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European Investment Bank – Potential Financial Assistance Opportunities for Northern Ireland

This paper provides an overview of key financial assistance opportunities *via* the European Investment Bank (EIB), which could be availed of when seeking to support infrastructure investment in Northern Ireland.

This information is provided to MLAs in support of their Assembly duties and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as professional legal advice or as a substitute for it.

Introduction

This briefing paper is prepared for the Committee of Finance and Personnel (the Committee). It provides an overview of key financial assistance opportunities *via* the European Investment Bank (EIB), which could be availed of when seeking to support infrastructure investment in Northern Ireland (NI).

The paper is structured in the following way:

- Section 1 outlines background information on EIB, including: its legislative basis; its organisational structure; and, its function within the European Union (EU);
- Section 2 highlights key EIB financing products which have relevance in the context of NI's economy. It discusses: project loans; intermediated loans; project bonds; and, funding for small and medium enterprises (SMEs);
- Section 3 presents a comparative perspective of EIB financed projects in Wales, Scotland and the Republic of Ireland (RoI);
- Section 4 summarises the role of the Strategic Investment Board (SIB) in infrastructure investment in NI and discusses past, present and future EIB supported projects in NI. It also examines key potential financial implications arising from the NI Executive's use of EIB support in terms of future block grant capital allocations; and,
- Section 5 provides key concluding remarks in light of the research undertaken by RaISe to compile this briefing.

1 Background

For context, this section summarises the origin of the EIB and its role in the EU. It also provides an outline of the Bank's organisational structure, which determines how its roles and responsibilities are assigned.

The EIB was created in 1958 by the *Treaty of Rome* establishing the European Economic Community. Its operational rules and governance are determined by the *EIB Statute and other Treaty Provisions (the EIB Statute)*,¹ which is based on Protocol No. 10 of the *Treaty of Rome*, now Protocol No. 5 annexed to the *Treaty on the Functioning of the European Union* (TFEU).²

EIB is owned by EU Member States and represents their interests. The Bank supports projects which contribute to EU policy objectives, including innovation, strategic infrastructure and resource efficiency, with a particular focus on smaller businesses.³ EIB has decision-making independence within the EU's institutions. The Bank finances its operations by borrowing on capital markets mainly through bond issues. **It does not draw funds from the EU budget.**

1.1 The Role of the EIB

The function of the EIB is defined in Article 309 of TFEU as follows:

To contribute, by having recourse to the capital market and utilising its own resources, to the balanced and steady development of the internal market in the interest of the Union.

And continues:

*In carrying out its task, the Bank shall facilitate the financing of investment programmes in conjunction with assistance from the Structural Funds and other Union Financial Instruments.*⁴

Article 309 also states that EIB shall operate on a non-profit making basis and grant loans and give guarantees which facilitate the financing of the following projects:

- *Projects for developing less-developed regions;*
- *Projects for modernising or converting undertakings or for developing fresh activities called for by the establishment or functioning of the internal market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States; and,*

¹ European Investment Bank. *Statute and other Treaty Provisions* (2013):

http://www.eib.org/attachments/general/statute/eib_statute_2013_07_01_en.pdf

² *Treaty on the Functioning of the European Union* :http://www.consilium.europa.eu/uedocs/cmsUpload/st06655-re01_en08.pdf

³ *EIB at a Glance*: <http://www.eib.org/about/index.htm>

⁴ *Treaty on the Functioning of the European Union*. (Article 309): <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012E/TXT>

- *Projects of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States.*⁵

The operational rules and governance of the Bank are proscribed in the EIB Statute, Article 16 states:

The Bank shall grant finance, in particular in the form of loans and guarantees to its members or to private or public undertakings for investments to be carried out in the territories of Member States, to the extent that funds are not available from other sources on reasonable terms.

And continues:

*However, by decision of the Board of Governors, acting by a qualified majority on a proposal from the Board of Directors, the Bank may grant financing for investment to be carried out, in whole or in part, outside the territories of Member States.*⁶

1.2 Organisational Structure of the EIB

The 28 EU Member States are the shareholders of the Bank. Article 4 (1) of the EIB Statute sets the capital of the Bank and presents the share of the capital subscribed by each Member State.⁷ The total subscribed capital of the Bank is currently €243.3bn.⁸ The United Kingdom (UK) subscribed capital amount is €39.2bn.⁹ In percentage terms, the UK has 16% of the shares in the Bank. Article 6 of the EIB Statute decrees the following management structure of the Bank:

*the bank shall be directed and managed by a Board of Governors, a Board of Directors and a Management Committee.*¹⁰

1.2.1 EIB Board of Governors

As specified by the EIB Statute, the Board of Governors:

- Set the general directives for the credit policy of the Bank;

⁵Treaty on the Functioning of the European Union. (Article 309): <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012E/TXT>

⁶Treaty on the Functioning of the European Union (Article 16): <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012E/TXT>

⁷Subscribed capital: The amount of capital (out of authorized capital) for which company has received applications from the general public who are interested in buying shares. <http://pakaccountants.com/difference-authorized-issued-subscribed-called-up-and-paid-up-capital/>

⁸ European Investment Bank. *Statute and other Treaty Provisions* (2013) Article 4(1): http://www.eib.org/attachments/general/statute/eib_statute_2013_07_01_en.pdf

⁹ European Investment Bank. *Statute and other Treaty Provisions* (2013) Article 4(1): http://www.eib.org/attachments/general/statute/eib_statute_2013_07_01_en.pdf

¹⁰ European Investment Bank. *Statute and other Treaty Provisions* (2013) Article 6: http://www.eib.org/attachments/general/statute/eib_statute_2013_07_01_en.pdf

- Approve the annual accounts and balance sheet;
- Decide on the bank's participation in financing operations outside the EU; and,
- Decide on capital increases.¹¹

EU Member States designate Ministers (usually Finance Ministers) to sit on the Board of Governors.¹²

1.2.2 EIB Board of Directors

As specified by the EIB Statute, the Board of Directors makes decisions in granting loans, guarantees and borrowings. It is responsible for setting interest rates and commission charges on loans. At the end of each financial year it submits an annual report to the Board of Governors. The Board of Directors consists of 29 Directors (one Director nominated by each Member State and one by the European Commission). 19 Alternate Directors are also appointed by the Board of Governors. The Directors and Alternate Directors serve a renewable term of 5 years.¹³

1.2.3 EIB Management Committee

As specified by the EIB Statute, the Management Committee supervises the daily running of the Bank. It consists of a President and 8 Vice Presidents, who are proposed by the Board of Directors and appointed by the Board of Governors for a period of 6 years.¹⁴

2 EIB Financing Products

Lending accounts for 90% of the EIB's total financial commitment.¹⁵ The following section details key lending products offered by EIB, which are potentially suitable for NI as a region within the EU.

2.1 Project Loans¹⁶

EIB lends to individual projects for which total investment cost exceeds €25m. Project loans cover up to 50% of the total capital investment, but average out at around 33%.¹⁷ Interest rates can be fixed, revisable or convertible.¹⁸ EIB may charge fees for project

¹¹ European Investment Bank. *Statute and other Treaty Provisions* (2013) Article 7:

http://www.eib.org/attachments/general/statute/eib_statute_2013_07_01_en.pdf

¹² At the time of writing, the UK's representative is Chancellor Osborne and the RoI's board member is Finance Minister Noonan.

¹³ European Investment Bank. *Statute and other Treaty Provisions* (2013) Article 9:

http://www.eib.org/attachments/general/statute/eib_statute_2013_07_01_en.pdf

¹⁴ European Investment Bank. *Statute and other Treaty Provisions* (2013) Article 11:

http://www.eib.org/attachments/general/statute/eib_statute_2013_07_01_en.pdf

¹⁵ EIB Products: Lending, blending and advising: <http://www.eib.org/products/index.htm>

¹⁶ This sub-section relies on information supplied by EIB at: <http://www.eib.org/products/loans/index.htm>

¹⁷ EIB Project Loans: <http://www.eib.org/products/loans/index.htm>

¹⁸ Convertible Interest Rates allow for a change of rate formula during the lifetime of a loan at predetermined periods.

appraisal or legal services. Repayments are normally annual or bi-annual, and grace periods for capital repayment may be granted for the duration of a project's construction phase.

EIB also provides a single "Framework Loan" which funds multi-component, multi-annual investment programmes for national or local government projects, focussing on improving infrastructure, transport, energy efficiency or urban renovation.

2.2 Intermediated Loans¹⁹

EIB makes loans to local banks; these *intermediary* banks subsequently provide finance for up to €25m per project.²⁰ The size, duration and structure of the loans can be flexible. Intermediaries (local banks) retain the financial risk of the on-lending and retain lending decision making rights. EIB has no contractual relationship with the final beneficiary of the loan. The client must receive a financial advantage reflecting the impact of EIB funding, and intermediaries must inform the client of this. Intermediaries are required to match the amount of funding provided by EIB before on-lending to SMEs. The amount of funding provided is consequently doubled.

All such Intermediated Loans must further at least one of the following EIB public policy goals:

- Increase in growth and employment potential;
- Economic and social cohesion by addressing economic and social imbalances, promoting the knowledge economy/skills and innovation and linking regional and national transport infrastructure;
- Environmental sustainability - including supporting competitive and secure energy supply; and,
- Action for climate-resilient growth.²¹

2.3 Project Bonds²²

EIB and the European Commission (EC) are currently piloting a *Europe 2020 Project Bond Initiative* to enable companies involved in infrastructure projects (usually public private partnerships). This initiative seeks to attract additional private finance from institutional investors such as insurance companies and pension funds. Its pilot phase is due to end in 2016 and is funded by the re-deployment of €230m unused EU budgetary resources.²³

¹⁹ This sub-section relies on information supplied by EIB at: <http://www.eib.org/products/intermediated/index.htm>

²⁰ EIB Intermediated Loans: <http://www.eib.org/products/intermediated/index.htm>

²¹ EIB Intermediated Loans: <http://www.eib.org/products/intermediated/index.htm>

²² This sub-section relies on information supplied by EIB at: <http://www.eib.org/products/project-bonds/index.htm>

²³ Europe 2020 Project Bond Initiative: <http://www.eib.org/products/project-bonds/index.htm>

Under the initiative, the EIB provide enhanced credit ratings for companies which issue project bonds that are underpinned by EIB. The EIB provide either a loan or a credit line for companies called a *Project Bond Credit Enhancement (PBCE)*. The PBCE provides investors with confidence and security by giving a financial backup or contingency to the project. To date, the EIB Board has approved nine energy and transport projects eligible for PBCE - arising out of six EU countries.²⁴

One of these projects is the *Greater Gabbard* offshore transmission link in the UK. Project bonds with a value of £305m have been issued to finance the new transmission link to connect a 140 turbine wind farm off the Suffolk coast with the UK mainland. Proceeds from the bond issue have been released and the bonds have started trading on the Irish Stock Exchange. EIB provided a £45.8m guarantee, representing 15% of the bond issued, as a credit support under the PBCE model.²⁵

2.4 Flexible SME Funding²⁶

SMEs can access finance through the *Joint European Resources for Micro to Medium Enterprises (JEREMIE)* programme. JEREMIE is a joint initiative between the EIB and EC. It is funded mainly through the European Investment Fund (EIF). Member States and regional authorities can opt to use money from EU Structural Funds in the form of market-driven financial instruments instead of offering grants. A major advantage of this is that unlike grants, which can only be spent once, a pool of funds can be re-invested several times. Support is provided to selected local financial intermediaries via national or regional governments.

The JEREMIE programme has access to the following financial instruments:

- Guarantees, co-guarantees and counter-guarantees;
- Equity guarantees;
- Micro-loans;
- Export-credit insurance;
- Securitisation;
- Venture capital;
- Business angel matching funds; and,
- Investment in technology transfer funds.

There are currently four JEREMIE programmes operational in the UK. The table below provides a brief description of the main activities of each programme:²⁷

²⁴ Europe 2020 Project Bond Initiative: <http://www.eib.org/products/project-bonds/index.htm>

²⁵ Second project bond issue for Greater Gabbard OFTO demonstrates strong investor interest: <http://www.eib.org/projects/press/2013/2013-204-institutional-investor-support-for-greater-gabbard-offshore-transmission-link-encouraged-by-first-use-of-project-bond-credit-enhancement-scheme-in-uk.htm>

²⁶ This sub-section relies on information supplied by EIB at: <http://www.eib.europa.eu/products/jeremie/index.htm>

Programme Title	Main Activities
North West Fund	Provides debt and equity finance from £50,000 to £2m to small and medium sized businesses based in, or relocating to, the North West of England.
Finance Yorkshire	Offers business loans and equity-linked finance from £15,000 to £2m for businesses in or relocating to the Yorkshire and the Humber region
North East Finance	Provides debt and equity finance from £1,000 to £1.25 m to SMEs based in, or relocating to, the north east of England, with the aim of helping them to start up, develop or grow.
Finance Wales	Provides debt and equity finance to SMEs in Wales.

3 EIB in Wales, Scotland and the Rol

The following section provides details of key infrastructure projects in Wales, Scotland and the Rol that have been approved by EIB for financial assistance. All amounts are in Euro and all figures listed are roundings.

3.1 Wales

Bangor University

In March 2014, EIB approved finance of €59m to assist Bangor University in building a new teaching facility and renovating the historic main university building in Gwynedd, North Wales.²⁸ The new buildings are designed to meet the highest European energy performance standards. In April 2014, Vice President of the EIB stated the following rationale for the bank investing in this project:

The project will support economic development in North Wales and strengthen interaction between the University and business. The scheme will also help ensure that academic programmes more closely reflect labour market requirements to enhance employability and ensure that employers can benefit from graduates that possess relevant skills.²⁹

Swansea University Second Campus

In 2012, Swansea University secured €75m funding from EIB to assist in the regeneration of the University's Singleton Park Campus and the construction of a new

²⁷ Table produced by RaISe relying on data supplied by UK Department for Business, Innovation and Skills at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192618/bis-13-p176b-sme-access-to-finance-measures.pdf

²⁸ Bangor University: <http://www.eib.org/projects/pipeline/2013/20130488.htm>

²⁹ Bangor University: <http://www.eib.org/projects/pipeline/2013/20130488.htm>

Science and Innovation Campus.³⁰ The new “Bay Science and Innovation Campus” is located alongside a range of multinational, national and local businesses. Rolls Royce is one of the University’s major partners on the new campus. The project also received additional financial support from EU Structural funds and the Welsh Government.

Finance Wales JEREMIE SME Funding

In 2009, EIB lent €75m to *Finance Wales* plc³¹ to provide risk capital to SMEs under the JEREMIE programme.³² *Finance Wales* acted as a holding fund for the loan which it then on-loaned to a specially created JEREMIE fund, which was also supplemented by EU Structural Funds. The JEREMIE fund then provided capital for SMEs *via* sub-funds in the form of loans and equity investments.

3.2 Scotland

Edinburgh Hospital for Sick Children

EIB finance of €89m to assist with the construction and maintenance of a new hospital building for children in Edinburgh was approved in November 2013. The project is being procured under Public Private Partnership (PPP) arrangements. Three bidders prepared tenders. *Integrated Health Solutions Lothian* was chosen as the preferred bidder in March 2014.³³

City of Glasgow College

EIB provided €120m for the construction and maintenance of a new twin campus for the City of Glasgow College.³⁴ The project objective is as follows:

*The investment will deliver significant educational benefits as well as improve quality and efficiency of the buildings. It will create a sustainable estate that adheres to the Governments commitment to quality education, urban regeneration and carbon reduction. The project is consistent with the EU actions aimed at increasing access to lifelong learning, the quality of education, and the formation of human capital for employment and social inclusion.*³⁵

Finance was supplied under PPP EU procurement rules, with EIB responsible for ensuring that all contracts were tendered in accordance with EU procurement

³⁰ Swansea University: <http://www.eib.org/projects/pipeline/2011/20110262.htm>

³¹ Finance Wales is similar to Strategic Investment Board in NI. Set up in 2001 it is a subsidiary of the Welsh Government

³² Jeremie - Finance Wales Fund IV: <http://www.eib.org/projects/pipeline/2007/20070348.htm>

³³ Edinburgh Hospital for Sick Children: <http://www.eib.org/projects/pipeline/2013/20130200.htm>

³⁴ City of Glasgow College PPP: <http://www.eib.org/projects/pipeline/2012/20120242.htm>

³⁵ City of Glasgow College PPP: <http://www.eib.org/projects/pipeline/2012/20120242.htm>

legislation.³⁶ *Glasgow Learning Quarter* was announced as the preferred bidder in January 2013.³⁷

3.3 Rol

Dublin LUAS Cross City Light Railway

EIB provided finance of €163m to *Railway Procurement Agency* (an agency of the Rol Department of Transport) to extend Dublin's LUAS light rail system by 5.6 km and add an additional 13 stations, a new depot and 10 extra trams.³⁸

AIB Loan for SMES & Medium-sized Corporates (MIDCAPS)

In December 2012, EIB approved an intermediated loan of €200m to Allied Irish Bank (AIB) to support small business investment across Rol.³⁹ This follows an earlier EIB lending programme intermediated by AIB in 2011. AIB has signed ten SME lending programmes with EIB since 1990. The average loan under the 2011 lending programme was €91,000 per company.⁴⁰

Trinity College Dublin

EIB assisted the financing of the construction of a biomedical sciences research and training facility at Trinity College Dublin. In 2008, EIB provided €75m for the development to accommodate up to 1,000 biomedical science researchers; aiming to support Trinity's strategic objective to become one of the top 30 research universities in the world.⁴¹

Vodafone Mobile Ireland

Vodafone Ireland Ltd received €117m in 2013 to modernise and strengthen its 3G network and to introduce a 4G mobile network in Rol.⁴² The project also includes investment for related IT systems to cope with the increasing network complexity and data demand.

³⁶ For information on EU PPP Procurement rules, consult: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2005:0569:FIN:EN:PDF>

³⁷ City of Glasgow College: <http://www.cityofglasgowcollege.ac.uk/news/preferred-bidder-announced-new-super-campus>

³⁸ Dublin LUAS City Crossing: <http://www.eib.org/projects/pipeline/2013/20130098.htm>

³⁹ AIB Loan for SMES & MIDCAPS: <http://www.eib.org/projects/pipeline/2012/20120426.htm>

⁴⁰ AIB Loan for SMES & MIDCAPS: <http://www.eib.org/projects/pipeline/2012/20120426.htm>

⁴¹ Trinity College Dublin: <http://www.eib.org/projects/pipeline/2008/20080269.htm>

⁴² Vodafone Mobile Ireland: <http://www.eib.org/projects/pipeline/2013/20130093.htm>

Road Building Projects

The following RoI road projects have been approved by EIB for financial assistance under PPP EU procurement rules:⁴³

Project	EIB Financial Assistance	Date Approved
N11 – N7 Motorway	€75m	11/05/2010
N17-N18 Gort to Tuam	€170m	30/04/2013
N25 New Ross Bypass	EIB finance is undisclosed but total cost is €217m	15/04/2014

4 EIB in NI

The following section:

- Summarises the role of the Strategic Investment Board (SIB) in infrastructure investment in NI;
- Provides details of key infrastructure projects in NI supported by EIB finance; and,
- Discusses potential public finance consequences of EIB loans for NI.

4.1 Role of the SIB

SIB's role in the delivery of infrastructure projects in NI is to:

- Identify innovative ways in which capital investment can help to transform critical business processes and performance;
- Speed up business case development;
- Manage interfaces with key internal and external stakeholders;
- Identify appropriate procurement strategies (e.g. frameworks, strategic partnering, PPP) or develop new methods to improve value for money;
- Establish internal programme delivery teams and structures;
- Undertake soft market testing to increase competitive interest in projects;
- Apply EU and UK procurement law correctly – including new Competitive Dialogue procedures – and reduce the risk of legal challenge;
- Get a better deal through effective risk analysis and commercial deal structuring;
- Undertake effective commercial negotiation to close the deal; and,
- Undertake benefits realisation studies.⁴⁴

Seeking to supplement the information contained on its website, RaISe followed protocol and sought further information from SIB *via* the Office of First Minister and

⁴³ Table produced by RaISe relying on data supplied by EIB.

⁴⁴ Strategic Investment Board. *Project Delivery*: http://www.sibni.org/index/content-our-services/supporting_delivery.htm

Deputy First Minister, asking for information on the role SIB plays in facilitating EIB financially supported infrastructure projects. The following was provided:

Information on the role of SIB advisors in the delivery of infrastructure projects can be found on the SIB website (www.sibni.org) under the 'Project Delivery' section. Please note that SIB works to support departments in the delivery of infrastructure projects and the scope of this support may vary from project to project.

The SIB is a member of the European PPP Expertise Centre (EPEC) which is a joint initiative of the EIB and EU Commission. The purpose of EPEC is to allow sharing of best practice, experience and expertise and is supported by a full-time Executive made up of PPP professionals. Through EPEC, the SIB updates EIB officials on the infrastructure pipeline and projects that may be of scale suited to EIB funding.⁴⁵

4.2 NI Infrastructure Projects

Road Building Projects

EIB has delivered financial assistance to NI for two major road infrastructure projects.

In 2006 EIB lent €90m to upgrade sections of the M1 and M2 motorways. The contract was awarded in February 2006 to Highway Management (City) Ltd, a consortium comprising of German multi-services group, Bilfinger Berger BOT, and incorporating local contractors John Graham (Dromore) Ltd. and Northstone (NI) Ltd.⁴⁶

In December 2007, EIB signed a €169m loan for the design, construction and maintenance of improvements to a 120 km section of the A1, A4 and A5 trunk roads.⁴⁷ The contract was awarded under the terms of a 30-year concession agreement between *Amey Lagan Roads* Ltd and the Department for Regional Development (DRD).⁴⁸

University of Ulster

In February 2014, EIB signed a €175m loan to the University of Ulster to assist with the construction of a new campus in Belfast city centre. The project will include construction of three new academic buildings on a Brownfield site.⁴⁹ The project aims to relocate most of the Jordanstown campus to the city centre by 2018.⁵⁰ University of

⁴⁵ Information provided to RaISe by SIB on 29 April 2014.

⁴⁶ Northern Ireland: GBP 61 million for the upgrade of the Westlink : <http://www.eib.org/projects/press/2006/2006-013-gbp-61-million-for-the-upgrade-of-the-westlink-htm> and :

⁴⁷ A1 and A4 Upgrade PPP: <http://www.eib.org/projects/loans/2006/20060078.htm>

⁴⁸ A concession agreement is a negotiated contract between a company and a government that gives the company the right to operate a specific business within the government's jurisdiction, subject to certain conditions.

⁴⁹ Brownfield site refers to land previously used for industrial purposes or some commercial uses.

⁵⁰ University of Ulster Greater Belfast Development: <http://www.eib.org/projects/pipeline/2013/20130412.htm>

Ulster Vice Chancellor outlined the following benefits of the campus development in the subsequent EIB press release:

The benefit to higher education combined with the wider positive impact on the economy, will ensure the university's investment leaves a lasting legacy for future generations. The Belfast City campus development alone will create more than 5000 construction and related jobs during the build and fit out period, providing much needed employment and salaries into local communities.⁵¹

The following NI projects have also been approved by EIB for financial assistance:⁵²

Project	EIB Financial Assistance	Description of the project	Date Approved
Northern Ireland Water – Alpha Project	€128m	To improve the quality, quantity and security of the treated water supply and ensure compliance by Northern Ireland Water with EU directives on drinking water.	30/05/2006
Framework Facility for Education	€70.7m	Support for a range of small and medium sized projects. For example EIB holds a 45% equity stake in the BELB Strategic Partnering PPP which has been used to modernise schools in Belfast.	10/03/2008
NI Health Investment Programme (Enniskillen SW Acute Hospital)	€137m	Northern Ireland Health Group won the contract to build and maintain the new acute hospital in Enniskillen. Of the overall investment, EIB provided 50% of the funding with other commercial lenders combining to provide the remaining 50%.	20/05/2009

The Committee may wish to ask SIB for further information about each above project.

4.3 Potential Financial Consequences

The use of EIB funding for infrastructure projects in NI is not without ramifications for future allocations of NI public finance. The following excerpt from HM Treasury's *Statement of Funding Policy* explains the current rules for expenditure financed by borrowing:

The devolved administrations have the reserve power to set maximum capital expenditure for capital investment by local authorities (District Councils in Northern Ireland) and other public bodies. Borrowing counts

⁵¹ European Investment Bank loan for University of Ulster: <http://www.eib.org/projects/press/2014/2014-043-gbp150m-european-investment-bank-loan-for-university-of-ulster.htm>

⁵² Table produced by RaISe relying on data supplied by EIB and SIB.

*towards the Public Sector Net Cash Requirement (PSNCR) and hence, is included within the devolved administrations' total budgets each year as a control mechanism, so that any increases in borrowing must be offset by reductions in other spending. The effect is to reduce the level of grant from the United Kingdom Government and hence to restore the United Kingdom borrowing position.*⁵³

The Finance Minister reiterated this in relation to EIB borrowing in an answer to a NI Assembly Question in January 2014:

*We have issues with using EIB funding to build central government capital projects such as roads, schools, and so forth. If we avail ourselves of the funding, it will come off our block grant and even though it is a lower rate of interest, we would still have to pay the interest so we would be net worse off in the longer term.*⁵⁴

The Finance Minister then went on to cite the potential use of EIB loans for NI universities and local government:

*That is why I think that there is potential for colleges and universities such as the University of Ulster and Queen's University, which are at arm's length from government, and for local government, because such finance does not score on balance sheets in the same way. That is why I am keen to meet the EIB to scope out those potentials for Northern Ireland, of which there are many.*⁵⁵

In a March 2014 NI Executive press release, the Finance Minister again emphasised the potential of local government to avail of EIB loans for infrastructure projects:

*While the Executive itself is unable to directly benefit from EIB loans, I want to work with others in the public sector and the private sector to scope out what opportunities may exist. I have already met with senior officials from local government in Northern Ireland and there is enthusiasm that we should examine what the EIB has to offer. Our soon to be reformed local Councils could, in particular, benefit from the Bank's competitive lending rates when taking forward infrastructure developments in their areas.*⁵⁶

In April 2014, when replying to an Assembly Question, the Finance Minister discussed councils' enhanced lending powers following the Review of Public Administration (RPA):

⁵³ HM Treasury (2010) .*Statement of Funding Policy*: http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/sr2010_fundingpolicy.pdf

⁵⁴ AQO 5351/11-15: <http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Reports-13-14/21-January-2014/#AQO%205351/11-15>

⁵⁵ AQO 5351/11-15: <http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Reports-13-14/21-January-2014/#AQO%205351/11-15>

⁵⁶ NI Executive (27 March 2014) Hamilton discusses *infrastructure opportunities with European Investment Bank*: http://www.northernireland.gov.uk/news-dfp-270314-hamilton-discusses-infrastructure?WT.mc_id=rss-news

The Member is right to highlight the opportunity that is presented by our local councils, particularly after reorganisation and the RPA, which will, of course, create much bigger councils with bigger rate bases. There will also be a change towards better borrowing powers and, importantly, more powers, including a power of regeneration. I held a seminar in the Department a couple of weeks ago with senior officials, chief executives and finance directors from a large number of the local councils. I am keen to continue that type of engagement to try to make them aware of the opportunities that EIB funding and financial transactions capital funding potentially present. Into the future, our councils, given their greater powers post-RPA, should be an increasing driver of infrastructure investment in Northern Ireland. I am keen, at these early stages, to use the good offices of the Department of Finance and Personnel to encourage them down that path.⁵⁷

The Committee may wish to seek clarification on the following points:

Post-RPA, what increased borrowing powers are envisioned for local councils to access EIB financial support for infrastructure projects?

and,

Will financial support accessed by local councils have any ramifications for NI public finance allocations in future?

5 Concluding Remarks

National governments of EU Member States, their regional local authorities and private companies all use the substantial lending resources of the EIB (€71.7bn in 2013) to fund infrastructure projects.⁵⁸ The variety of lending products EIB provide - for example, intermediated loans and project bonds - offer flexibility for customers and the experience and reputation of the Bank gives peace of mind to potential lenders. EIB's non-profit making status also ensures that its focus is directed solely on improving investment opportunities in EU Member States.

EIB reported the largest ever annual engagement with the UK in 2013.⁵⁹ Total EIB investment in the UK for 2013 amounted to €5.8bn.⁶⁰ This represented an increase of 59%, compared to the €3.7bn EIB invested in the UK during 2012.⁶¹ The following sectors received EIB support in the UK in 2013: energy; transport; telecommunications; water; sewerage; agriculture; and, education. During the same period, EIB provided

⁵⁷ AQO 5920/11-15: <http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Reports-13-14/01-April-2014/#3>

⁵⁸ EIB, *Some dates and figures*: http://www.eib.org/about/key_figures/index.htm

⁵⁹ The EIB in the United Kingdom in 2013 : http://www.eib.org/attachments/country/factsheet_united_kingdom_2013_en.pdf

⁶⁰ The EIB in the United Kingdom in 2013 : http://www.eib.org/attachments/country/factsheet_united_kingdom_2013_en.pdf

⁶¹ The EIB in the United Kingdom in 2013: http://www.eib.org/attachments/country/factsheet_united_kingdom_2013_en.pdf

Rol with €680m in loans, to support key infrastructure and private sector investment in: energy; transport; telecommunications; education; and, health sectors.⁶² This represented an increase of 35%, compared to the Rol's 2012 figure of €505m.⁶³

It is important to note that the use of EIB funding by UK devolved administrations potentially impacts on future public finance allocations made by Westminster. The Committee may wish to explore this, seeking further information from the Department of Finance and Personnel (DFP) and SIB; especially since the Finance Minister has engaged with EIB during 2014, and has reported a commitment to explore future potential investment opportunities (particularly through local councils, not Executive Departments).

Moreover, the Finance Minister appears to view councils' increased borrowing powers post-RPA as the main vehicle for achieving this.⁶⁴ The Committee may wish to seek clarification from DFP about how it envisions councils using these powers.

⁶² The EIB in Ireland in 2013: http://www.eib.org/attachments/country/factsheet_ireland_2013_en.pdf

⁶³ The EIB in Ireland in 2013: http://www.eib.org/attachments/country/factsheet_ireland_2013_en.pdf

⁶⁴ NI Executive (27 March 2014) Hamilton discusses *infrastructure opportunities with European Investment Bank*: http://www.northernireland.gov.uk/news-dfp-270314-hamilton-discusses-infrastructure?WT.mc_id=rss-news