Written evidence submitted by the Minister of Finance MLA, Northern Ireland, regarding the Investment in Northern Ireland inquiry (INI0011)

Executive's Draft Budget 2022-25

Following the Spending Review, the Secretary of State has written to me to confirm the funding being provided by the British Government, upon which the Executive has agreed its Draft Budget.

While this includes funding provided under the Fresh Start Agreement, Confidence and Supply, New Decade New Approach, and City Deals, it is disappointing that not all details of funding have been provided, and some of the profiles do not match the latest position. In particular, funding for mental health and funding for tackling severe deprivation through Confidence and Supply, and EU protocol funding have not been confirmed at this time, and the profiles for Fresh Start Agreement funding set out by the Secretary of State do not reflect the latest position as advised to NIO.

This has impacted on the Executive's ability to prepare and agree its Draft Budget 2022-25.

New Decade, New Approach commitments

The New Decade, New Approach agreement which we all signed up to, represents a commitment to transform public services and restore public confidence in devolution. However that is being undermined because the funding package which has been provided by the British Government has been completely inadequate and falls far short of what was committed to.

Protocol

The impact of the British Government's Exit from the European Union is continuing to be felt. Rather than focussing on refining the Protocol and improving its implementation, attempts to entirely renegotiate the Withdrawal Agreement has resulted in uncertainty, which continues to hamper the economy. The British Government need to deliver stability around the Protocol so that its economic benefits can be realised in full.

Apprenticeship Levy

Another decision which has been imposed on us without consultation, and without considering the impact at a local level has been the Apprenticeships Levy. The Apprenticeship Levy has delivered zero net benefit to the North.

Use of Internal Market Act.

The powers the British Government have taken via Part 6 of the Internal Market Act and the way they have been exercised are extremely concerning and were introduced with no prior consultation.

Failure to engage with the Executive on the use of these powers has the potential to result in duplication of provision, the delivery of poor value for money, and reduced impact caused by the lack of a focussed and joined-up approach.

The Whitehall delivered replacement funds have so far targeted very different levels of activity compared to the expenditure programmes financed by our EU income. This spending power was used by the Executive to finance key services and activities in support of the draft Programme for Government outcomes including Research, Development and Innovation, business support services, entrepreneurship, access to finance for SMEs, Low Carbon, Apprenticeships, Skills for disadvantaged groups, Rural Development and transport.

This has been compounded by errors or omissions by Whitehall departments which have little or no history of delivering here, and have failed to appreciate the different structures which exist in this Devolved Administration.

In each case the use of these powers has been by a body which has not been designated by the Secretary of State under Section 75 of the Northern Ireland Act 1998, meaning that these schemes have operated outside the equalities framework put in place by the Good Friday Agreement.

Community Renewal Fund

The Community Renewal Fund is an excellent case study of the failure of Whitehall departments to appreciate the different structures which apply here. There have also been issues resulting from the language used in relation to the eligibility of Irish citizens here.

The results of bids to the Community Renewal Fund were announced on 3 November 2021. It was immediately apparent that not all of the successful bids from here had followed the same assessment process. While all bids were to be shared in summary form to allow Executive departments to provide comment on possible alignment of the bid to our strategic priorities as part of the assessment process, three were not shared. The three represent 20% of the total funding awarded including the largest single bid allocated to the North. No explanation other than “Human Error” has been provided to explain these irregularities and no commitment has been given to inform the unsuccessful bidders of the failure by DLUHC to follow its own processes.

The overall amount of funding made available to local projects falls far short of the c£70m that we could have reasonable expected from EU Structural Funds, but we also have real concerns about whether the £12.36m will deliver value for money, with apparently little thought given to what activity the Executive is already funding.

Lessons need to be learned urgently from this fund prior to the launch of the Shared Prosperity Fund.

Levelling Up Fund

The results of the Levelling Up Fund were extremely disappointing, with projects from here securing just 2.9% of the total funding available; this compares with 7.2% for Wales.

Again, one factor which has not helped is the failure to take into account the very different local government structure here, with many of the functions that in Britain are performed by Local Government, but which here are performed by Executive Departments. Of the three themes that the first round of bids focussed on transport investments, regeneration and town centre investments, and cultural investments; all of which fall, in whole or in part, to the Executive.

I am concerned that inviting bids from bodies that have no track record of delivering in here has led to sub-optimal bids, and the decision to exclude the Executive departments with responsibility and vires for the delivery of local road and street furniture upgrade schemes was misguided, and has contributed to the relatively poor outcome. Similar issues arose with the other themes in relation to bodies which operate museums and libraries etc.

In summary, I believe that this programme lacked ambition and failed to provide any facility that can replace the substantial sums that would have been available under the EU's "Connecting Europe Facility" (CEF). While CEF may have been primarily used in Britain to support Air and Sea connectivity, CEF was an important opportunity for the Executive to secure substantial sums for investment in North-South road and rail projects. There is currently no alternative funding source available.

Next Steps

Everyone must learn from the mistakes made in the Levelling Up and Community Renewal Funds and ensure they are not repeated in the Shared Prosperity Fund.

One suggestion would be to examine the approach taken to the Community Renewal Fund in Gibraltar for lessons learned for future funding here. Gibraltar was able to make a composite bid against a fixed allocation, with the government of Gibraltar the only allowed bidder essentially submitting a strategic business case for CRF. By contrast the Executive was not provided any role with the delivery of the Community Renewal Fund here which has resulted in a lack of strategic alignment and poor adaptation to local circumstances.

An urgent review of the reasons for the failure to make a section 75 designation in respect of DLUHC should be undertaken. Other bodies such as HMRC and the NIO are in receipt of a designation, but DLUHC have been able to operate outside its scope and this is not acceptable.

At the very least, the British Government must engage with the Executive to ensure the spending programmes are able to deliver in a way that recognises local differences and are complimentary to the Executive's priorities.

This will be particularly important as the PEACE PLUS programme begins to spend. Care will have to be taken to ensure that the peace and reconciliation element of PEACE PLUS is not undermined, and that the two programmes compliment rather than dilute each other and due to the North-South nature of PEACE PLUS this can only be accomplished by the Executive working in collaboration with funding bodies.

Fiscal Commission

The Committee will be aware that I have established a Fiscal Commission to examine the benefits for the devolution of further fiscal levers to the Executive so that it could be better equipped to drive economic development. I would ask the Committee to use its influence to encourage the British Government to engage properly and constructively with the Fiscal Commission.

December 2021