Northern Ireland Executive Future Funding Priorities- SPF

Contents

1. Executive Summary

Northern Ireland anticipates EU allocations for the MFF 2014-2020 period of approximately €4 billion with European Social Fund (ESF), European Regional Development Fund (ERDF) and the Rural Development Programme (RDP) which falls under The European Agricultural Fund for Rural Development (EAFRD) (collectively referred to in this paper as "structural funds") accounting for approximately €750m[1] excluding match funding. The Shared Prosperity Fund (SPF) is due to be implemented by the UK Government to replace structural funds which will be lost once the UK leaves the EU. The Government has pledged that the funds are intended to "Reduce inequalities between communities".

This paper puts forward the Northern Ireland Executive's position in respect of the design, implementation and delivery of the SPF. There are three primary areas where we wish to contribute to the development of the fund:

- The quantum of funding to be made available to the SPF and how this UK wide total will be distributed between the nations and regions of the UK
- Northern Ireland's priorities for SPF funding
- The delivery mechanisms utilised by the fund

Regarding **quantum**, per previous correspondence on this issue with UK Ministers, it is essential that current spending power is preserved. Currently, Northern Ireland is in receipt of on average €110M per annum in income from EU Funds which is the minimum required to ensure continued operation of core and essential programmes which contribute to the achievement of our Programme for Government, Industrial Strategy, Rural Development and Social Strategy objectives. No other outcome, other than this is acceptable. The current EU funding programmes that the SPF is to replace finance core and essential programmes that directly contribute to the achievement of our Programme for Government, Industrial Strategy and Social Strategy objectives. This reflects the historical UK approach to EU funding where Regions eligible for EU funding were required to draw down the maximum amount of EU funding on behalf of the UK to minimise the net UK contribution to the wider UK Budget. And where our eligibility for EU funding as a transitional region required this to be done on the core expenditure programmes supporting the drivers of productivity. The key economic indicators show that Northern Ireland faces unique challenges relative to other regions of the UK and should receive no less funding than the higher of either its current allocation under Multiannual Financial Framework (MFF) 2014-2020 or the funding it would have been entitled to under the EUs MFF 2021-2027.

The NI Executive consider that the **priorities** for the SPF in Northern Ireland should include:

> **Increasing productivity**– Northern Ireland's productivity has consistently lagged behind other UK regions and the SPF should be used to undertake activities and facilitate the enhancement of infrastructure networks that will make workers and businesses more mobile and productive, encourage entrepreneurship and support economic growth.
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> **Addressing skills –** improve the skills profile of the workforce, by reducing economic inactivity and by creating a culture of lifelong learning. Historically Northern Ireland's economic inactivity rate has remained well above the UK rate and is currently the highest of the 12 UK regions.

[1] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/EU%20Funding%20allocations%20to%20~%202020%20revised%20to%20include%20additional%20amounts%20received%20for%20ERDF%20and%20ESD%20following%20EU%20technical%20adjustment.pdf

Rural Development – The SPF should be designed to unlock the latent potential, and improve the connectivity and accessibility of, Northern Ireland's rural areas, support rural businesses and close the gap between income levels in rural and urban areas.

Embedding Additionality – Funding delivered via the SPF should deliver additional services above the baseline provided by the block grant.

Section 75 Compliance – In all its activities in NI the SPF should consider the cross community dimension and ensure compliance with Section 75 of the Northern Ireland Act 1998.

Complementarity - Funding delivered through the SPF should complement funding delivered via the PEACE PLUS programme to ensure no clash of competence or dilution of impact.

Assisting the Covid-19 Recovery – Many of the groups currently supported by European funds are likely to strongly impacted by the Covid-19 pandemic. The funding and delivery of the SPF must take account of this.

The NI Executive is strongly of the view that the best **delivery** mechanism for SPF in Northern Ireland is via existing structures, respecting the devolved settlement. That the NI Executive is best placed to ensure that SPF spending is in line with the Northern Ireland Programme for Government and that there is no dilution of impact caused by overlapping areas of responsibility. Further, considering the aim of reducing administrative complexity, and in line with devolved responsibilities we see no benefit in introducing any reporting mechanisms to any central unit in either MHCLG or BEIS beyond those already in place for HMT oversight of Northern Ireland spending.

We regard the Whitehall Departments' consultation with Northern Ireland to date on the development of the SPF as wholly inadequate and hope now that we can have these views included in the consideration of the Fund.

We confirm that we will make officials available for further consultation throughout this process.

2. NI position on Replacement Funding

Northern Ireland has benefitted from a range of EU funding and this has delivered significant advantage to the economic, social and infrastructural fabric across a wide range of sectors. However, despite recent improvements across the local economy generally, Northern Ireland still lags behind the other UK regions on key economic and social indicators.

The current EU funding programmes that the SPF is to replace finance core and essential programmes that directly contribute to the achievement of our Programme for Government, Industrial Strategy, Regional Development Strategy and Social Strategy objectives. This reflects the historical UK approach to EU funding where Regions eligible for EU funding were required to draw down the maximum amount of EU funding on behalf of the UK to minimise the net UK contribution to the wider EU Budget and where our eligibility for EU funding as a transitional region required this to be done on the core expenditure programmes supporting the drivers of productivity.

In allocating funds to regions there must be a recognition that while Northern Ireland faces the same challenges as other regions of the UK especially in respect of the need to reskill the workforce and address infrastructure deficits for an increasingly post-industrial economy there are additional dimensions not present in other UK regions particularly the legacy of its troubled history and the presence of the UKs only land border with the EU. Further, as Northern Ireland was considered a

Transition Region under the EUs regional policy there are many programmes already in motion focussed on improving productivity and connectivity and it is critical that funding is provided to enable these programmes to continue.

NI is also unique as its only water and sewerage services company is largely financed from public funds. Historically, underinvestment in the wastewater system has consequentially resulted in a growing number of areas in which economic development is being hindered.

We therefore believe funding should be allocated according to need. That Northern Ireland's SPF allocation should be no less than the greater of either its current allocation under MFF 2014-2020 or the funding it would have been entitled to under the EUs MFF 2021-2027 and that for SPF a Barnett based allocation would not reflect the unique challenges present in Northern Ireland.

To date and in the absence of clarity and decisions on the scope and scale of the SPF, there has been limited engagement with Northern Ireland on the level of funding under the SPF or the mechanism for SPF funding being provided to Devolved Administrations.

While it is encouraging that the European Commission and UKG have provided a commitment to the continuation of the cross-border PEACE and INTERREG programmes through PEACE PLUS and are pleased that initial programme development work has commenced, we are concerned that, similarly to SPF, the mechanisms through which the UK, Irish, Northern Irish and EU contributions are paid and accounted for has not been developed.

We would also welcome clarification in relation to commencement date of the SPF. The working assumption has been that the SPF will commence on 1 January 2021, immediately following the 2014-20 Structural Funds programmes, however there has been no clarity on this. Any delay to introduction of the SPF beyond January 2021 would result in a funding gap, creating uncertainty for programmes reliant upon this funding stream.

3. Priorities for Application of Replacement Funding

Our current limited understanding of the Shared Prosperity Fund is that it will be applied in support of the UK industrial strategy and the drivers of productivity in particular. That Strategy includes a short section on Northern Ireland but recognises that these are devolved matters. The only acceptable position for us in the future is that the SPF enables us to plan and allocate this funding in line with our devolved strategies.

The NI Executive consider that the SPF as it operates in Northern Ireland should be aligned with the Programme for Government and the Northern Ireland Industrial Strategy. Based on this the following should be priorities:

3.1. Productivity

Productivity is a key indicator of relative prosperity and Northern Ireland consistently lags behind the rest of the UK. The underlying causes of low productivity are considered to be:

- Lower than average levels of entrepreneurship
- Key Skills gaps, especially at the higher end
- Mixed levels of innovation
- Underinvestment in infrastructure networks and systems

Northern Ireland had the lowest output per hour of any UK region in 2016. Even in sectors where Northern Ireland has seen relatively strong growth in output per hour, such as ICT, this growth has lagged behind comparable areas of GB.

To address this the (draft) Northern Ireland Industrial Strategy is centred on the drivers of productivity. It is our view that the priorities for SPF in Northern Ireland should be closely aligned with the (draft) Industrial Strategy and its five pillars for growth:

- **Promoting innovation (non R&D)**
  Northern Ireland has consistently ranked at the bottom of the 12 UK regions for the number of innovation active companies larger than 10 employees. In the most recent survey just 39% of Northern Ireland companies surveyed reported as innovation active and this is reflected in Northern Ireland falling further behind wider UK productivity performance between 2008 and 2016. Northern Ireland companies which are innovation active (especially SMEs) also demonstrate significantly lower levels of collaborative innovation activities than all other UK regions.

- **Supporting Research and Development**
  Invest NI's Grant for R&D programme (currently funded from EU structural funds) has been an important factor in the near 50% growth in Northern Ireland R&D investment between 2011 and 2016. This increase has brought Northern Ireland up to UK wide levels of Business Expenditure on Research and Development (BERD) as a percentage of GVA. It is important to note that a failure to sustain support for grant for R&D going forward may result in a reduction in BERD and consequent reduction in productivity and exports.

- **Addressing skills needs by improving the skills profile of the workforce, by reducing economic inactivity and by creating a culture of lifelong learning**
  Historically Northern Ireland's economic inactivity rate has remained well above the UK rate and is currently the highest of the 12 UK regions. Analysis has shown that higher qualifications are associated with higher labour market participation.

  Northern Ireland faces significant disadvantage in terms of the skills profile of its working age population when compared to the UK. It is estimated that 21% of the Northern Ireland working age population has low or no qualifications (below National Qualification Framework (NQF) level 2), considerably worse than the equivalent UK figure (16%). Furthermore, only 24% of Northern Ireland's working age population are qualified to at least NQF level 6 (equivalent to degree) compared to 32% for the UK overall.

  To match the UK's skills profile and meet the needs of local businesses, Northern Ireland would need to significantly upskill its working age population, this could be achieved by formal training or recognition of informal or non-formal learning. Accreditation of Experiential Learning is widely used in high productivity economies such as Denmark and the Netherlands.

  It is widely recognised and accepted that poor health is a barrier to employment and contributes to Economic Inactivity which is the term used for those who are neither in employment nor actively seeking work. The categories of economically inactive that currently impact most on the economy are those with health conditions and/or disabilities and those with caring commitments. To sustain economic growth in this environment requires policies and an employment offer which foster a more inclusive labour market thereby harnessing the potential of these individuals.

  The current suite of labour market activation programmes and interventions funded by the Department for Communities (DfC) including those currently supported though the

European Social Fund (ESF) were developed during a period of particularly high unemployment and therefore unemployment support (in particular for the long term unemployed) was at the heart of their design. In contrast, the current position is one of relatively low unemployment but continuingly high levels of economic inactivity.

DfC has been providing support by match funding European Social Fund (ESF) programmes which move the economically inactive, including people with disabilities, towards and into employment.

Providing the necessary skills for the economically inactive could help enable them enter the labour force.

- **Supporting enabling mechanisms (access to finance and local economic development funding)**
  Consideration needs to be given to appropriate enabling mechanisms. In recent years the provision of a suite of financial instruments has ensured appropriate finance has been available to support SMEs in Northern Ireland. The provision of selective financial assistance has also been essential in certain specific cases to underpin increasing growth and competitiveness aims. Similarly, at a local level, support for local economic development has proved valuable to micro and small enterprises. A policy priority aimed at supporting a range of enabling mechanisms (currently supported by ERDF) such as these, merits consideration as part of the Northern Ireland element of the SPF.

- **Tackling economic inactivity by addressing citizens employability needs to help them enter, remain and progress in employment**

  The draft Programme for Government 2016-2021, the draft Industrial Strategy and the draft Social Strategy, all contain clear commitments to focus on reducing the rate of economic inactivity. Those with a health conditions or disabilities make up the largest group of those who are economically inactive, therefore, the current commitments set out in these strategies require a fundamental shift in approach with a clear focus on integrating effective work and health policies and programmes.

  The Department for Communities' efforts are increasingly focusing on those who fall into the 'economically inactive' group (people who are not working, are not seeking work or are not available to work) - which includes large numbers of people with health conditions and those with caring responsibilities. A tailored person centred approach to both programmes and services is prevalent throughout the best performing labour market policies. It is recognised that treating all unemployed and economically inactive individuals in a uniform manner does not result in success for the individuals or the contracted delivery partners. The current ESF programmes, match funded by DfC, address these groups of citizens.

  There is potential to use SPF to target groups not targeted under current programmes. This could include the possibility of using both an "Attract Back" and "Attract In" campaign to encourage/ entice students who have been studying outside Northern Ireland back to work here and "Attract In" targeted at those workers who are experienced and wish to be employed here.

3.2. Rural Development

Over a third of Northern Ireland's population live in rural areas and rural businesses account for 57% of all registered businesses in Northern Ireland (of which 94% are sole traders, partnerships or micro businesses).

Within the current Northern Ireland Rural Development Programme (RDP) there are specific funds set aside to address "social isolation, poverty reduction and economic development" in rural communities. This has been implemented through the provision of targeted support to tackle inequalities and to improve rural access by making improvements to broadband infrastructure, rural basic services and infrastructure, the development of efficient rural transport systems and the provision of effective public e-government solutions.

Research[2] has identified the top three barriers across rural areas in the UK as poor broadband and mobile phone coverage, poor road and transport networks and a poor variety of employment opportunities with little or no scope for progression and lower average earnings than urban dwellers. These factors and others lead to social isolation, outmigration of young people and a higher risk of households living in poverty.

There is also a growth in the number of rural areas where the wastewater system is at or nearing capacity. This is slowing economic growth and housing needs are not being met.

RDP funding has been instrumental in helping to tackle some of these issues and it is vital that the SPF is targeted to meet the differing needs of rural communities in accessing and connecting to services and improving economic opportunities.

Research by the Agri-foods and Biosciences Institute (AFBI) has identified that the stimulation of rural employment opportunities should be the main focus to improve rural household incomes. Entrepreneurship is widely recognised as a driver for job creation, competitiveness and growth, with the potential to also contribute to social cohesion, act as a vehicle for personal development and help to resolve social issues. Key policy goals, both explicit and implicit, forming part of economic and social development strategies across Europe, UK and NI, include encouraging more people to become entrepreneurs and gearing existing entrepreneurs for growth.

There is therefore a strong case for continuing to support rural development under SPF to help build a stronger, more competitive and connected rural economy, to encourage a more creative and innovative rural society, support community cohesion and to ensure that our rural areas continue to be places where people want to live, work, visit and invest in line with outcomes set out in the draft Northern Ireland Programme for Government.

In terms of rural tourism offerings, current statistics show that in urban areas total tourist expenditure on overnight trips exceeds £661m compared to only £103m in rural areas. The tourism potential in NI is an emerging economic driver however, there is untapped potential in rural areas and SPF support can be a driver for change creating opportunities and economic benefits that are sustainable and provide a lasting legacy for rural communities. This links directly to the focus of SPF funding by tackling inequalities between communities and by raising productivity in economies like NI (particularly rural NI) which lags behind other parts of the UK in terms of productivity, skills and Business Start-Ups.

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[2] Recharging Rural, Creating sustainable communities to 2030 and beyond, The Prince's Countryside Fund, 2018

3.3. Additionality

The current public expenditure for EU funds provides that any EU income represents negative DEL and provides additional spending power. We require full replacement of this spending power.

3.4. Section 75 Compliance

A priority for any NI implementation of SPF must be compliance with Section 75 of the Northern Ireland Act 1998. Section 75 requires any public authority carrying out functions in Northern Ireland to have due regard to the need to promote equality of opportunity:

- between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation
- between men and women generally
- between persons with a disability and persons without
- between persons with dependants and persons without

Further, a public authority when carrying out functions in Northern Ireland must have regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group.

Section 75 goes beyond equivalent equality provisions in GB, particularly in respect of its protections for persons of different political opinion and is intended to account for the unique situation in Northern Ireland.

Section 75 considerations will need to be built in to the delivery models for SPF in Northern Ireland with account taken of the real or perceived community designations of recipients of funds. Where delivery is not through existing structures appropriate returns must be made annually to the Equality Commission for Northern Ireland.

3.5. Complementarity with PEACE PLUS

Following the UKs exit from the EU Northern Ireland will be unique due to commitments from both HMG, Ireland and the European Commission that the PEACE programme will continue as PEACE PLUS.

The new PEACE PLUS Programme, which will include both PEACE and INTERREG activities, will build on the work of the current PEACE and INTERREG Programmes between Northern Ireland and the border counties of Ireland by contributing to social, economic and regional stability and infrastructure development in the regions concerned; in particular through actions to promote cohesion and connectivity between communities.

As with previous EU PEACE programme, PEACE PLUS will be managed by the Special EU Programmes Body (SEUPB) on behalf of the EU Commission, the UK and Ireland. The SEUPB was created as a result of the Belfast (Good Friday) Agreement and is established in international law through a treaty signed between the UK and Ireland and established in domestic law under The North/South Co-operation (Implementation Bodies) (Northern Ireland) Order 1999.

Care will have to be taken to ensure complementarity between the SPF in Northern Ireland and PEACE PLUS to minimise dilution of impact.

The programme content of PEACE PLUS is currently under development by SEUPB in conjunction with Northern Ireland Departments and the Government of Ireland and will be subject to an extensive and robust consultation process.

3.6. Covid-19 Recovery

The Shared Prosperity Fund must recognise that the scale of the interventions required has increased as a result of the Pandemic and that many of the groups previously supported by European funds are likely to be adversely impacted by the economic consequences of the pandemic. UK Government should also have regard to the significant economic boost that investment in infrastructure projects can bring.

4. Delivery Mechanisms

EU funds are currently subject to the concept of subsidiarity, requiring services to be delivered at the level closest to citizens at which delivery is viable. The NI Executive consider that in line with previous programmes the SPF should be delivered locally according to local priorities.

4.1. The NI Executive

It is the view of the NI Executive that the lowest viable level at which SPF can be delivered in Northern Ireland is via the NI Executive with funding provided through the normal budgetary process.

The NI Executive is best placed to ensure alignment with the NI Programme for Government; compatibility with the requirements of Section 75 of the Northern Ireland Act 1998 and complementarity between SPF and other funding, whether national or through the EU programmes which will continue in Northern Ireland after the UK has left the EU.

In accordance with the aim of reducing the administrative complexity associated with the current EU structural funds we see no benefit in introducing additional reporting mechanisms beyond those already in place for Northern Ireland spending.

4.2. The Role of Local Government

There has been some indication that MHCLG is considering a local government based approach as a model to simplify the disbursement of funds, but this approach would be problematic for NI.

The local government landscape in NI is substantially different to GB with local authorities possessing a considerably narrower remit. Many functions exercised by local authorities in GB (such as education and skills) are reserved for Stormont where the Northern Ireland Act 1998 enshrines protections for the different communities into the political system.

For these reasons we do not believe delivery directly via local Government is a viable option in Northern Ireland and that engagement of local government in replacement programmes should be a matter for the NI Executive under similar terms as current programmes.

5. Conclusion

In implementing the SPF Northern Ireland has needs in common with other parts of the UK as well as specific challenges relating to the scale of the intervention required; the method through which that intervention can be achieved; the need to put community relations at the centre of policy making and the presence of the UKs only border with the EU.

Therefore it is essential that current annual average spending power of €110 Million is at least fully preserved. No other outcome is acceptable. The current EU funding programmes that the SPF is to replace finance core and essential programmes that directly contribute to the achievement of our Programme for Government, Industrial Strategy, rural Development and Social Strategy objectives.

Regarding objectives, the SPF should be managed in a way which delivers the following goals:

Increasing productivity – Northern Ireland's productivity has consistently lagged behind other UK regions and the SPF should be used to undertake activities and fund infrastructure projects that will make workers and businesses more mobile and productive, encourage entrepreneurship and support economic growth.

Addressing skills – The SPF should be used to reduce economic inactivity and encourage a culture of lifelong learning. Northern Ireland's economic inactivity rate is currently the highest of the 12 UK regions.

Rural Development – The SPF should be designed to unlock the latent potential of Northern Ireland's rural areas, support rural businesses and close the gap between income levels in rural and urban areas.

Embedding Additionality – Funding delivered via the SPF should deliver additional services above the baseline provided by the block grant.

Section 75 Compliance – In all its activities in NI the SPF should consider the cross community dimension and ensure compliance with Section 75 of the Northern Ireland Act 1998.

Complementarity - Funding delivered through the SPF should complement funding delivered via the PEACE PLUS programme to ensure no clash of competence or dilution of impact.

Covid-19 Recovery – The SPF must be designed in a way that contributes to the recovery of all sectors and the wider economy.

We are strongly of the view that the best delivery mechanism for SPF in Northern Ireland is via existing structures, respecting the devolved settlement. That the NI Executive is best placed to ensure that SPF spending is in line with the Northern Ireland Programme for Government and the Northern Ireland Industrial and Social strategies and to ensure there is no dilution of impact caused by overlapping areas of responsibility.

Further, considering the aim of reducing administrative complexity, and in line with devolved responsibilities we see no benefit in introducing any reporting mechanisms to any central unit in either MHCLG or BEIS beyond those already in place for HMT oversight of Northern Ireland spending.

We reiterate that officials can be made available for further consultation.