Northern Ireland Assembly

Research and Information Service
Briefing Paper

17 February 2022 NIAR 15-22

Draft Executive Budget 2022-2025: Capital Investment

Paper 3 of 4

Finance & Economics Research Team

This Paper – Paper 3 - is part of a four-part series addressing key themes arising from the Draft Executive Budget (DEB) 2022-25, which the now collapsed Executive had approved in December 2021 for consultation alone. The Paper explores Capital Investment within the context of DEB. In the lead up to the end of the Assembly mandate in late March 2022, this Paper seeks to inform Assembly statutory committees' consideration of budgetary matters relating to next year – 2022-23 - and beyond, given that an Executive Budget now cannot be agreed and other means now are to be taken.

Key Points

- In January 2022 - prior to the Executive's collapse in early February 2022 - the Committee for Finance (the Committee) commissioned research from RaISe, to facilitate the Committee's consideration of the Draft Executive Budget (DEB) 2022-25. Thereafter, that Committee request remained valid and the research findings arising from it are recorded in a four-part series, compiled by RaISe's Finance & Economics Research Team. The entire series aims to inform Assembly statutory committees in their consideration of budgetary matters relating to next year – 2022-23 - and beyond.
- This is Paper 3 in that series, addressing Capital Investment in Northern Ireland, as directed by the Executive/departments. Its contents help to inform the context in which the DEB was compiled and now is considered.
- Further informing that context is the below, which must be factored into committees' consideration of budgetary matters, including those relating to Capital Investment:
  - (i) No Executive since early February 2022;
  - (ii) Department of Finance's (DoF's) consideration of other legal options to ensure a Budget for Northern Ireland for 2022-23 and thereafter (2023-25), in the absence of an Executive from now until the end of the current Assembly mandate on 27 March and the start of the new budget year on 1 April, and potential issues subsequently arising post-May Assembly election that could further impact budgetary considerations for Northern Ireland;
  - (iii) Central government developments arising (directly and indirectly) from the United Kingdom's exit from the European Union (EU), which relate to public finance and the economy in Northern Ireland, for example, centrally administer EU replacement funding such as the Shared Prosperity Fund;
  - (iv) No Executive agreement on DEB - only its agreement in December 2021 that the DoF could consult on it; and,
  - (v) Now "paused" DEB public consultation, as directed by the Minister of Finance (MoF) on 15 February, following his receipt of legal advice.
- DEB 2022-25 provides a total of £5,230.1 million (m) in conventional capital Departmental Expenditure Limits (DEL) over the stated 3-year period;
- Additionally, DEB provides £291.4m Financial Transaction Capital (FTC) over the same period.
- On 26 January 2022, The Executive Office launched "Infrastructure 2050 – The Investment Strategy for Northern Ireland: Draft Consultation Document" (DISNI). The consultation remains open until April 2022. It followed on from the publication of the DEB in December 2021, which now is paused. Given ongoing political circumstances, the outcome of the DISNI consultation and issues arising therefrom await a new Executive or other.

- Departmental capital investment funding allocations – as the MoF proposes in DEB – include £30.5m (2022-23), £100.9m (2023-24) and £184.5m (2024-25) for City/Growth deals funding. Those allocations reflect the progress that is to be made over the next three years on City Deals, primarily the Belfast Region City Deal.
- Of the seven “Flagship” Projects agreed by the Executive in 2015; six are still to be completed at the time of writing this Paper. On that basis, DEB provides £645.1m for Flagship Capital Projects, from 2022-25.
- On 21 October 2021, the Executive agreed the draft Green Growth Strategy, outlining the Executive’s vision for a low carbon, nature rich society and sustainable economy by 2050. DEB provides £304m in total for “Green Growth initiatives”.
- After DEB’s publication in December 2021, the UK Government published its “Levelling Up” White Paper and announced more detail on two complementary centrally administered funds, which could influence the resources available for infrastructure projects in Northern Ireland in future. Those funds are: the “Levelling Up Fund”; and, the “Shared Prosperity Fund”. These funds could impact budgetary planning in Northern Ireland during 2022-25, and potentially beyond that period.
- The DEB 2022-25 includes Reinvestment and Reform Initiative (RRI) borrowing of: £140m in 2022-23; £194m in 2023-24; and, £200m in 2024-25. All provides a means to supplement the Executive’s Capital DEL budget.
- Total RRI borrowing over the budgetary period 2022-25 amounts to £534m; with the maximum allowable amount in the final year of £200m.
- Given the contents outlined in this Paper, Capital Investment opportunities may continue to be lost over the coming years for Northern Ireland, resulting in more departmental underspends.

Introduction

This Paper addresses Capital Investment within the context of the Draft Executive Budget (DEB) 2022-25, looking closely at the Capital Departmental Expenditure Limits (DEL) funding amounts identified by the Minister of Finance (MoF), as specified in the DEB consultation document[1] that was issued in December 2021 and the accompanying MoF written statement dated 10 December 2021[2]. The Paper also factors in the Draft Investment Strategy for Northern Ireland (DISNI), issued for public consultation by The Executive Office (TEO) on 26 January 2022. It is the third in a four-part series addressing key aspects of DEB[3]. It should be read in conjunction with the rest of the series, in particular Papers 1 and 2 concerning Northern Ireland's Economic and Public Finance Contexts.

The entire series aims to inform Assembly statutory committees in their consideration of budgetary matters for next year – 2022-23 - and beyond. It follows on from a request made by the Committee for Finance (the Committee) in mid-January 2022 - prior to the Executive's collapse in early February 2022. Thereafter, that Committee request remained valid, given statutory committees' ongoing budgetary considerations for next year – 2022-23 – and beyond.

Those considerations are impacted by the following, amongst other things:

(i) No Executive since early February 2022;

(ii) The Department of Finance's (DoF's) consideration of other legal options to ensure a Budget for Northern Ireland for 2022-23 and thereafter (2023-25), in the absence of an Executive from now until the end of the current Assembly mandate on 27 March and the start of the new budget year on 1 April, and potential issues subsequently arising post-May Assembly election that could further impact budgetary considerations for Northern Ireland;

(iii) Central government developments arising (directly and indirectly) from the United Kingdom's exit from the European Union (EU), which relate to public finance and the economy in Northern Ireland, for example, centrally administer EU replacement funding such as "Levelling Up Fund" and "Shared Prosperity Fund";

(iv) No Executive agreement on DEB - only the Executive's agreement in December 2021 that the DoF could consult on it;

and,

(v) Now "paused" DEB public consultation, as directed by the MoF on 15 February, following his receipt of legal advice.

[1] Northern Ireland Draft Budget 2022-25

[2] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Written%20Ministerial%20Statement%20-%20Executive%20Budget%202022-25%20-%20Final%20accessible.pdf (Accessed on 19 Jan 22)

[3] Northern Ireland Draft Budget 2022-25

The Paper is presented using the following nine sections:

1. Capital Funding Contextual Information;
2. Departmental Conventional Capital Funding;
3. Financial Transaction Capital (FTC);
4, UK Financial Packages (City/Growth Deals);
5. UK centrally administered funds;
6. Flagship Projects;
7. Green Growth;
8. Reinvestment and Reform Initiative (RRI) Borrowing; and,
9. Concluding remarks.

Throughout, blue boxes provide potential issues meriting committee consideration.

1. Capital Funding Contextual Information

Both DEB and DISNI are relevant to determining – to a lesser or greater extent - the direction of capital spend in Northern Ireland over the coming years. In addition, Northern Ireland's past experience of departmental capital funding underspend is a determinative factor.

Each of the above are discussed below using the following sub-sections:

1.1 Capital DEL allocations in DEB;

1.2 Sources of specific funding for capital projects over the DEB period;

1.3 DISNI[4]; and,

1.4 Analysis of long-term underspend of capital funding in Northern Ireland.

Further to the above - relating to capital funding at a devolved level - Assembly statutory committees should note that Section 2 of this Paper goes further. It examines relevant capital funding information that is to be centrally administered following the United Kingdom's (UK's) exit from the EU. It provides analysis of the UK Government "Levelling Up White Paper", published on 2 February 2022. Thereafter, subsequent sections of this Paper provide more in-depth analysis of several of the funds that the UK Government announced previously, which constitute key pillars of the White Paper, and other information published alongside the White Paper about those funds.

Moreover, committees should be aware that Papers 1 and 2 in this briefing paper series respectively concern Northern Ireland's economic and public finance contexts; also meriting consideration.

1.1 Capital DEL

In general:

> *Capital DEL reflects investment in assets which will provide or underpin services in the longer term (for example, schools, hospitals, roads etc.). Capital DE Lis also broken down into conventional Capital and Financial Transactions Capital (FTC).*[5]

Additionally:

> *FTC can only be used to provide loans to, or equity investment in, the private sector. It can therefore stimulate private sector investment in infrastructure projects that benefit the region, over and above the level of investment made by the Executive from its conventional Capital DEL budget.*[6]

---

[4] Levelling Up - White Paper (Feb 2022) Draft Investment Strategy for Northern Ireland
[5] Northern Ireland Draft Budget 2022-25 Pg. 13 Para 3.10
[6] Ibid Para 3.11

On 27 October 2021, the UK Chancellor set out in the Spending Review[7] the overall funding available for central and devolved governments for 2022-25. That included “funding for specific purposes as well as general funding that is for use at the discretion of the Executive (core funding)”.[8] The Northern Ireland MoF responded to the Spending Review, stating the Review “creates significant challenges for the public sector here”,[9] but went on to comment that:

> *A multi-year Budget at least enables the Executive to better plan and prioritise its finances. The task now for us as an Executive is to make the best possible use of the limited resources available.*[10]

Subsequently, the MoF announced a multi-year DEB in December 2021, following agreement amongst the Executive that the DEB would go out for public consultation. In his statement, the MoF outlined the funding available to Northern Ireland up to the 2024-25 financial year. (The breakdown of that funding, by financial year, can be found in below Table 1.) In addition, that statement and DEB document detailed the category of capital funding – i.e. Conventional Capital or FTC - for the DEB period. Those are summarised below at Table 1:

Table 1 – DEB 2022-25 Conventional Capital DEL and FTC Funding

£million	Previous Allocation (2020 Spending Review)	2022-25 Draft Executive Budget Conventional Capital DEL Funding		
	2021-22	2022-23	2023-24	2024-25
Conventional Capital DEL	1,610.9	1,686.2	1,784.7	1,759.2
Financial Transaction Capital	73.6	162.8	66.4	62.2

Source: Draft Executive Budget 2022-25 Consultation Document

In relation to the above, the MoF states:

> *In terms of Capital DEL the position for the Executive is steadier with small year on year increases over the 2022-25 Budget period.*[11]

After the Chancellor’s announcement of the Spending Review 2021, the Secretary of State for Northern Ireland confirmed funding available from a number of financial packages contributing to DEB. Those packages usually are for a specific purpose and time bound, as defined by a number of agreements and related statements. Moreover, they require the Executive to ensure that:

[7] Autumn Budet and Spending Review 2021
[8] Northern Ireland Draft Budget 2022-25 Pg. 16 Para.3.22
[9] https://www.finance-ni.gov.uk/news/spending-review-leaves-public-services-under-pressure-murphy
[10] ibid
[11] Northern Ireland Draft Budget 2022-25 Pg. 17 Para.3.26

The Executive's Budget must adhere to the control totals notified by the Secretary of State in his settlement letter.[12]

The following sub-section details the Capital DEL allocations derived from each noted agreement:

1.1.1 Fresh Start

As highlighted in Table 2 below, the Fresh Start Agreement included:

…funding for a number of initiatives aimed at building a shared future. The financial package confirmed by the Secretary of State provides for the following additional amounts across the Budget period for shared education and housing.[13]

Table 2 – Fresh Start Capital DEL Allocation

£million	2022-23	2023-24	2024-25
Fresh Start – Capital DEL (Shared Education and Housing)	51.3	64.4	37.2

Source: Draft Executive Budget 2022-25 Consultation Document

1.1.2 Confidence and Supply – Ultra-fast Broadband

Following on from the Confidence and Supply Agreement (CSA)[14] between the Conservative Party and the Democratic Unionist Party (DUP), £1 billion (bn) in funding was secured for areas including health, infrastructure and education in Northern Ireland. Of the money made available, £150m[15] was for Ultra-fast broadband. Funding from the CSA for Ultra-fast Broadband is to continue over 2022-25, as detailed in Table 3 below:

Table 3 – Confidence and Supply Agreement - Capital DEL Allocation

£million	2022-23	2023-24	2024-25
Confidence and Supply Financial package (Ultra-fast Broadband)	49.4	37.2	0

Source: Draft Executive Budget 2022-25 Consultation Document

However, the MoF stated in the DEB document that all of this funding is not currently available, explaining:

[12] Northern Ireland Draft Budget 2022-25 Pg. 18 Para. 3.29
[13] Ibid Pg.18 Para. 3.31
[14] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/621794/Confidence_and_Supply_Agreement_between_the_Conservative_Party_and_the_DUP.pdf
[15] https://commonslibrary.parliament.uk/confidence-and-supply-northern-irelands-1-billion/

Some £10.1 million of this funding will be held centrally in 2023-24 pending agreement with the British Government on the most appropriate profile for this funding.[16]

1.1.3 New Decade New Approach

Within the New Decade New Approach agreement, there was a financial package that provided funding for the delivery of a Graduate Entry Medical School in Derry/Londonderry. A proportion of that funding is carrying over into the DEB 2022-25, as outlined in the DEB document and here in Table 4 below:

Table 4 – Confidence and Supply Capital DEL Allocation

£million	2022-23	2023-24	2024-25
New Decade New Approach package (Graduate Entry Medical School)	15.0	-	-

Source: Draft Executive Budget 2022-25 Consultation Document

1.1.4 Summary

Several other funding sources for capital projects were also available to the MoF, including: FTC; the contribution to the A5 project by the Republic of Ireland (RoI); and Reinvestment and Reform Initiative (RRI) borrowing. These are examined in more detail later in this Paper (at Sections 3, 6, and 8 respectively). Table 5 below summarises all capital funding available:

Table 5 – Capital Funding Sources in DEB[17]

£million	2022-23	2023-24	2024-25
SR Conventional Capital DEL	1,686.2	1,784.7	1,759.2-
Irish Government Contribution to A5	7.4	25.0	25.0
Fresh Start Housing and Education	51.3	64.4	37.2
City Deals	41.7	41.7	41.7
Confidence &Supply - Project Stratum	49.4	37.2	-
NDNA Magee medical school*	15.0	-	-
RRI Borrowing	140	194.0	200.0
Total	**1,991.0**	**2,146.9**	**2,063.1**

*To be held centrally pending discussions of profiling with Northern Ireland Office
#RRI borrowing are recorded under the rules as Annually Managed Expenditure (AME), and therefore are not included in the Executive's Departmental Expenditure Limit (DEL). However, interest payments are recorded as Resource DEL

Source: Draft Executive Budget 2022-25 Consultation Document

[16] Northern Ireland Draft Budget 2022-25 Pg. 19
[17] http://www.niassembly.gov.uk/assembly-business/official-report/written-Ministerial-statements/department-of-finance---draft-budget-2022---2025/ Table 5

An additional summary table can be found at **Annex 1** of this Paper, specifying all capital investment funding, by department, for each year between 2022-23 and 2024-25.

1.2 DISNI

On 26 January 2022, The Executive Office (TEO) announced its publication of the DISNI consultation document.[18] That document sets out the "key objectives for infrastructure investment in the region for the next thirty years".[19] Unlike previous Executive Investment Strategies that set objectives for a 10-year period, this latest strategy takes a 30-year approach, up to 2050.

In terms of funding the DISNI, the Strategy states that a longer-term perspective is required as the nature of such infrastructure projects takes a considerable time to plan, procure and ultimately delivery. Therefore, it explains that:

> *Good investment practice dictates that capital budget allocations (or indicative allocations) therefore need to be made on the same timescale.*[20]

Additionally, the DISNI suggests that the required investment will need to be greater than what has been committed previously. It states:

> *The scale of investment required to maintain our existing infrastructure and provide for our future needs and ambitions will be significantly higher in real terms than the £1.2–£1.4 billion per annum typically invested over the past 10-years.*[21]

The DISNI also reflects on investment in infrastructure over previous years, and is somewhat critical of the approach taken in the past. It states:

> *In recent years, long-term investment planning has been hampered by immediate-term (1-3 year) budget settlements. This has inhibited our ability to plan on a multi-year basis and has tended to favour smaller and less strategic investments that can be delivered in the shorter timeframe. A Medium-Term Infrastructure Finance Plan (MTIFP) will be developed to help inform departmental capital planning.*

Considering such criticism of the previous approach, the DISNI sets out how the MTIFP is to operate, taking a longer-term approach to funding. It explains that:

> *The MTIFP will:*
>
> - *cover a rolling 10-year period, and be updated each year in line with the NI Budget process;*

[18] Draft Investment Strategy for Northern Ireland (accessed 27th January 2022)
[19] https://isni.wpengine.com/strategy/
[20] Draft Investment Strategy for Northern Ireland Pg. 62 (accessed 27th January 2022)
[21] Ibid Pg.59

- *commence with confirmed Capital Departmental Expenditure Limits (CDEL) for all departments and related public bodies in line with committed HM Treasury Spending Review allocations to the Executive, and consistent with the NI Budget and this Investment Strategy;*
- *be supplemented by an assumption of indicative capital allocations for years beyond the Budget, up to and including Year 10;*
- *include an assessment of all other sources of public finance, such as Reinvestment and Reform Initiative borrowing, Financial Transactions Capital loan finance or equity, external public funding (UK, RoI and International)*
- *include an assessment of potential private finance, where this does not unduly impact on the NI Executive budget and risk appetite; and,*
- *consider the revenue costs associated with pre-development and operational management.* [22]

As a consequence of the priorities and resources that are to be set out in the MTIFP, the Executive published DISNI, setting out on-going, planned and expected projects that it sought to commence over the next 10-years, beginning in 2022. This was after the DEB issuance in December 2021, but after the collapse of the Executive in early February 2022.

The DISNI document states at its outset that:

> *We intend that the initial Executive Infrastructure Investment Plan (including the Finance Plan) should be delivered by the end of 2022 and cover the period to 2032, reflecting both existing commitments and new investment programmed for that period.*[23]

However, as noted above, its publication came after the publication of DEB; and while DISNI's aim was to provide greater clarity and visibility of project proposals to the construction sector and investors, it is worth noting here the Fiscal Council for Northern Ireland's (FCNI's) comment regarding the sequencing of DEB and DISNI. The FCNI stated:

> *The Executive did publish an 'Investment Strategy' for 2011 to 2021 and a new one is needed. We understand a draft will soon be published for consultation, but ideally it would have been in place in time to shape the*

[22] Ibid Pg.62/63
[23] Draft Investment Strategy for Northern Ireland Pg. 63 (accessed 27th January 2022)

> *Draft Budget capital allocations so an opportunity may now have been missed in this respect.*[24]

1.3 Capital Underspend

It is well documented that the ability to spend all capital allocations has been a long-term structural problem for the Executive, in particular capital in the form of FTC. In 2022, during the January Monitoring Round, there was over £100m Capital DEL available for allocation, with only one departmental bid submission, of £4.6m; thereby leaving £96 million unallocated. The MoF subsequently reduced RRI borrowing, by around £60m; however, £35.9m remained unallocated.

There are mechanisms to "carry forward" funding into the next financial year under the prevailing financial arrangements under the current devolution settlement – i.e. under the "rules" defining the Public Finance Framework (PFF) for Northern Ireland. However, in his January Monitoring Round statement dated 24th January 2022, the MoF conceded that "the level of unallocated Capital DEL already exceeds the estimated amount we will be permitted to carry forward".[25] In this regard, the FCNI further noted the issues of capital spending, making the point that:

> *The Executive has underspent conventional CDEL each year (bar 2019-20) and by amounts small enough to carry them forward through Budget Exchange.*[26]

The January Monitoring Round also reported a considerable amount of "…FTC of £72·7 million was available for allocation".[27] Notably, there were no departmental bids submitted for FTC funding. Rather, the MoF was able to agree with the Treasury that "£71.1 million of that will be put towards repayment of future liabilities",[28] leaving £1.6 m to be carried forward into the next financial year. Here, it should be noted that the FCNI commented on FTC underspend issues, stating:

> *The Executive tends to underspend its total allocation of FTC to a considerable degree – and much more than for resource and conventional capital. This reflects the relative inflexibility of its potential use.*[29]

The FCNI also reflected the MoF's view on the issues surrounding FTC:

> *The Minister noted that: "This reflects the challenge associated with identifying suitable projects that can avail of this finance that can only be used for loans or equity investments in the private sector."*[30]

---

[24] https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2022-01/nifc-budget-report-jan-2022-full-final-version-19.01.22-14.30.pdf Pg. 46
[25] http://aims.niassembly.gov.uk/officialreport/report.aspx?&eveDate=2022/01/24&docID=364350#3872382
[26] NI Fiscal Council - The public Finances in Northern Ireland: A Guide Pg.69
[27] http://aims.niassembly.gov.uk/officialreport/report.aspx?&eveDate=2022/01/24&docID=364350#3872382
[28] ibid
[29] NI Fiscal Council - Budget Report Pg.43
[30] NI Fiscal Council - The public Finances in Northern Ireland: A Guide Pg.128

As highlighted in the FCNI's Guide to NI finances[31], the requirement of returning unspent monies to Treasury is an important UK Government tool for controlling spending. The Guide further stated:

> *…while there is an incentive for any UK departmental Minister to avoid an underspend that breaches the limit, it is particularly powerful for the NI Finance Minister as the money is not simply redistributed to other colleagues for other priorities but lost to NI altogether and 'handed back to London…*[32]

The Guide added:

> *The fact these excess underspends are lost entirely to NI rather than being reallocated across departments lends them a greater political salience than is typically the case at the UK level.*[33]

To that point, during the Covid-19 pandemic additional issues arose in the ability of the Executive to spend on capital, and resulted in significant capital DEL underspend during the period of the pandemic. The FCNI evaluated that:

> *The Executive has underspent conventional CDEL each year (bar 2019-20) and by amounts small enough to carry them forward through Budget Exchange.In 2019-20 it (The Executive) underspent by £137.4 million (£102.3 million after excluding non-eligible funding) because of Covid-19 related delays. But it could only carry forward £21.2 million so £81.1 million was lost.*[34]

Potential issues for consideration:

1. When compiling the DEB, did the DoF consult with TEO in relation to DISNI, including, but not limited to, discussion regarding sequencing of those publications for consultation and preliminary discussion of relevant plans – specifically Finance Plans – to foster joined up thinking and planning in relation to DEB and DISNI?

2. Departmental Conventional Capital Funding

This section focuses on departmental conventional capital funding under DEB, as referenced in the MoF statement[35] to the Assembly on 10 December 2021.

Other strands of Capital funding are presented in subsequent sections of the Paper, including: FTC (section 3); City/Growth Deals (section 4); UK Government "Levelling

[31] NI Fiscal Council - The public Finances in Northern Ireland: A Guide
[32] ibid
[33] ibid
[34] NI Fiscal Council - The public Finances in Northern Ireland: A Guide Pg.69
[35] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Written%20Ministerial%20Statement%20-%20Executive%20Budget%202022-25%20-%20Final%20accessible.pdf (Accessed on 19 Jan 22)

Up" Funding (section 5); and, funding for Flagship projects and Green Growth (sections 6-8). All could have an impact on available infrastructure capital going forward.

2.1 Departmental conventional DEL funding under DEB

DEB's conventional capital DEL funding for departments was:

> *… determined on a zero-based approach informed by assessment of the capital requirements of individual departments…*[36]

How departmental conventional capital DEL funding is spent is at the discretion of the individual Ministers and departments involved. The MoF summarised this point as follows:

> *With the exception of ring-fenced funding, such as City/Growth Deals and Flagship projects, departments will be provided with proposed capital funding envelopes within which Minsters may fund their own priorities.*[37]

Table 6 below shows Capital DEL at departmental level:

Table 6: DEB2022-25 Conventional Capital DEL at departmental level[38]

£ million	Year 1 2022-23	Year 2 2023-24	Year 3 2024-25	% Annual change Years 1 & 2	% Annual change Year 2 & 3
Agriculture, Environment & Rural Affairs	63.4	62.6	56.4	-1%	-10%
Communities	192.9	163.2	114.5	-15%	-30%
Economy	105.8	80.3	50.5	-24%	-37%
Education	164.9	170	183.5	3%	8%
Finance	35	40	29.9	14%	-25%
Health	313.2	275.2	266.6	-12%	-3%
Infrastructure	615.1	635.9	606.3	3%	-5%
Justice	100	124.9	128.5	25%	30%
The Executive Office	15	15	15	-	-
Total allocation	**1,605.3**	**1,567.1**	**1,451.2**	-2%	-7%

Source: Draft Budget Ministerial Statement (December 2021)

While Table 6 – as quoted from the MoF written statement on DEB - suggests only Education and Justice receive increases in conventional capital DEL, the DEB consultation document qualifies the Table, stating:

[36] Northern Ireland Draft Budget 2022-25 pg. 70
[37] Written Ministerial Statement Executive Budget 2022-25 Pg.10
[38] Written Ministerial Statement Executive Budget 2022-25 Pg.17-19

> *Comparisons to previous years are not meaningful due to the nature of Capital funding. For example, a department may require significant construction costs for a large project in the first year of the budget but not need the same amount of Capital in future years.*[39]

Returning again to the uncertainties and financial restraints that have surrounded the development of DEB, the MoF states:

> *The overall funding position announced for the Executive is not enough to cover all that the Executive aspire to do. In simple language it represents a breakeven budget after factoring in inflation by 2024-25, however with costs increasing and new pressures emerging it means that difficult decisions will have to be taken.*[40]

The MoF believes that: "In terms of Capital DEL, the position for the Executive is steadier with small year on year increases over the 2022-25 Budget period".[41]

Potential issues for consideration:

2. In determining the general Capital DEL for each department, has the MoF taken an outcomes-based approach, as agreed in the 'New Decade, New Approach' political agreement?
3. In the case of more capital funding becoming available during 2022-25, had the Executive established a priority list of departmental capital projects prior to its collapse, to which additional funding could be directed?
4. If not, what could the DoF rely on to do so, for example, any past Executive agreement that could provide the appropriate authority?

3. Financial Transactions Capital (FTC)

This section looks at FTC; first explaining it generally (sub-section 3.1), and then in the context of DEB (sub-section 3.2).

3.1 FTC – what is it?

The UK Government introduced FTC "as an additional type of capital funding to help boost investment".[42] In 2015, the DoF – formerly the Department of Finance and Personnel - produced a document that stated FTC:

---

[39] Northern Ireland Draft Budget 2022-25 Pg.17
[40] Ibid Pg.70
[41] Ibid Pg.70
[42] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Financial%20Transactions%20Capital%20-%20Overview%20Paper.pdf . Page 2.

> *…can stimulate private sector investment in infrastructure projects that benefit the region, over and above the level of level of investment made by the Executive from its normal Capital DEL budget.*[43]

FTC's distinguishing feature is the form it comes in. FTC funds may be deployed only as a loan to, or equity investment in, a private sector entity.[44] The funding is then used by the private sector to invest in related infrastructure, which is consistent with, and supportive of the Executive's overall strategic aims and objectives.

All FTC schemes are required to comply with the following conditions:

- The project should deliver policy objectives and be suitable for delivery by the private sector;
- There is a private sector entity for the department to lend or invest in; and,
- The sponsor body must have the requisite legislative authority to enter into this type of transaction.[45]

Further detail on FTC can be found in a past RaISe Paper NIAR 082-14 (published April 2014).[46]

3.2 FTC via DEB

DEB includes £291.4 m of FTC DEL over the budget period. As mentioned above, FTC can be used only to provide loans or equity investment in the private sector. It therefore has the potential to stimulate private sector investment in infrastructure projects that benefit the region, over and above the level of investment made by the Executive from its conventional Capital DEL budget. A breakdown of FTC for each year of the budget can be found in Table 7 below:

Table 7. Financial Transactions Capital – DEB 2022-25

£million	2022-23	2023-24	2024-25
Financial Transactions Capital DEL	162.8	66.4	62.2

Source: Draft Executive Budget 2022-25 Consultation Document

In the MoF written statement on DEB, he provided a breakdown of the allocation to individual departments. There was also additional information in relation to the FTC split across the Northern Ireland Investment Fund and funding that remained

[43] Ibid.

[44] Ibid..

[45] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Financial%20Transactions%20Capital%20-%20Overview%20Paper.pdf . Page 3

[46] http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2014/finance_personnel/10214.pdf

unallocated. Table 8 below shows the more detailed allocation of FTC for each year of the budget:

Table 8. FTC detail at departmental level – DEB 2022-25[47]

£million	2022-23	2023-24	2024-25
Departmental Planned Spend			
DfC	52.1	54.7	52.4
DfE	3.5	11.6	9.8
Held Centrally for Allocation			
NI Investment Fund	50.0	-	-
Unallocated Funding	57.3	-	-
Total Spending	**162.8**	**66.4**	**62.2**

*Totals may not add due to rounding

Source: Draft Executive Budget 2022-25 Consultation Document

The MoF sought to inform the direction for FTC spend via DEB, as stated in his written statement:

> *It is proposed that funding is provided for housing as well as the NI Investment Fund which invests in the transformation of the region for the long-term, supporting economic growth and the low carbon economy.*[48]

He gave additional detail in the DEB document itself, explaining the almost £100m additional FTC in the 2022-23 financial year as follows:

> *The Financial Transactions Capital available following the Spending Review outcome varies significantly year on year and the large increase in 2022-23 reflects the Barnett allocation related to the end of the Help to Buy scheme in England.*[49]

Historically, there is strong evidence to highlight that FTC spending has been problematic for departments. In a statement on 20 January 2022, the MoF noted that at

[47] Written Ministerial Statement Executive Budget 2022-25 Pg.11 & 22
[48] Ibid Pg. 11
[49] Northern Ireland Draft Budget 2022-25 Pg.17

the conclusion of the January Monitoring Round,[50] £72.7 m of FTC remained unallocated from the 2021-22 Executive Budget. Having said that, in the January Statement, to avoid surrendering that funding to the Treasury (meaning Northern Ireland losing it), the DoF agreed with the Treasury that the FTC could be used to “fund repayment of FTC to Treasury in advance of previously agreed repayments schedule”, stating:[51]

> *This effectively frees up funding in future years. It is proposed that £71.1 million is used for this purpose. This is in addition to the £19.9million already held centrally for planned repayments.*[52]

In that statement, the MoF concluded:

> *As a result, £1.6 million remains unallocated which is the amount of permitted carry forward under the Budget Exchange Scheme.*[53]

Potential issues for consideration:

5. What are the departments current plans to spend the full quantum of FTC in years 2022-25? Is there any foreseen danger that that FTC funding will be surrendered to the Treasury, and lost to Northern Ireland?
6. In contributing to the development of the ongoing DISNI consultation, have the departments worked to ensure that FTC – going forward - will be used more effectively to fund, where possible, projects over the long-term and ensure in future that problems in departments spending FTC are addressed appropriately and avoided, in order to significantly reduce the need to surrender unused FTC funding to the Treasury?
7. What will departments pro-actively do in future to address FTC funding underuse?

4. UK Financial Packages (City/Growth Deals)

This section provides and overview of the City and Growth Deals in Northern Ireland and its associated funding over the given budget period. More detail on the Northern Ireland City and Growth Deals can be found in an earlier RaISe paper NIAR 063-2020, (published June 2020).[54]

[50] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/EXEC-0007-2022%20Reissued%20WMS%20-%202021-22%20January%20Monitoring.pdf
[51] Ibid. Pg. 7
[52] Ibid.
[53] Ibid.
[54] http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2017-2022/2020/economy/3220.pdf

4.1 Overview

The first City Deal for Northern Ireland was announced in the 2017 Autumn Budget,[55] with the negotiations for the Belfast City Deal beginning when the Executive was eventually restored; with provision for further deals in future:

> *Upon restoration of a Northern Ireland Executive, the government will open negotiations for a city deal for Belfast as part of the government's commitment to work towards a comprehensive and ambitious set of city deals across Northern Ireland to boost investment and productivity.*[56]

In the 2018 Budget,[57] the UK Government announced it would begin the formal negotiations with local partners in establishing a Derry/Londonderry and Strabane City Region Deal.

In January 2020, the New Decade, New Approach[58] agreement saw the restoration of the Assembly and also made provision for City/Growth Deals. That committed the Executive to match the funding provided by the UK Government. The agreement stated:

> *The Executive will make it a priority to realise the economic potential offered by City Deals for the Belfast Region and Derry/Londonderry, including through* ***match capital funding for infrastructure, regeneration and tourism project.***[59]

As of February 2022, there are currently four City/Growth Deals in Northern Ireland, covering each of the 11 council areas. Table 9 below shows the current Deals and the councils involved in each:

[55] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/661480/autumn_budget_2017_web.pdf

[56] Ibid (Section 4.88 – pg. 57)

[57] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752202/Budget_2018_red_web.pdf#page=40

[58] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/856998/2020-01-08_a_new_decade__a_new_approach.pdf

[59] Ibid Pg.8

Table 9 – Overview of Northern Ireland City/Growth Deals

City / Growth Deal	Local Council
Belfast Region City Deal Value Circa £850m	• Belfast (lead council) • Antrim & Newtownabbey • Ards & North Down • Lisburn and Castlereagh • Newry, Mourne and Down • Mid & East Antrim
Derry~Londonderry City Deal Value Circa £210m	• Derry City and Strabane
Mid-South West Growth Deal Value Circa £264m	• Armagh, Banbridge and Craigavon • Fermanagh and Omagh • Mid Ulster
Causeway Coast & Glens Growth Deal Value Circa £72m	• Causeway Coast and Glens

Source: Department for the Economy[60]

4.2 Belfast City Deal

Heads of Terms[61] for the Belfast Region City Deal were signed on 26 March 2019, committing the UK Government to investing £350m. This has been matched by the Executive. And with £150m from Belfast Region City Deal partners and private sector investment, it is anticipated that the total Belfast Region City Deal investment package will eventually exceed £1bn. On 17 December 2021, the first City Deal (Belfast Region City Deal) in Northern Ireland was signed.[62] This officially unlocked the around £1bn in funding, that is to develop around 20 projects, including three infrastructure projects (Lagan pedestrian and cycle bridge, Belfast Rapid Transit - Phase two and the Newry Southern Relief Road):[63]

[60] https://irecruit-ext.hrconnect.nigov.net/resources/documents/i/r/c/irc265532---cib-v3---final_164117.pdf
[61] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/789253/HoT-_City_Deals-_Final_-_with_signatures__1_.pdf
[62] https://www.gov.uk/government/news/northern-irelands-first-city-deal-signed-today-unlocking1-billion-of-co-investment-for-the-belfast-region
[63] https://www.belfastcity.gov.uk/business-and-investment/regeneration/belfast-region-city-deal/investment-in-infrastructure

Table 10 – Breakdown of funding committed to Belfast City Deal

Funding Body	Investment
UK Government	£350m
NI Executive	£350m
Local Councils	£100m
Queens University Belfast/Ulster University	£50m
Total	**£850m**

Source: Belfast City Council – Belfast Region City Deal[64]

4.3 Derry~Londonderry and Strabane Region City Deal

The UK Government announced in May 2019 a £105m City Deal funding package for Derry and Strabane. This comprised of two pieces of investment, a £50m City Deal and £55m Inclusive Future Fund. The Executive confirmed match funding for the Derry and Strabane City deal for both the City Deal and Inclusive Future Funding; bringing the total available to £210m. With additional funding from Derry and Strabane Council and other third-party sources, the total funding available for the Derry~Londonderry and Strabane Region City Deal was over £250m. Table 11 below shows the breakdown of funding bodies and the investment committed:

Table 11 – Breakdown of funding committed to Derry~Londonderry and Strabane Region City Deal[65]

Funding Body	Investment
UK Government	City Deal - £50m Inclusive Future fund - £55m **Total Investment – £105m**
NI Executive	£105m
Local Council and Project delivery partners	£40m
Total	**£250m**

Source: Derry and Strabane District Council[66]

4.3.1 Inclusive Future Fund

The Inclusive Future Fund was announced by the UK Government in May 2019,[67] to bolster the City Deal funding. The then Secretary of State for Northern Ireland stated the reason for the additional funding as:

[64] https://www.belfastcity.gov.uk/Documents/Belfast-Region-City-Deal-December-2021
[65] https://www.derrystrabane.com/getmedia/2e567b53-b36f-45c9-ad16-460cf002dd21/DCSDC-City-Deal-Heads-of-Terms-(Signed).pdf
[66] https://www.derrystrabane.com/citydeal
[67] https://www.gov.uk/government/news/105-million-economic-package-for-the-north-west

> *The new Inclusive Future Fund recognizes the unique circumstances facing the region and will help create new opportunities for the whole of the community, especially for young people.* [68]

Effective terms of reference for the Inclusive Future Fund were to enable investment in projects that could:[69]

- *Support local young people by providing jobs and skills opportunities;*
- *Tackle the causes and consequences of long-term social deprivation; and,*
- *Build on the economic potential of the local university and making the local area more accessible and attractive to live, visit, study and invest.*

4.4 Further Growth Deals

In October 2019, the UK Government announced[70] that a £163m share of funds to support local growth would be available to Mid South West, and Causeway Coast and Glens regions. Under the New Decade, New Approach political agreement;[71] finalised in January 2020. The agreement stated:

> *The Executive will work with the UK Government to develop and deliver the Growth Deals for Mid South West Northern Ireland and Causeway Coast and Glens.*[72]

4.4.1 Mid South West Growth Deal

The UK Budget statement,[73] delivered by the Chancellor in March 2020, confirmed that the Mid South West region would receive £126m.

4.4.2 Causeway Coast and Glens Growth Deal

The statement confirmed that the Causeway Coast and Glens region would receive £36m.

4.5 DEB City/Growth Deals expenditure

The DEB[74] MoF written statement gave an initial profile of the City/Growth Deals expenditure, which showed funding over the budget period of:

- 2022-23 - **£30.5m;**

---

68 ibid

69 ibid

70 https://www.gov.uk/government/news/163-million-economic-package-for-northern-ireland

71 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/856998/2020-01-08_a_new_decade__a_new_approach.pdf

72 Ibid pg. 8

73 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871799/Budget_2020_Web_Accessible_Complete.pdf

74 https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Written%20Ministerial%20Statement%20-%20Executive%20Budget%202022-25%20-%20Final%20accessible.pdf Pg. 9

- 2023-24 - **£100.9m; and,**
- 2024-25 - **£184.5m.**

The MoF further noted:

> *These amounts have been allocated to the department with policy responsibility for the area to which the City/Growth Deals project relates. This funding is ring-fenced for City/Growth Deals and profiles will be kept under review as Deals progress.*[75]

Potential issues for consideration:

8. What will the noted review process involve now that there is no Executive in this mandate?
9. What is the forward work plan for this review?
10. Who are the key actors to undertake this review?

4.6 City/Growth Deals Complementary Fund

In May 2020, the MoF announced that in addition to the match funding for the City/Growth Deals:[76]

> *The Executive has also agreed to provide up to an additional £100m for complementary projects where partners can demonstrate a viable capital project which is complementary to the City/Growth Deal proposals.*

Further to that, the DEB Ministerial statement gave more detail as to how the complementary fund would operate, stating:[77]

> *This fund can be accessed by all City/Growth Deals with the exception of the Derry City and Strabane Deal which receives additional funding from the Inclusive Future Fund which the Executive also matches.*

The MoF further elaborated as the complementary fund is wholly funded by the Executive:

> *…Complementary Fund allocations must be funded from the Executives Capital DEL, bids were sought from eligible City/Growth Deals for the first tranche of funding from the Complementary Fund as part of this Budget process.*

[75] ibid
[76] https://www.finance-ni.gov.uk/news/murphy-announces-over-ps700m-investment
[77] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Written%20Ministerial%20Statement%20-%20Executive%20Budget%202022-25%20-%20Final%20accessible.pdf

> *While the bids received significantly exceeded the level of funding intended to be allocated in the first tranche it is considered important to restrict the first tranche of funding to around £50 million in order to ensure that those Deals which are not as far progressed still have the opportunity to benefit from the fund.*[78]

The MoF also indicated there were a significant number of bids for funding of City/Growth Deal projects that had been refused due to insufficient funding. He confirmed:

> *Unfortunately, given the extent to which the bids received outweighed the funding available it is simply not possible to meet all the bids which have been supported by the relevant policy departments. This has meant that difficult decisions have had to be made. I appreciate that this may be disappointing for both the departments and the councils concerned.*[79]

However, the MoF also stated:

> *…. there will be an opportunity for City/Growth Deals will also be able to resubmit bids as part of the second tranche of funding. All projects will be subject to the usual expenditure approval process and should any project fail to demonstrate value for money then the funding must be returned for reallocation.*[80]

Potential issues for consideration:

11. How much did the departmental bids submitted outweigh the funding available?
12. What criteria has the DoF set for determining Value for Money in this context?
13. In evaluating each project, has the DoF prioritised and/or ranked the bids when determining those that it identified should receive funding?
14. When will the second tranche of funding be made available?
15. Will projects failing to demonstrate Value for Money from the first tranche of funding be determined, before the second tranche is decided?
16. If so, could that potentially make additional funding available for second tranche bids, or will that funding become available in later bid processes, or other?
17. As a formally signed agreement, will the funding be available for the Belfast City Deal to receive its allocated funding in light of No executive in place?
18. Will the MoF have authority to allocate that funding during the current mandate, if received?
19. Will the other city deals that are currently being developed and finalised be able to proceed if there is no new Executive post-Assembly election to agree the match funding for these deals? Is Executive approval required to provide match-funding to City/Growth Deals?
20. If there is no new Executive, has the DoF had any discussion with the UK Government about such funding?

[78] ibid
[79] ibid
[80] ibid

Detail of the departmental bids that were identified in the DEB document are outlined below in Table 12:

Table 12. City/ Growth Deals - Complementary Fund – Allocations

Lead NICS Dept.	City/Growth Deal	Project Title	Lead Organisation	Complementary Fund Allocation £m
DAERA	BRCD	Whitespots Country Park	Ards and North Down Borough Council	7.4
DfE	BRCD	Ballymena Integrated Green Hydrogen Hub / Hydrogen Technologies Accelerator Hub	Mid and East Antrim Borough Council / Belfast City Council, Mid and East Antrim Council, Antrim and Newtownabbey Borough Council	15.0
DfE	MSW	Industrial Investment Challenge Fund (IICF) Phase 1	Armagh City, Banbridge & Craigavon Borough Council	7.5
DfC	BRCD	15 Acre Albert Basin park Newry	Newry Mourne and Down District Council	16.3
DfE	All City & Growth Deals	Digital Transformation Fund	Belfast City Council	6.0
Total				**52.1**

Source: Draft Executive Budget 2022-25 Consultation Document

N.B. As some of the projects have funding profiles over four years, £45.1 m of Complementary Fund allocations are recommended over 2022-25 and £7.0 min 25-26. Departments receive the funding in their Capital allocation.

5. UK centrally administered funds

After the decision to leave the EU, the UK Government announced in 2017 that it would provide funding to plug the gap created by the loss of EU Structural Funds. This funding was called the Shared Prosperity Fund and is due to launch in April 2022. As part of the Spending Review in 2020, the UK Government launched the Levelling Up Fund, with a focus on capital investment in local infrastructure.

These funds present uncertainties for devolved administrations as they will be administered centrally by the UK Government; while cutting across matters that are devolved, and are significantly relevant in the context of this paper - capital investment.

5.1 Levelling Up White Paper – February 2022

On 2 February 2022, the UK Minister for Levelling Up, Housing and Communities, published a Levelling Up White Paper.[81] That Paper focuses on a variety of areas, including those that cross over with key capital investment detailed in DEB, notably City Deals and Green growth (in the form of the Green Industrial Revolution).

In general, the White Paper describes Levelling Up as:

> *Levelling up is a mission to challenge, and change, that unfairness. Levelling up means giving everyone the opportunity to flourish. It means people everywhere living longer and more fulfilling lives, and benefitting from sustained rises in living standards and well-being*[82]

The White Paper also references a number of initiatives that have previously been announced, and in which RaISe has provided research. These include Freeports, in which more detail can be found in an earlier RaISe paper NIAR 353-20, (published January 2021),[83] and the previously mentioned City Deals RaISe paper NIAR 063-2020 (published June 2020).[84]

In analysing the content of the Levelling Up White Paper, the Institute for Government stated:

> *there is still a lack of detail behind how these proposals will work, and a shortage of policies which could actually make the missions succeed.*[85]

While the White Paper makes particular reference to devolution, including expanding devolution in England and also stating that the UK Government "is committed to facilitating collaboration and engagement with the devolved governments and stakeholders in Scotland, Wales and Northern Ireland".[86] The Institute for Government also raised concerns that the Levelling Up programme would be centrally administered; and thereby would give central government significant control over where Levelling Up funding would be directed. The Institute stated:

> *Many of the levelling up policies give most decision-making power to central government – which jars with government rhetoric. The Levelling Up Fund, Towns Fund and Community Renewal Fund are all centrally run and rely on local areas bidding for money. This gives central government a lot of power in deciding where funding goes and what types of projects are eligible.*[87]

---

[81] Levelling Up - White Paper (Feb 2022)
[82] Ibid. Pg.16
[83] http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2017-2022/2021/finance/0621.pdf
[84] http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2017-2022/2020/economy/3220.pdf
[85] https://www.instituteforgovernment.org.uk/blog/levelling-white-paper
[86] Levelling Up - White Paper (Feb 2022) Pg.30
[87] https://www.instituteforgovernment.org.uk/publications/levelling-up

It also merits mentioning that the Levelling Up White Paper refers to two notable funds,which are to be administrated directly by the UK Government. Such funding is to be used to invest in infrastructure projects across the UK. The two funds are: Levelling Up Fund;[88] and, Shared Prosperity Fund.[89] Each are explained below.

5.1.1 Levelling Up Fund

In the 2020 Spending Review, the UK Government announced the Levelling Up Fund, with the intention to "focus on capital investment in local infrastructure"[90]. As part of the commitment, the Chancellor announced at least £800m across the devolved nations of the UK. While in England, Wales and Scotland, the approach to the fund would be the same in that "funding will be delivered through local authorities."[91] And in the case of the devolved regions, "The Scottish and Welsh Territorial Offices would be consulted in the assessment of relevant bids".[92]

However, the UK Government has decided to take a different approach in Northern Ireland, which "takes account of the different local government landscape". The White Paper explained that:

> *A different approach is being taken in Northern Ireland. The UK Government will accept bids at the most local level, from a range of local applicants, including but not limited to businesses, voluntary and community sector organisations, district councils, the Northern Ireland Executive and other public sector bodies.*[93]

As previously stated, the Devolved Administrations are to share £800m over the four years, from 2021-22 to 2024-25. Specifically, for the first round of funding: at least 9% of total UK allocations will be set aside for Scotland; 5% for Wales; and, 3% for Northern Ireland".[94] On 27 October 2021, the UK Government allocated £1.7 billion (bn) in its first tranche of funding; of which Northern Ireland received 3% of the allocation. In this first round, the decision-making explanatory note[95] detailed the breakdown of the Northern Ireland bids as follows:

> *Ministers therefore agreed to fund every bid on the Northern Ireland shortlist to prioritise a strong allocation for the country, with the exception of two bids that were ruled out due to deliverability concerns. As a result, 11*

[88] Levelling Up - Prospectus
[89] https://www.gov.uk/government/publications/uk-shared-prosperity-fund-pre-launch-guidance/uk-shared-prosperity-fund-pre-launch-guidance
[90] Levelling Up - Prospectus
[91] Ibid pg.4
[92] Ibid pg.4
[93] Ibid pg.7
[94] Ibid pg.14
[95] https://www.gov.uk/guidance/levelling-up-fund-explanatory-note-on-the-assessment-and-decision-making-process

> *out of 13 bids on the Northern Ireland shortlist were provisionally agreed for funding (2.9%.).*[96]

It is noted that "all proposals in Scotland, Wales and Northern Ireland must fall within the scope of the financial assistance powers in the UK Internal Market Act 2020[97]."[98]

5.1.2 Shared Prosperity Fund

The UK Government announced in its 2017 manifesto, a commitment to replace EU Structural Funds, and in November 2017 announced its intention to create the UK Shared Prosperity Fund (UKSPF) in the Industrial Strategy White Paper.[99] In the subsequent 2019 Conservative election manifesto, that commitment was repeated and again at the 2020 Chancellor's Spending Review.[100] The Chancellor announced that the "UKSPF will ramp up so that total domestic UK-wide funding will at least match receipts from EU structural funds, on average reaching around £1.5 billion per year".[101] But he caveated that additional funding would be provided to "prepare over 2021-22 for the introduction of the UKSPF",[102] which indicated that the UKSPF would not be in place until at least the 2022-23 financial year.

On 2 February 2022, pre-launch guidance[103] for the UKSPF was published alongside the Levelling Up White Paper. Importantly, that guidance outlined how the finances available and more specifically how the fund is to operate, stating:

> *It provides £2.6 billion of new funding for local investment by March 2025, with all areas of the UK receiving an allocation from the Fund via a funding formula rather than a competition. This recognises that even the most affluent parts of the UK contain pockets of deprivation and need support.*[104]

Similar to the Levelling Up Fund, the approach taken with regard to Northern Ireland is different to that of other UK regions. Specifically, the guidance stated:

> *In Northern Ireland, UK Government will have oversight of the Fund; we plan to draw on the insight and expertise of local partners, including the Northern Ireland Executive, local authorities, City and Growth Deal geographies, business and the community and voluntary sector to target interventions where most appropriate.*[105]

---

[96] ibid
[97] https://www.legislation.gov.uk/ukpga/2020/27/contents
[98] Levelling Up - Prospectus pg.17
[99] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf Pg.228
[100] Spending Review 2020
[101] ibid
[102] ibid
[103] UK Shared Prosperity Fund Pre-Launch Guidance
[104] ibid
[105] ibid

The guidance also reiterated the fact that the UK Government is to have 'lead' oversight of the delivery of the UKSPF in Northern Ireland, stating:

> *In Northern Ireland, we propose to deliver at Northern Ireland scale, with lead oversight responsibility sitting with the UK Government. We want to work with the Northern Ireland Executive and a wide range of local partners.*[106]

However, this was an area identified by the Institute for Government (the Institute) in July 2021 – in its paper "The UK Shared Prosperity Fund – Strengthening the union or undermining devolution?" - written before the publication of the above-noted UK Government guidance - the Institute concluded that "the devolved governments have an interest not just in how much replacement funding will be provided, but in who will decide what this money is spent on".[107] Additionally, the Institute raised questions about how the UKSPF would operate in Northern Ireland. Those question remain valid, as the Institute observed:

> *The UK government faces specific challenges in rolling out the UKSPF in Northern Ireland, due to the need to allocate funding in a way that attracts support and has a sense of legitimacy across the community divide. Care should be taken, for instance, over the branding of UKSPF projects in Northern Ireland, due to sensitivity within nationalist communities over symbols associated with the British state.*[108]

Also, it has been suggested by the Institute that a UK Department such as Levelling Up, Housing and Communities Department may not have the experience of dealing with the specific requirements of Northern Ireland law, stating:

> *The UK government must make clear how it will address the concerns raised by the Northern Ireland executive, and give a clear commitment that the UKSPF will apply Section 75 standards to funding decisions made in Northern Ireland. Given that MHCLG*[109]*, the lead department for the UKSPF, has limited experience of working in Northern Ireland, it should work closely with the Northern Ireland Office in delivering the UKSPF there, at least until it has substantially built up its own local capacity and expertise.*[110]

In relation to the amount of finance that may be available for capital projects in Northern Ireland, the published UK Government guidance states that the "[UKSPF] will make available a mixture of both revenue and capital funding to places. This funding

[106] ibid
[107] https://www.instituteforgovernment.org.uk/sites/default/files/publications/shared-prosperity-fund.pdf
[108] Ibid Pg.34
[109] Ministry for Housing, Communities and Local Government now called the Department for Levelling Up, Housing and Communities
[110] Ibid Pg.34

will be allocated by formula to invest in local priority projects." The guidance also provides examples of possible projects that could avail of the UKSPF funding, stating:

> *…visual improvements to town centres and high streets, cultural/visitor economy interventions, litter, waste and graffiti reduction, projects to fight antisocial behaviour, and capital funding to improve neighbourhoods or community projects and initiatives*[111]

Unlike other regions of the UK, the guidance refers to the establishment of a 'Northern Ireland investment plan', rather than local government investment plans in the case in the other regions of the UK. This is to be complied centrally by the UK Government, with input from the NIO, NI Executive and Local government. The UKSPF guidance considers:

> *The development of the single Northern Ireland investment plan will include a specific role for local authorities and other partners for each City and Growth Deal geography. This means we can maximise local intelligence, insight and knowledge, in recognition of opportunities and challenges unique to Northern Ireland, and the distinct and different role that local authorities play there*.[112]

Potential issues for consideration:

21. Are departments aware of any additional capital funding having been made available to Northern Ireland as a result of the Levelling Up White Paper?
22. What engagement have departments and/or the Executive had with the UK Government regarding controlling and directing of these funds relative to Northern Ireland?
23. What was the outcome of that engagement?
24. Has the DoF and/or the Executive investigated how the objectives of the Levelling Up White Paper align with those of the DISNI?
25. If so, did they give consideration of any issues arising from where these two documents diverge?
26. Has the DoF been in contact with UK Government officials about the UK Shared Prosperity Fund? Specifically, does the DoF know what the requirements of the DISNI will be to access such funding?
27. Can the DoF confirm what the Northern Ireland share is of the £800m to be shared between the Devolved Administrations from the Levelling Up Fund?
28. Going forward, will the MoF have authority to allocate that funding during the current mandate, if received?
29. If the MoF will not have authority, has the DoF had any discussion with the UK Government about such funding?
30. If so, has that discussion addressed the next mandate, for example, if no new Executive post-Assembly election, what would happen to any allocated funding at that time?

[111] UK Shared Prosperity Fund Pre-Launch Guidance
[112] ibid

6. Flagship Projects

This section focuses on Flagship Projects. First, it provides an overview of the Flagship Projects and their associated, historical funding allocations, as well as current identified spend within the DEB (sub-section 6.1). Thereafter, it examines the funding provided by the Irish Government for the A5 project (sub-section 6.2).

6.1 Overview of Flagship Projects and Related Funding

In 2015, seven "Flagship" infrastructure projects were identified by the Executive as its highest priority projects. Between 2016-17 and 2021-22, the estimated cost for these projects was just over £1 bn. The agreed nature and deadline to complete these projects mean departments receive ring-fenced funding, which they must use for the specific Flagship projects.

As committees may recall, back in the 2016-17, the Executive Budget was for one year; however in the case of Flagship projects, the MoF explained that "the nature of some capital projects means it is important to provide funding certainty beyond that time span".[113] Therefore, the Executive at that time agreed that the funding allocation set out in the agreed 2016-17 Executive Budget, accounted for that funding up to the last financial year - i.e. 2020-21.

Following this, during the period when the Assembly was not sitting - January 2017 - January 2020 - the UK Government enacted a Budget for Northern Ireland in the absence of an Executive. Therein, the UK Government committed to the capital spend in Northern Ireland to "deliver the Flagship projects identified by the previous Executive".[114] With the restoration of the Assembly in January 2020, the one-year Budgets subsequently made in 2020 and 2021 also adopted the above-noted 2016-17 approach for Flagship project funding.

In the Executive Budget 2021-22, the MoF confirmed that commitment once again, stating:

> *The previous Executive designated a number of strategic Capital schemes as flagship projects. These projects receive specific ring-fenced funding which means the funding must be used for these projects or returned to the Executive. Flagship projects include the A6 Road, the Belfast Transport Hub, Casement Park, the Mothers and Children's Hospital and the NI Community Safety College. The departmental Capital Budgets provide funding to progress these strategic projects in 2021-22.*[115]

[113] https://www.northernireland.gov.uk/sites/default/files/publications/nigov/2016-17-budget-document.pdf Pg. 39
[114] https://www.finance-ni.gov.uk/news/ni-budget-2018-19-announced
[115] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Final%20Budget%202021-22%20document%2021.04.21%20-%20accessible.pdf Pg. 29

The 5-year allocation for Flagship projects, as presented in the 2016-17 budget document, is set out in Table 13 below:

Table 13. Flagship projects – Allocation from 2016-17 Executive Budget[116]

Flagship Project	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	Total Allocation £m
A5 Road	13.2	40.0	53.0	55.0	68.0	**229.2**
A6 Road	21.0	57.0	60.0	60.0	60.0	**258**
Belfast Transport Hub	5.8	9.0	20.0	12.9	-	**47.7**
Mother and Children's Hospital	16.0	29.3	62.8	73.0	61.6	**242.7**
Desertcreat (NIFRS Training Centre)	3.9	0.3	18.3	28.2	28.7	**79.4**
Regional and Sub Regional Stadia	9.8	27.0	30.0	15.0	9.0	**90.8**
Total	**69.7**	**162.6**	**244.1**	**244.18**	**227.3**	**705.1**

Source: Executive Budget 2016-17

In 2019, the Northern Ireland Audit Office (NIAO) carried out a review of Major Capital Projects,[117] which included analysis of the Flagship projects. The NIAO concluded that:

> *…flagship projects, identified as the Northern Ireland Executive's highest priority and with funding secured over a longer period, have suffered time delays and/or cost overruns. Inevitably, where projects suffer substantial cost overruns, this impacts on the delivery of other projects.*[118]

The NIAO went on to state:

[116] https://www.northernireland.gov.uk/sites/default/files/publications/nigov/2016-17-budget-document.pdf Table - 4.7 (Pg.39)
[117] https://www.niauditoffice.gov.uk/sites/niao/files/226718%20NIAO%20Major%20Capital%20Projects_FINAL%20LW%20RES%20Complete.pdf
[118] Ibid Pg.4

identification of flagship projects was an effective way of addressing funding issues for high priority projects by protecting budgets on those projects over a five-year period, however performance in delivering against estimated costs and deadlines will only improve when each of the challenges faced by departments is addressed simultaneously. [119]

In DEB, the MoF announced further spending commitment to the noted Flagship projects over the next three years, stating:

A number of Flagship, Capital projects had been agreed by the previous Executive and departments are provided with ring-fenced funding which must be used for that specific project.[120]

The estimated cost, as specified in DEB, covers six flagship projects over 2022-25, in the amount of £645.1m. Flagship project funding identified in DEB is set out in Table 14 below:

Table 14. Flagship projects – DEB 2022-25[121]

Dept.	Flagship Project	2022-23 £m	2023-24 £m	2024-25 £m	Total Investment £ m
DfI	A5	7.4	25.3	80.3	113
DfI	A6	13.2	9.2	6.4	28.8
DfI	Belfast Transport Hub	50	78.9	62.8	191.7
DoH	Mother and Children's Hospital	17.1	74.1	98	189.2
DoH	NIFRS Training Centre	19.2	20.1	0.4	39.7
DfC	Regional Stadia	2.8	40	40	82.8
Total		**109.7**	**247.6**	**287.8**	**645.1**

Source: Draft Executive Budget 2022-25 Consultation Document

[119] Ibid Pg.4
[120] Northern Ireland Draft Budget 2022-25
[121] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Written%20Ministerial%20Statement%20-%20Executive%20Budget%202022-25%20-%20Final%20accessible.pdf Table 6. (Pg. 10)

The FCNI also examined these Flagship projects and made several comments in relation to their funding. In relation to the amount of funding available each year, the FCNI stated:

> *It is noticeable that flagship and city deals funding is back loaded towards the end of the Draft Budget period.*[122]

This point is noteworthy the MoF was questioned by an Assembly Member in the plenary on 13 December 2021 about DEB's road infrastructure investment. At that time, he stated:

> *Capital allocations will be a challenge, particularly in year 3 of the Budget.*[123]

Additionally, the FCNI stated that in the case of capital projects, an opportunity may have been missed in DEB, given that at the time of compiling the FCNI report on DEB, Northern Ireland did not have an Investment Strategy in place for 2022 onward. Specifically, the FCNI stated:

> *We are told that capital spending allocations are based on a bottom-up assessment of departments' needs but there is no Executive-agreed ranking of potential projects by desirability (other than the relatively vague concept of 'flagship projects') or indication of how capital projects would be coordinated across departments. The Executive did publish an 'Investment Strategy' for 2011 to 2021 and a new one is needed. We understand a draft will soon be published for consultation, but ideally it would have been in place in time to shape the Draft Budget capital allocations so an opportunity may now have been missed in this respect.*[124]

TEO subsequently published DISNI[125] on 26 January 2022, which now is out for consultation until April 2022. However, it should be noted that consultation would continue beyond the current mandate; and now there is an absence of an Executive for this mandate, with potential unknowns beyond the upcoming Assembly election in May, due to ongoing political circumstances.

6.2 RoI Contribution to A5

As a result of the New Decade, New Approach political agreement, the Republic of Ireland (RoI) Government committed £75m to fund the A5 road project. Despite a number of delays to the project, it is anticipated that Phase 1a (New Building to North

[122] https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2022-01/nifc-budget-report-jan-2022-full-final-version-19.01.22-14.30.pdf Pg. 42

[123] NI Assembly - Official Report 13th December 2021 Minister of Finance Response to Mr Buckley

[124] https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2022-01/nifc-budget-report-jan-2022-full-final-version-19.01.22-14.30.pdf Pg. 46

[125] Draft Investment Strategy for Northern Ireland

of Strabane) is to commence during 2022-25. The contribution to the A5 road project is detailed in Table 15:

Table 15 – Financing from the Irish Government for A5

£m	2022-23	2023-24	2024-25	Total
Irish Government Contribution (A5 Road Project)	7.4	25.0	25.0	**57.4**

Source: Draft Executive Budget 2022-25 Consultation Document

Potential issues for consideration:

31. Did the DoF have prior oversight of the DISNI when deciding on 'Flagship Project' funding identified in DEB?
32. Are there specific reasons as to why the funding for Flagship Projects are "back loaded" to the latter years of 2022-25?
33. The 2022-23 funding identified in DEB for the A5 project is based entirely on the Irish Government contribution, if the Irish government was unable to provide or withdrew this funding (in whole or in part), would the DoF have the authority to meet any deficit arising, in the absence of an Executive?
34. When allocating Capital funding for flagship (and other) capital projects, does the DoF consider the additional resource funding required to support the implementation of the project?
35. And if so to the above, how is this factored in to allocations more generally?
36. Although a one-year budget, the agreed 2016-17 Budget provided a funding plan for 'Flagship Projects' up to the 2020-21 financial year, during which time the Assembly did not sit between 2017 and 2020, but prior Executive agreement having been given. The 2021-22 budget only agreed 1-year of funding for 'Flagship Projects'. What Executive agreement exists for Flagship projects to receive funding post the 2021-22 financial year?

7. Green Growth

In DEB, Green Growth is highlighted as a key part of the Executive's long-term vision and a priority of the post-Covid recovery. The DEB document states:

> *On 21 October 2021 the Executive agreed the draft Green Growth Strategy which outlines its vision for a low carbon, nature rich society and sustainable economy by 2050. DAERA is leading this work on the Executive's behalf. It is a cross cutting area that has been prioritised in the Building Forward – Consolidated Covid-19 Recovery Plan published in August 2021. Green Growth seeks to adopt a holistic approach to tackling the climate crisis by balancing climate action with environmental and economic needs in a way that benefits all our people.*[126]

The DEB presents the Green Growth agenda in relation to the Department of Agriculture, Environment and Rural Affairs (DAERA) as the lead department, and also

[126] Northern Ireland Draft Budget 2022-25 Pg. 32

presents Green Growth in relation to the environment draft Programme for Government (PfG) Outcome. The draft PfG document sets out the identified priorities as follows:

DAERA will lead on or significantly contribute to priorities as follows:[127]

- *protecting and enhancing biodiversity and the natural environment, supporting sustainable practices and resource use in the energy, agri-food, fishing and forestry sectors and ensuring human, animal and plant health;*
- *creating economic opportunity through tackling climate change and reducing greenhouse gas emissions (including energy decarbonisation);*
- *reducing and reusing the waste we produce by improving the services and infrastructure; and*
- *enhancing and improving the existing water and wastewater network and infrastructure to ensure service delivery and sustainable environmental management.*

While the DAERA is to lead the implementation of the Green Growth Strategy, other departments also are to consider and engage in activities to support Green Growth. The Department for the Economy (DfE) -as part of it *10X Vision*[128] - is to include 'Green Growth' in a number of its strategies, including the Energy Strategy[129] and a future Circular Economy Strategic Framework,[130] which is to see, for example, cleaner energy production and green job creation. The Department for Infrastructure (DfI) - through its "Planning for the Future of Transport*"*[131] - states the DfI "will take a Green Growth approach to reduce our carbon emissions from transport and protect our environment".[132] That sets out the vision of the DfI going forward and brings together a series of policy documents,[133] which is to support the DfI in meeting its commitment to Green Growth, "by the improved planning, management and development of the transport networks, integrated with land-use planning".[134]

Given the importance of Green Growth and Sustainability, and particularly the move towards net zero, this DEB identifies capital of some £304m for this purpose. While those would not be ring-fenced, the DEB explains that the departments are to provide

[127] Ibid Pg. 33
[128] https://www.economy-ni.gov.uk/sites/default/files/publications/economy/10x-economy-ni-decade-innovation.pdf
[129] https://www.economy-ni.gov.uk/publications/energy-strategy-path-net-zero-energy
[130] https://www.economy-ni.gov.uk/articles/circular-economy
[131] https://www.infrastructure-ni.gov.uk/sites/default/files/publications/infrastructure/planning-for-the-future-of-transport-time-for-change.pdf
[132] Ibid Pg.11
[133] It is important to note that Planning for the Future of Transport –Time for Change does not constitute new policy. The key policy documents remain: the Regional Development Strategy 2035, the Strategic Planning Policy Statement, and Ensuring a Sustainable Transport Future (New Approach).
[134] Northern Ireland Draft Budget 2022-25 Pg. 53

more detail on the Green Growth projects they were to take forward in relation to DEB.[135]

Below is Table 16, which provides a breakdown of the amount of funding identified for Green Growth investment over the budget period:

Table 16. Green Growth Investment – Draft Budget 2022-25 period[136]

£m	2022-23	2023-24	2024-25	Total
'Green Growth' Investment	116.8	101.1	86.5	**304.4**

Source: Draft Executive Budget 2022-25 Consultation Document

N.B. More detail will be set out by DAERA and DfI in due course

Potential issues for consideration:

37. Given the cross-cutting nature of 'Green Growth' involving several Executive departments, what engagement has there been at Executive level and/or by the MoF and individual departmental ministers, to about its implementation in this mandate and beyond?
38. To what extent is there "joined up" thinking across departments, according the to the DoF and all other departments, to ensure Value for Money, including the avoidance of unnecessary duplication and wasted resources?

8. Reinvestment and Reform Initiative (RRI) Borrowing

Additional budgetary finance is available through borrowing under the rules defining the Public Finance Framework (PFF) for Northern Ireland.[137] The Executive's borrowing powers – general and temporary - are provided in legislation through the RRI. The Executive can borrow up to £200m per year and no more than £3bn in total, at any point in time, to fund capital projects and infrastructure.

In 2002, devolution arrangements were amended to enable RRI borrowing. RRI provides the Executive with an additional borrowing facility from the National Loans Fund to fund capital investment. This additional borrowing is broadly equivalent to the local authority prudential borrowing powers in the rest of the UK. It addresses the fact

[135] Written Ministerial Statement Executive Budget 2022-25 Pg.10
[136] Northern Ireland Draft Budget 2022-25 Pg.70

[137] Simply stated, the Public Finance Framework is defined by the prevailing financial arrangements under the current devolution settlement in Northern Ireland. It constitutes the "rules" in which public finance decisions are made.

that the Executive retains control over a range of functions which are normally the responsibility of local government in Scotland and Wales.

Up to the 2021-22 financial year, the total RRI borrowing the Executive had availed since RRI was enabled, was £3,163m. Of that figure the amount outstanding to be repaid in both principal and interest repayments stands at £1,569m at the end of 2021-22.

On 20 January 2022, the MoF's written statement notifying the Assembly of the outcome of the Executive's January Monitoring Round exercise, the MoF stated the following about RRI borrowing:

> *….some £96 million remaining unallocated, RRI Borrowing has also be reduced from the planned £140.0 million to £80.0 million, reflecting the amount that has already been borrowed for 2021-22. This will reduce principal and interest payments in future years.*[138]

Over 2022-25, the amount of RRI borrowing identified is outlined in Table 17 below:

Table 17. RRI Borrowing – DEB 2022-25[139]

£m	2022-23	2023-24	2024-25
RRI Borrowing	140.0	194.0	200.0

Source: Draft Executive Budget 2022-25 Consultation Document

As mentioned previously, the Executive can avail of £200m each year, in terms of RRI borrowing. Based on the figures the MoF provided in the DEB document, such borrowing was identified only for 2024-25. In his written statement, the MoF explained:

> *Given the need to maximise investment, the Executive has also agreed that borrowing be accessed to increase departmental capital allocations. However, we must also be conscious that funding needed to complete projects which have commenced should also be affordable. Therefore, it is proposed not to access the full amount of borrowing available in the first two years.*[140]

The FCNI also reflected on this point within its review of the DEB document, stating:

> *The Finance Minister has proposed to borrow £140 million next year (the same as in 2021-22), rising to £200 million by 2024-25. This would take*

[138] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Written%20Ministerial%20Statement%20-%202021-22%20January%20Monitoring.pdf
[139] Written Ministerial Statement Executive Budget 2022-25 Pg.8
[140] Ibid.

cumulative borrowing to £1,747million. The gradual increase reflects the difficulty of stepping up capital spending quickly.[141]

Further, the Council concluded:

This reflects caution as to how quickly it will be possible to increase capital spending now that longer-term budgeting is again possible, given continued disruption from the pandemic.[142]

Also, noteworthy here is an Assembly Member question to the MoF, following his delivery of his DEB statement in the plenary in December 2021. The Member asked why the MoF was seeking to borrow the limit of £200m in the last year of DEB – 2024-25 - when the spend of RRI funds was decreasing in the current financial year. The MoF responded:

…the approach is that we are not maximising the potential of our RRI spend, particularly in a three-year Budget that is challenged in the latter years; capital budgets are very challenged in year 2 and particularly year 3. We need to access any additional opportunities that we have and be as imaginative and flexible as possible, and that is why we intend to press Departments to access the full amount of RRI borrowing by year 3.[143]

In the context of commentary on non-block grant sources of financing, the FCNI made the point that in the final year of the DEB, of the total amount of conventional capital spends identified by the MoF, a notably proportion of the source of that funding will come from borrowing. The FCNI explains that "capital borrowing under the Reform and Reinvestment Initiative" as current presented in the DEB would pay "…... for 10 per cent of conventional capital spending in 2024-25".[144]

Finally, in the context of RRI borrowing, it should be noted that the only central cost[145] - i.e. those not attributable to a specific department, but instead a cost to the Executive as a whole - arises from RRI interest repayments. While the estimated cost of the interest repayments for RRI borrowing is £125.6m, the total held is to be £136.5m over the three years 2022-25. The DEB document explains that:

Funding of £45.5million per annum is held at the centre to meet these costs each year and the precise amounts will be determined in the final Budget when decisions on RRI borrowing over the budget period are finalised.[146]

Table 18 below shows the estimated interest repayment figure for each year from 2022-25. However, the actual borrowing figure will be known only after an Executive

---

141 NI Fiscal Council - NI Executive 2022-25 Draft Budget: An Assessment pg. 8
142 Ibid pg. 36
143 NI Assembly Offical Report - 13 December 2021
144 Ibid pg. 31
145 Northern Ireland Draft Budget 2022-25 Pg.73 - Para 5.24 N.B. "For this Budget the only Central costs are RRI interest repayments."
146 Northern Ireland Draft Budget 2022-25 Pg.74

Budget is agreed. For that reason, the MoF identified £45.5m each year, from 2022-25, to cover potential borrowing increases if an agreed Executive Budget:

Table 18. Central Costs – DEB 2022-25[147]

Central Costs £m	2022-23	2023-24	2024-25
Interest on borrowing*	43.4*	41.8*	40.4*
Funding held a centre to meet these costs	45.5	45.5	45.5

Source: Draft Executive Budget 2022-25 Consultation Document

*N.B. The precise amounts will be determined in the final budget when decisions on RRI borrowing over the budget period are finalised.

In this context, it is important to note relevant rules here under the PFF. The DEB document highlights that the identified monies are to fund infrastructure projects. However, the allocations received via RRI borrowing are officially recorded under the rules as Annually Managed Expenditure (AME), and therefore are not included in the Executive's net Departmental Expenditure Limit (DEL). Moreover, RRI is included as a negative DEL item when considering spending power. However, interest payments are recorded as Resource DEL, and then taken off the Executive's total DEL amount. Therefore, the £136.5m identified in DEB for RRI interest repayments; it is important to note that that is to be recorded as Non-ring-fenced Resource DEL.

Potential issues for consideration:

39. What is to occur in 2022-23 in the context of RRI Borrowing, given the absence of an Executive in this mandate?
40. What authority does the MoF have to act?
41. What decisions were taken in relation to RRI Borrowing before the Executive collapsed?
42. What steps have been taken by the MoF and departments, to ensure that the planned borrowing will occur and be used on capital projects, thereby avoiding the issues of funding being unallocated and the borrowing amount reduced as was the case at the January 2022 Monitoring Round?

[147] ibid

9. Concluding remarks

As noted earlier in this Paper, ongoing budgetary considerations for next year – 2022-23 – and beyond persist in a complex political context that includes:

(i) No Executive since early February 2022;

(ii) DoF's)consideration of other legal options to ensure a Budget for Northern Ireland for 2022-23 and thereafter (2023-25), in the absence of an Executive from now until the end of the current Assembly mandate on 27 March and the start of the new budget year on 1 April, and potential issues subsequently arising post-May Assembly election that could further impact budgetary considerations for Northern Ireland;

(iii) Central government developments arising (directly and indirectly) from the UK's exit from the EU, which relate to public finance and the economy in Northern Ireland, for example, centrally administer EU replacement funding such as the Shared Prosperity Fund and the Levelling Up Fund

(iv) No Executive agreement on DEB - only the Executive's agreement in December 2021 that the DoF could consult on it; and,

(v) Now "paused" DEB public consultation, as directed by the MoF on 15 February, following his receipt of legal advice.

To facilitate statutory committees' consideration of budgetary matters, DEB provides a focal point. This Paper has provided analysis of Capital Investment within the context of the DEB 2022-25 and present a number of potential considerations arising from it.

Some key items to take away from the Paper's discussion are outlined in the following paragraphs.

In his DEB statement to the Assembly, the MoF argued that a multi-year Budget would provide more stability. He stated:

> *The move from single-year budgets to a three-year budget provides a more stable basis upon which public services can be planned, reformed, and improved.*[148]

The FCNI agreed, stating:

> *…the opportunity to return to multi-year budgeting in NI after seven successive single-year Budgets was a golden opportunity for greater long-term thinking and policy action, especially in areas like healthcare reform and infrastructure planning.*[149]

[148] Written Ministerial Statement Executive Budget 2022-25

[149] NI Fiscal Council - NI Executive 2022-25 Draft Budget: An Assessment pg. 48-49

The MoF, however, has indicated that challenges nonetheless lie ahead. In particular, challenges arising as a result of the Executive's decision to prioritise health. He stated:

> *Nevertheless, the reality is that the funding available does not allow us to fund every pressure that departments face. Therefore, we have to prioritise. As an Executive we have publicly committed to make health our top priority and this draft Budget sets out how that commitment could be honoured. Although no Department is facing a cash reduction in their baseline the prioritisation given to health and social care undoubtedly presents significant challenges for other departments.*[150]

The DEB document highlighted that a wider variety of funding is available to invest in capital infrastructure projects, and while some ring-fenced funding for projects already established - for example, the Flagship Projects and the agreed Belfast City Deal - would enable those projects to continue and be completed. DEB, however, did not go beyond those projects. Also, it did not align with DISNI, which was issued for consultation after DEB. It is important that funding of future projects aligns with the DISNI outcome. A long-term strategic approach may help to avoid the levels of underspend in the area of capital funding that has endured since the restoration of the Northern Ireland institutions since 1998.

In the wake of the UK's exit from the EU, the Covid-19 pandemic and long-term structural economic issues, which have all impacted on the funding availability and ability to deliver Capital Infrastructure projects in Northern Ireland. It should be considered that over the next few years, capital funding will be available for areas such as Green Growth and Levelling Up, these will be cross-cutting strategies in which several NI departments and UK Government departments will be required to co-ordinate closely. Failure to do so, could see lost opportunities for the Northern Ireland economy in securing funding for and delivering on important infrastructure projects.

However, with no Executive since early February, challenges arise for 2022-25 in terms of the budgetary process. This is a pressing matter in light of the new financial year beginning on 1 April. Additionally, May elections may not see the immediate return of the Assembly. If so, it seems action would need to be taken in Westminster, as was the case during the last period between 2017 and 2020 when the Assembly was not sitting. While the Executive agreed only to consult on the DEB in December 2021, it is possible that any decisions taken at Westminster in regards a Budget for Northern Ireland would rely on DEB when deciding funding. However, there is no guarantee of that.

In closing, given the contents outlined in the Paper, Capital Investment opportunities may continue to be lost over the coming years for Northern Ireland, resulting in more departmental underspends.

[150] ibid

Appendix 1

Proposed Capital DEL over Draft Budget period 2022-25 - £m

	Flagships			Green Growth			City Deals & Comp. Fund			Fresh Start Shared Housing & Education			Confidence & Supply			General Allocation			Net Position (Budget)			Receipts			Gross Position		
Proposed Capital DEL[151]	2022-23	2023-24	2024-25	2022-23	2023-24	2024-25	2022-23	2023-24	2024-25	2022-23	2023-24	2024-25	2022-23	2023-24	2024-25	2022-23	2023-24	2024-25	2022-23	2023-24	2024-25	2022-23	2023-24	2024-25	2022-23	2023-24	2024-25
DAERA				36.6	47.5	53.1	1.2	5.9	0.2							63.4	62.6	56.4	101.2	116	109.7	27.8	13.2	6.4	129	129.2	116.1
DfC	2.8	40	40				1.7	11.4	14	16.8	16.8	16.8				192.9	163.2	114.5	214.2	231.4	185.3	67.1	60.5	60.6	281.3	291.9	245.9
DfE							32	89.2	147.6				49.4	27.1		105.8	80.3	50.5	187.2	196.6	198.1	30.2	13	14.4	217.4	209.6	212.5
DE										34.5	47.6	20.4				164.9	170	183.5	199.4	217.6	203.9				199.4	217.6	203.9
DoF																35	40	29.9	35	40	29.9				35	40	29.9
DoH	36.3	94.2	98.4				0.4	0.5	3.3							313.2	275.2	266.6	349.9	369.9	368.3	18.8	18.8	18.4	368.7	388.7	386.7
DfI	70.6	113.4	149.4	80.2	53.6	33.4	1.1	18.8	33.6							615.1	635.9	606.3	767	821.7	822.7				767	821.7	822.7
DoJ																100	124.9	128.5	100	124.9	128.5				100	124.9	128.5
TEO																15	15	15	15	15	15	0.5	0.9	0.1	15.5	15.9	15.1
FSA																0.1	0.1	0.1	0.1	0.1	0.1				0.1	0.1	0.1
NIA																3.9	3.2	1	3.9	3.2	1				3.9	3.2	1
NIAO																2.5	0	0	2.5	0	0				2.5	0	0
NIAUR																0	0	0	0	0	0				0	0	0
NIPSO																0.1	0.1	0.1	0.1	0.1	0.1				0.1	0.1	0.1
PPS																0.4	0.4	0.4	0.4	0.4	0.4				0.4	0.4	0.4
Total Departments	**109.7**	**247.6**	**287.8**	**116.8**	**101.1**	**86.5**	**36.4**	**125.8**	**198.7**	**51.3**	**64.4**	**37.2**	**49.4**	**27.1**	**0**	**1612.3**	**1570.9**	**1452.8**	**1975.9**	**2136.9**	**2063**	**144.4**	**106.4**	**99.9**	**2120.3**	**2243.3**	**2162.9**

[151] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Written%20Ministerial%20Statement%20-%20Executive%20Budget%202022-25%20-%20Final%20accessible.pdf Pg. 17-19

Appendix 2

Reconciliation of Planned Spend to HM Treasury Control Totals – Capital DEL[152]

Financing £m	2022-23	2023-24	2024-25
Spending Review Core Funding	1,686.2	1,784.7	1,759.2
UK Financial Packages	157.4	143.3	78.9
Total UK Gov. Control Totals	**1,843.6**	**1,927.9**	**1,838.1**
RRI Borrowing	140.0	194.0	200.0
RoI Funding for A5	7.4	25.0	25.0
Total Financing	**1,991.0**	**2,146.9**	**2,063.1**

Source: Draft Executive Budget 2022-25 Consultation Document

Spending £m	2022-23	2023-24	2024-25
Funding Held for Allocation			
NDNA – Magee Medical School	15.0	-	-
C&S – Broadband	-	10.1	-
Departmental Planned Spend	1,976.0	2,136.8	2,063.1
Total Spending	**1,991.0**	**2,146.9**	**2,063.1**

Source: Draft Executive Budget 2022-25 Consultation Document

[152] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Written%20Ministerial%20Statement%20-%20Executive%20Budget%202022-25%20-%20Final%20accessible.pdf Pg. 21