause 46 in that area remain very unclear in terms of what exactly the Government are planning to do and how they plan to use those powers, either for the shared prosperity fund or, indeed, for any other area of expenditure they might engage in.



Q57 **Chair:** Our first panel this morning put some considerable emphasis, albeit with one or two caveats, on the Conservative party's 2017 and 2019 manifestos talking about, effectively, a like-for-like replacement. I made the point to them that, clearly, it was written pre-Covid, and that Covid changes everything and a new normal is expected, hence delays to the comprehensive spending review and the Budget, and the most enormous levels of very welcome Government support to maintain the economy and employment. I do not use this word in a pejorative sense, but do you think they are naive to rest their hopes on a pre-Covid manifesto pledge?

Bill Pauley: The commitment to at least full replacement funding is repeated under Michael Gove's name on the Gov.uk website in front of the UK Internal Market Bill. We have also seen in Budgets and in correspondence to the Executive that the Government will at least maintain and provide the Executive with full replacement funding for the European amounts that we have. We have seen the commitment that was in the manifestos carried through to correspondence with the Executive and by this current Government in relation to it. It is whether they fulfil that particular commitment on the amount, and I have no reason to believe they will not.

We are currently discussing with Treasury some of the replacement agriculture expenditure. As in every engagement we have with Treasury, there can be a debate about what exactly things mean, and we may have those going forward. On the face of it and where it is, even though they were in manifestos, they have been repeated in ministerial correspondence and we have seen it again. It is not in an explanatory memorandum but it is on the website at the front of the Bill; it is attributed as a comment by the Chancellor of the Duchy of Lancaster. That is a repeated commitment made on a number of occasions.

Q58 **Chair:** Can I just tease into that briefly? We heard from an earlier witness with regard to work inactivity, and a lot of that is underlying health issues and impacts as a result of the Troubles, et cetera. Clearly, that has a call upon public spending, which helps, under the EU's definition of qualifying regions, Northern Ireland to qualify at the current time. What are your financial prediction people or economic forecasters in Northern Ireland saying? What would be your hope date—if one was to presume that we were staying in the EU, which we are not, and the fund was to continue, which it probably will in any even—whereby the really good news for Northern Ireland is that Northern Ireland ceases to qualify? That would be a good news story, that it ceases to qualify for this additional funding.

Bill Pauley: Qualifying for EU funding is a movable feast, in that your eligibility for different levels of funding depends on where your GDP per capita is above a percentage of the GDP of the EU27, so it could happen in a number of ways. We could grow faster than other European regions, nationally or whatever, or they could slow, however that might happen. It



is really hard to predict what is going to happen to everybody else, as well as what might happen to us.

The first target is to secure and increase our own growth rates, driven by productivity. Pre-Covid, we reached pretty much full employment. Any further growth we were going to get was going to have to be productivity-led growth driven by efficiency and by greater competitiveness across the whole range of competitiveness indicators. We had hopes and strategies in place, as we moved in and out of devolved structures, which fell or did not fall, or progress and delivery was slowed. With our Ministers, we would hope to have a greater focus, as envisaged in NDNA, on a way we could begin to work towards prosperity again. As you will see in the paper that we submitted to you, there are three or four Covid elements that leap out at you as added afterwards.

Q59 Chair: If the protocol issue lands well for Northern Ireland, with distinct advantages of access to markets north-south/east-west, GDP in Northern Ireland could really take off, could it not? Against a new rubric for qualifying for funding devised by Treasury, it could be that, in actual fact, on a multi-year settlement, we are not looking at that many years, potentially, that Northern Ireland would qualify for the new fund.

Bill Pauley: I do not know the rules of the new fund.

Chair: No, none of us does.

Bill Pauley: Over all the years that I have been a civil servant, we have, from time to time, had higher growth rates than the UK as a whole, but we have very quickly reverted to the trend level where we have been, typically below that, because of structural issues in the economy. People here have talked over the years about step changes coming from some initiatives from time to time: five or eight years ago, devolution reducing corporation tax to 12.5% was the opportunity for a step change. Yes, under the protocol arrangement, with unfettered access to both markets, there is a scenario where that could be used, with planning and other structures around it, to reach an advantageous position.

In the protocol, there are many other areas that could inhibit economic activity and growth and have constraints. Our Executive is looking at all those issues, without wanting to do it, and I suppose, in all of that, the uncertainty around the protocol and the ability to plan on a consistent basis for exactly how the implementation period will end and what our rules of engagement will be in the UK internal market and with European partners, whether there is a deal or no deal, is, at this minute in time, something that presents huge uncertainty rather than presenting us with scenario planning where we see ourselves achieving a growth rate above that of other UK regions and Europe. Is there such a scenario in there? Yes, I believe there is.

Q60 Chair: Treasury, as we know, does not like open-ended funding



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commitments. As the regrettably very late details of this replacement fund come forward, would you expect it to be seen as something that is renewable within each timeframe of each comprehensive spending review or as something that is embedded in the public finances that, effectively, rolls over review to review to review? Forget Northern Ireland specifically, but just as a general principle of the fund.

Bill Pauley: Everything has a lifetime. No matter what is said as it is launched and announced for the three years ahead, we could have a new Government every five years or sooner, and that can change some of those fundamentals, depending on what the priorities would be. If it is a levelling-up fund, there is quite a bit of work to be done over many years, and probably more than one Parliament.

Chair: Bill, on behalf of the Committee, thank you. I do not say this with any degree of anything other than absolute sincerity. You have given some very clear, cogent and compelling answers to questions. I know that I speak on behalf of the whole Committee, and we are finding this, as you will appreciate, across the piece: the woeful lack of detail this late in the game on so many issues is deeply worrying, particularly when Covid challenges are front and centre, particularly as we are seeing in Northern Ireland today.

Thank you for joining us and thank you for answering our questions. On behalf of the Committee, could I wish you and all your colleagues in the Executive, both within the civil service and at the political level, the very best of good fortune facing into these new lockdown arrangements and trying to beat the disease? Our thoughts and prayers are with you. Thank you very much indeed.