Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Borrowing from the European Investment Bank: Department of Finance and Personnel

24 September 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Ms Michaela Boyle
Mrs Judith Cochrane
Mr Leslie Cree
Mr Paul Girvan
Mr John McCallister
Mr Ian McCrea
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Peter Jakobsen	Department of Finance and Personnel
Mr Jeff McGuinness	Department of Finance and Personnel

The Chairperson: I welcome Peter Jakobsen and Jeff McGuinness. You are both very welcome. Do you want to give us some introductory remarks before we move into questions?

Mr Peter Jakobsen (Department of Finance and Personnel): Yes, Chair, no problem. I will provide a brief outline of the key issues, and we can take questions after that.

As you are undoubtedly aware, the European Investment Bank (EIB) is the only bank that is owned by the European member states. The key role of the bank is to provide finance and expertise for investment projects that contribute to EU policy objectives. The EIB raises the bulk of its lending resources on the capital markets, and it has a triple-A rating, which means that it can borrow at really advantageous rates, which are then passed on to clients. The EIB's powers are wide-ranging and allow it to invest in projects that reduce economic and social imbalances across the regions. It will invest in projects that improve the natural or urban environment and promote innovation through investment in things like ICT and human capital. It will invest in transport and energy infrastructure and projects to support a competitive and secure energy supply. There are a wide range of projects that it will finance.

Given the relatively low cost of finance that EIB can offer, the Finance Minister is keen that the bank should play a greater role in investing in infrastructure here in Northern Ireland. That is the main reason why he visited the EIB earlier this year. As you are undoubtedly aware, however, there are limitations as to the extent to which the Executive can borrow from the EIB directly. Our Department's response to the Committee research paper explained that position. Just to summarise that, essentially the public expenditure rules make it unattractive for the Executive to borrow from the EIB directly. That is because Treasury reduces our resource delegated expenditure limit (DEL) by the same amount as the loan, which then leaves us worse off because EIB finance is repayable with interest, whereas our grant is not.

For local councils, as we explained in our reply, the position is slightly different. Provided that councils finance repayments of any loan from their district rates, the Executive's capital DEL will not be reduced, and there will definitely not be a corresponding reduction in public expenditure. Of course councils can already borrow from the National Loans Fund, so for them to borrow from the EIB, the terms have to be better than the National Loans Fund, otherwise it does not make financial sense to them.

Looking wider, there are many private sector companies and organisations in Northern Ireland that are delivering significant capital projects. The EIB could have a role in financing those projects. Examples are electricity, gas and telecoms providers. There is no reason why they cannot access EIB finance directly. The same can be said for housing associations that deliver large-scale social housing projects.

That is just a quick overview, Chair. We are happy to take questions.

The Chairperson: First, might it be possible to avoid a Treasury reduction in the Executive's capital DEL if the repayments of EIB loans to Departments were fully financed out of income generated by the Executive, as per local government terms? What scope exists for negotiating that with the Treasury?

Mr Jakobsen: There is no scope. As you know, the Treasury's agenda is fiscal consolidation. The last thing that it wants is additional borrowing. Treasury has already given us borrowing power of £200 million a year for the reinvestment and reform initiative (RRI), which is better than any other devolved Administrations out there. I just cannot see Treasury — we could ask, and we have done so in the past, but I have no doubt that it would be turned down.

The Chairperson: Has the response been a flat no?

Mr Jakobsen: A flat no, absolutely.

The Chairperson: To what extent have local councils availed themselves of EIB loans to date? What steps has the Department taken to raise awareness among the shadow super-councils being set up to make sure that they are in a good position?

Mr Jakobsen: To date, I am not aware of any local council directly having access to EIB finance. We held an awareness seminar with local councils — I think that it was in February — to which the Finance Minister invited all the then councils' chief executives and finance officers and those that we knew were going to be in place next year. An official from the EIB came and gave a presentation to the councils about the opportunities that there may be. Certainly, local councils are fully aware that it is there and available.

The Chairperson: The research found that the project size for EIB finance capital projects that typically exceed £100 million is a problem for the devolved Administrations. The Strategic Investment Board (SIB) advised that, in the case of the North:

> *"as a result of ongoing engagement from both DFP and SIB ... the EIB are prepared to consider making investments in projects of lower value".*

Has any progress been made in regard to those proposals for a lower value?

Mr Jakobsen: Yes. Since the Minister's visit, we have been in quite extensive dialogue with the EIB over the last few months. You are probably aware that Invest NI has a number of funds, for example, that were set up a couple of years ago when it was using European funding; at the time, it investigated whether the EIB would part-fund them. At that time the EIB said that the funds were too small for it to be interested, but is seems to have changed its position and it is keen to take up the conversation, for example, with Invest NI. I think that when Invest NI goes out to procure new funds, the EIB will be keen to co-invest. We certainly hope so, and that discussion is now ongoing.

Mr McCallister: To follow on from the Chair's question, how are we going to get this rolled out and get councils to put on their thinking caps about how they can tap into this and where they can use it? Can they build up partnerships between private companies in their areas and use that? Can they stretch it into some of the other asset transfer arrangements? At the minute, it is a question of tapping into them. As Daithí said, that limit seems very high to attain. Is there a lower limit in mind?

Mr Jakobsen: Yes.

Mr McCallister: You talked about a figure of £100 million. That is a big sum of money —

Mr Jakobsen: Oh, it is.

Mr McCallister: — even for the Northern Ireland Assembly or Executive to be dealing with.

Mr Jakobsen: The EIB also does a thing that it calls a framework loan, which is a loan over several years and for various projects. There may be something to explore there, and we are exploring that with the EIB. That is an opportunity that we might be able to avail ourselves of. There are things that we can do. Another thing that the new councils can do — Belfast City Council is large, obviously — is perhaps partner with others or with private sector partners to deliver large urban regeneration projects. If you bundle those, you can get the scale. There are things that we can do there, and I think that Belfast City Council is definitely interested in looking at those.

Mr McCallister: For some infrastructure projects, such as maybe housing, if you bring it into the rates, the council will end up with more rateable value. If you were doing an infrastructure project like a road, it is hard to see how a council area might benefit directly through its rating system, how you would fund it or what incentive there would be for the council to take on the burden if they were not going to have some payback.

Mr Jakobsen: They are not going to deliver roads. That is still DRD's remit.

Mr McCallister: I was throwing it out because I could not see any. You might argue that there is huge economic benefit from something like a road, but you would not have a notable rateable increase for the council.

Mr Jeff McGuinness (Department of Finance and Personnel): A lot of things will be driven by need. As funding gets tighter and tighter, councils will be nearly forced to try to find innovative solutions to infrastructure problems. One of those would, we hope, be that they would think about how we can usefully use EIB money. For example, maybe loans could be combined with other councils and the burden shared across a number of councils, to *[Inaudible due to mobile phone interference.]* the benefit.

Mr McCallister: It is probably about getting that out to councils and building up capacity within the council structure. At the minute, they are grappling with the whole reform, so it is about getting to the point where they can do that. I accept that, as Peter said, you have had meetings and run a seminar. Do you envisage that being an ongoing process and dialogue with councils?

Mr Jakobsen: I think that we are going to have to do more. When they are set up, that will have to be done to continue that dialogue.

Mr Girvan: I appreciate that it may be good to have access to funds, but, by borrowing money, you always have to pay back. Therefore, it will come out of your money for the following year and you will start to pay interest on it. There is always that difficulty, unless it is real cheap money and costing you no interest. That is fine, but here is also the problem that you are going to have to pay it back at some stage. Was the investment and reform initiative linked to the same process?

Mr Jakobsen: Are you talking about the RRI?

Mr Girvan: Yes.

Mr Jakobsen: No, that was borrowed from the UK Government. They gave us a limit of, at the moment, £200 million a year.

As you say, borrowing creates a long-term liability. The Executive could not avail themselves of it anyway. I see it as private sector partners utilising EIB finance. The obvious ones are the big utility companies; the likes of electricity and gas investments, which tend to be very large scale.

Mr Girvan: That is maybe the line that I am thinking on. We have used some of our funding from DETI — if I could use that as an example — to roll out a broadband initiative to ensure that there is access to broadband in all regions of Northern Ireland. Is there no active work going on to encourage the likes of some of the utility companies to avail themselves of this and drive it forward, with the backing of government?

Mr Jakobsen: DETI is fully aware of it. We have briefed it on the EIB, and it will talk to the various utility companies. Take as an example the gas network extension to the west. It did need a Government injection to make it viable. That was a clear market failure. It needed a Government grant, but it also needed a large portion of private money coming in. I think that the total project is around £100 million. Again, there is an opportunity, perhaps, for the EIB to step in. The project promoters could start a conversation with the EIB to fund that.

Mr Girvan: What are the loan rates like when compared with the ordinary commercial banks?

Mr Jakobsen: The EIB tends to come in at a lower rate than the commercial banks because it can raise the finance so much more cheaply.

Mr Girvan: It is a line that we should probably be trying to cultivate to ensure that we can maybe draw in some of that money through the utility companies.

Mr Jakobsen: The big benefit to the private companies is simply that they can access cheaper finance. They can deliver the same projects for less. That is the benefit. I do not think that it creates additional investment in Northern Ireland as such. Many of the projects probably would have happened anyway, but the benefit to the companies is that they can finance them more cheaply.

Mr Cree: I think there was a system at one time — looking through the notes, I do not see it mentioned — whereby a local government, say, that was financing a project that had European funds could access cheaper borrowing from the EIB. Is that true?

Mr Jakobsen: No, not that I am aware of. The EIB looks at the risk of each project and prices its finance accordingly. I am not aware that EU money going in would have any bearing at all. Of course, if a project is part-funded by government, in theory that lowers the risk to the EIB. However, it does not matter whether it is EU funding, Executive funding or any other type of public funding. The risk of the project is what the price of the finance is based on.

Mr Cree: That would have been done before the grant was issued anyhow. There would not have been an evaluation, a business case and all the rest of it —

Mr Jakobsen: Yes, and in any project it finances, the EIB will look at the risk and the return that it would expect based on that risk.

Mr Cree: I am trying not to be sceptical, but why would you want to borrow from the EIB if you are the Northern Ireland Executive if it is going to come off your capital DEL?

Mr Jakobsen: We will not be looking to do that at all, because it does not make any sense.

Mr Cree: Turning that round to a positive, how do we change things so that it becomes a benefit?

Mr Jakobsen: We cannot, because those are the Treasury spending rules. The Treasury is not going to change its spending rules, because the last thing it wants is devolved Administrations borrowing extra money when its whole policy is to reduce borrowing. I cannot see that changing.

Mr Cree: How do the EIB rates compare with the RRI rates?

Mr Jakobsen: I do not know. EIB rates are confidential; it keeps its rates commercially confidential. The rates at which we borrow from the Treasury are based on the UK Government borrowing costs, whereas EIB funding finance is based on the cost of EIB borrowing in capital markets. Since that is underpinned by all the EU member states, the European Investment Bank is probably seen as a lower risk than even the UK Government. It can probably access cheaper finance than the UK Government.

Mr Cree: Would it not be good business practice to reschedule our loans if we found that the EIB was a lot cheaper?

Mr Jakobsen: In theory, you could do that.

Mr Cree: Is that not a case that could be put to them — what would the EIB's rate of interest be for the £1·7 billion or whatever we happen to have? Would that be a good exercise?

Mr Jakobsen: In theory, it sounds doable. However, there are a lot of transaction costs when you are dealing with the EIB. For example, you have to get EIB board approval for each loan. The board will want to look at the projects —

Mr Cree: Could you not discuss it in principle?

Mr Jakobsen: I still think the transaction costs would be far too high for us to afford that. I doubt that there would be much difference anyway, to be honest.

Mr Cree: There is an issue there, is there not? You should really know that.

Mr J McGuinness: In theory, the UK Government have a borrowing limit for all of the UK. They go out on a daily basis, or whatever it is, to borrow funds from various sources across the international markets. I suspect that if we say to the UK, "Instead of you providing the money for us directly from that borrowing at a UK level, we will borrow from the EIB", the rate that we get from the EIB will not be as good as the rate that the UK gets on the international markets. I suspect that if we delved into that we would find that the rates that the UK get to provide us with RRI borrowing are cheaper than the rates we would get if we went directly to the EIB. If there was a differential in the cost, I am quite certain that the Treasury would pass it on to us.

Mr Jakobsen: Yes. You also have to remember that Treasury gives us an extremely low margin on top of what it can borrow for, and I am not sure that the EIB would do that. The EIB might be able to access cheaper finance in the capital markets or around the same rate as the UK Government, but that does not mean that it will pass that on to us.

Mr Cree: There is a European link in all of this. Whilst I accept what you say, Jeff, I am still in some doubt as to whether or not we could get cheaper borrowing from the European Investment Bank. Is that not something that could be put to the EIB in principle?

Mr Jakobsen: We could, but I very much doubt that it is the case.

The Chairperson: Where are we at with the draft borrowing strategy, which the Minister referred to back in June?

Mr Jakobsen: The Minister has submitted a borrowing strategy to the Executive.

Mr J McGuinness: The draft borrowing strategy was discussed at the Budget Review Group, and it was agreed that it would be considered as part of the wider Budget process.

The Chairperson: What does it look like? *[Laughter.]* Can you give us a broad overview?

Mr J McGuinness: The borrowing strategy will look at what we are borrowing, the overall level of indebtedness and how we go forward with that. What is a prudent level of borrowing? How can the Assembly or the Executive seek to cap that at a level that is sustainable? That is probably as much as I can say.

The Chairperson: The statutory borrowing limit of £3 billion covers the Executive, councils, the Housing Executive, schools and so on. With the RPA and the larger councils, will that limit still be sufficient, or does that change things?

Mr J McGuinness: That limit is looked at fairly regularly, so we will do projections for when we think that limit will come to an end. It is difficult to say with the new councils coming in, because we have no historical data to compare it with, what that might look like. We will continue to look at that to make sure that it is sufficient, and if it is not we will have to consider whether we raise it again with legislation or seek to cap borrowing to maintain it.

The Chairperson: Where do we sit in regard to the limit?

Mr Jakobsen: The total is about £1·8 billion.

The Chairperson: Is that an average?

Mr Jakobsen: That is the total outstanding net debt.

Mr J McGuinness: I think it is just RRI.

Mr Jakobsen: It is for the Executive and councils as well.

Mr J McGuinness: OK.

Mr Cree: It is £1·764957 billion exactly. *[Laughter.]*

The Chairperson: OK, gentlemen. Thank you very much.