Brexit & Northern Ireland's Infrastructure

Introduction

Infrastructure is something we don't really think about until it fails. We don't notice the roads until there are traffic jams or potholes. We don't notice the electrical grid until there is a power outage or costs soar. Similarly, we don't think about IT until we cannot get online. But infrastructure is the foundation for everything we do. Effective transport, power and communications networks are a prerequisite for businesses to grow and the wider economy to function effectively. It also helps address regional disparities and create a more inclusive society. The scale of infrastructure under investment in Northern Ireland has been an issue for some time. Whilst being in the EU may have helped with some projects, it certainly has not solved all of Northern Ireland's infrastructure problems. A long list of priorities remain.

The extent to which Brexit will impact on infrastructure is unknown and will depend, as with all other sectors, on the outcome of negotiations between the UK Government and the EU over the coming two years. But either way it will have consequences. Infrastructure in Northern Ireland is subject to considerable input from the EU in the form of policy, regulation and financial support. There is a strong cross-border connection, with ongoing co-operation with the Republic of Ireland on the planning and delivery of transport, energy and utilities.

Brexit draws more questions than answers. How will the Single Electricity Market be affected? Will investment grind to a halt in the short term or gain momentum supported by accelerated UK government spend? What will replace EU Programmes? Could it better fit our needs? How will regulation be impacted? Will we still comply with EU Directives?

This short paper draws attention to some immediate and important points - the Single Electricity Market (SEM), the infrastructure pipeline, funding and regulation. These are just some issues; there are many more.

The Ulster University Brexit Symposium provides a forum to discuss the potential scenarios and put forward practical ways to prepare for change.

Energy

Recent Brexit developments have raised concerns about the future of the Single Electricity Market on the island of Ireland.

Since 2007, the electricity industry, including the two Regulatory Authorities in NI and RoI operating as a joint commiteee, has successfully participated in a single wholesale market across the island known as the Single Electricity Market (SEM). SEM provides both Ireland and Northern Ireland with more affordable, sustainable and secure access to electricity for both businesses and domestic customers. This brings economies and efficiencies of scale to what would otherwise be two very small, separate markets and allows planning, especially around adequacy of electricity generation, to be considered on an all-island basis.

A new wholesale market, known as the Integrated Single Electricity Market (I-SEM), is being developed to deliver increased levels of competition which should help put a downward pressure on prices as well as encouraging greater levels of security of supply and transparency. The I-SEM, which is due to go-live in May 2018, has been designed to be compliant with the EU-wide target model for wholesale electricity markets in order to deliver a level playing field with rules that are consistent across the EU. This in turn will lead to greater investment certainty and the opportunity to maximise electricity flows across interconnectors which adds to security of supply and cost efficiencies.

All quarters are calling for the all-island electricity market to be protected and that the introduction of I-SEM is secured through the negotiations. This is a priority for Northern Ireland. The UK Government recognise in the Brexit White Paper the importance of ensuring that this is secured following our departure from the EU. A number of cross border issues also exist in gas transmission and these too need to be secured in any negotiations for both Ireland and the U.K.

Questions to consider:

- What are the immediate risks for the all-island market ?
- What are the longer term implications if NI cannot remain part of an EU compliant I-SEM?
- What will happen if energy prices for larger and other energy users in Northern Ireland increase as a result ?
- What is likely to be the shape of energy policy more generally?

Infrastructure Pipeline

The construction sector and related industries fear that the work flow will stall during exit negotiations as private sector clients look for more certainty on the UK's future relationship with Europe before investing and the public sector take time to rethink project finance, particularly on the larger schemes. Construction projects already underway are likely to continue. It is six months or a year down the line when projects are likely to be put on ice. The concern is a huge drop off in construction at a time when the industry is just picking itself up post-recession.

There is some evidence already of projects slowing down. Delivery timeframes for significant developments such as the York Street Interchange (which could have attracted up to 40% EU funding) and the Belfast Transport Hub are now in doubt. Part funding these large schemes (even with EU support) is challenging but funding projects in their entirety from the block grant may be a hurdle too high given the completing priorities across government.

The UK Government recognises the risks of a slowdown. Injecting more into infrastructure is one of its central strategies to combat Brexit related economic woes, with commitments in the 2016

Autumn Statement and the recently published UK Industrial Strategy Green Paper. The Green Paper proposes a series of weighty actions to upgrade infrastructure. This includes amongst other actions providing higher levels of public investment, greater certainty and a clear long term direction, better institutional framework with longer term budgets and the creation of the National Infrastructure Commission. This could be significant for Northern Ireland as we rely heavily on the funding provided by the UK Government, via the block grant, to fund our infrastructure.

Questions to consider:

- How real is the risk of a major slowdown in infrastructure investment?
- Is the UK Government strategy enough to counterbalance it?
- How could the regulatory burden for private sector investors be streamlined to help?
- If we choose 'shovel ready' projects to support jobs, do we risk side tracking the really worthy projects?

Funding

The UK will need to rethink infrastructure funding models post Brexit. Northern Ireland infrastructure projects have, over many years, benefited from EU Programmes and also from low interest loans from the European Investment Bank (EIB). These will no longer be available in their current form.

Over the years EIB has been an important investor in Britain's infrastructure. Although investment in Northern Ireland has not been as significant as it has been in the rest of the UK or in the Republic of Ireland, major road schemes such as the M1 Westlink and the M2 motorway have benefited. More recently, Ulster University secured £150m of EIB investment for its landmark Belfast city campus development. It had been hoped that the EIB would have been potential match funder for the new Northern Ireland Investment Fund but after the referendum the EIB indicated that this would no longer be possible.

Until new relations between the UK and the bank are worked out there is likely to be a period of ambiguity. The EIB does lend to projects in the European Economic Area (EEA) but not at the same level as with the EU. This void could impact on pricing and, ultimately, the affordability of projects. Industry bodies and others are calling on Government to consider alternative funding sources, including the potential for a UK Investment Bank to replace the EIB.

We have yet to learn what type of measures the UK Government will introduce to offset the removal of EU Programmes and facilities such as EIB. But this may be an opportune time for Northern Ireland to make the most of UK and locally led tailored solutions, such as City Growth Deals, to fund our infrastructure.

Questions to consider:

- Could a UK Investment Bank potentially have more to offer Northern Ireland than EIB did?
- To what degree could a City Growth Deal help transform infrastructure?
- Is it time to reconsider public private initiatives?
- Is it time to consider other innovative ways of paying for infrastructure?
- How could UK measures to replace EU Programmes be designed to better support infrastructure delivery here?

Regulation

Through various directives and policies, the EU has been the driving force behind many investment decisions in recent decades. These drivers come from various directives such as the Water Framework and Drinking Water Directives and many others. Many other pieces of EU legislation, covering issues such as emissions, procurement, state aid and competition affect the sector.

Post Brexit it is unlikely that a decision would be taken to lower existing drinking water quality standards or waste water compliance. We will still need to maintain and upgrade these essential assets. But the risk of infraction proceedings if Directives were not complied with may be removed.

In terms of changes it might be more likely that some environmental quality standards could be reconsidered. EU member states were obliged to recover the cost of providing water and sewerage services by imposing tariffs on consumers (although we choose not to do so instead provided a subsidy to NI Water). There may be some changes around the cost recovery of water services.

The EU has generally been the main legislator in many areas of transport covering aviation, roads, rail and maritime. This includes state aid, market access, safety and environment. Future arrangements need to ensure Northern Ireland continues to develop and maintain connectivity to international markets. Alternative policies may be pursued with changes in state aid and market access rules.

Questions to consider:

- Does Brexit eliminate the potential for infraction proceedings?
- What, if anything, does it mean for water charging?
- Where is there the most potential for positive change around regulation?
- How will connectivity be impacted by possible regulation changes?