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NICVA
Overview of the Northern Ireland Draft Budget 2011-2015

Final Report February 2011

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Introduction

UK Spending Review

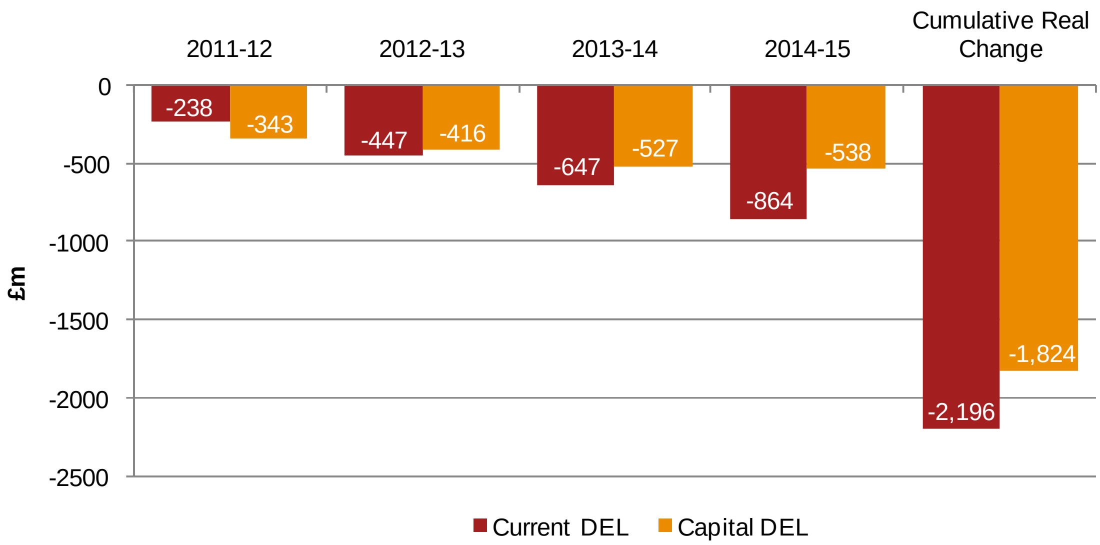
The immediate context for the Northern Ireland draft Budget 2011-15 was provided by the UK Spending Review 2010, which determined the level of funding allocation from the Treasury to the Northern Ireland Executive over the next four years.

The UK Spending Review on 20 October 2010 resulted in large funding reductions for the entire UK public sector both in terms of the Whitehall Departments and also for the Devolved Administrations. The impetus behind the Spending Review was Chancellor George Osborne's plan to steadily reduce the large UK budget deficit which he judged was unsustainable.

The settlement for the Northern Ireland Executive is shown in Figure 1. Comparing 2014-15 to 2010-11, there was an 8% real terms decrease in the total monies allocated to Departmental Expenditure Limit (DEL) current expenditure[1] and a 40% decrease in the monies allocated to DEL capital expenditure[2] over the 4 year period.

The total cuts over this period represent a cumulative real terms decrease of £4 billion compared to the baseline in 2010-11. The 15 December 2010 draft Budget document comments; "While the level of reductions faced by the Northern Ireland Executive is lower than that faced by many Whitehall departments, it still represents a significant challenge for the Executive".[3]

Figure 1: NI total Departmental Expenditure Limit spending allocation from The Spending Review, £m real terms reductions relative to 2010-11



Northern Ireland draft Budget

On 15 December 2010 the Executive presented its draft Budget for public consultation. Each Department was required to respond to their Budget settlements by publishing plans of how they intend to reduce their levels of expenditure between 2011-12 and 2014-15 to meet their allocated Budgets. Subsequently the Departments produced their spending and savings plans (with varying levels of detail and completeness). These plans are currently open for consultation, and the consultation period ends on 16 February 2011.

[1] DEL current expenditure is the money that is used to provide the services of government Departments and includes staff costs and operating costs of providing those services.
[2] DEL capital expenditure is the money used to provide infrastructure projects e.g. road building, upgrade of the water and sewage systems, hospital buildings.
[3] DFP 15 December 2010, *Draft Budget 2011-15.*

This report provides a factual analysis of the spending plans for the Executive as a whole and for each of the Departments. The main purpose of this report is to inform NICVA's response to the public consultation on the draft Budget. It should be stressed that our analysis here and indeed our main focus throughout this report, is on that part of spending which is at the discretion of Departments, i.e. Departmental Expenditure Limit (DEL) spending. Whereas DEL-type spending makes up over one-half of the total spending power of the Northern Ireland Executive, a further two-fifths or so comes from Annually Managed Expenditure (AME). This is demand led spending, which is made up mainly of welfare benefits. AME-type spending is discussed in a later section.

Having analysed the Budget proposals we make certain observations and questions. It is important to note that, this report does not represent the views of NICVA or any third sector body. Also, the report does not draw any conclusions from the analysis regarding the likely impact on either NICVA in particular or the community and voluntary sector in general.

Comparing spending levels and change in the 12 devolved Departments

Relative scale of the Departments

The relative scale of the various Northern Ireland devolved Departments is shown in Table 1. This provides the percentage share of the total current spend by all the Departments - £10.3 billion - and in the total capital expenditure - £1.5billion.

Table 1: Percentage shares of the total for all Northern Ireland Departments, 2010-11

Departments	% of total current spending	% of total capital spending
DARD	2	n/a*
DCAL	1	4
DE	19	10
DEL	8	2
DETI	2	4
DFP	2	1
DHSSPS	41	12
DOE	1	11
DOJ	12	5
DRD	5	34
DSD	5	16
OFMDFM	1	1
Non-Ministerial Departments.**	1	0.3
Total	100	100

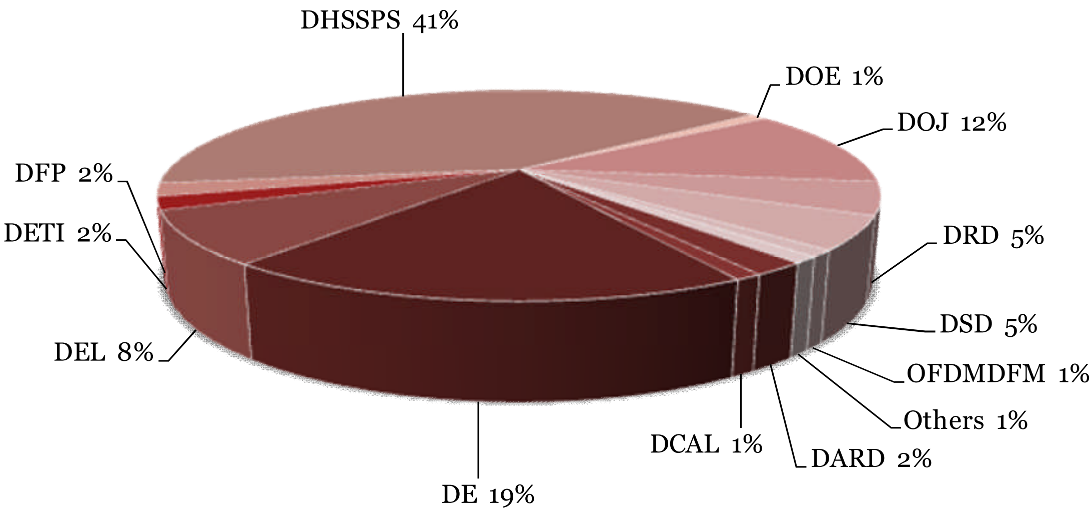
Note:*: In 2010-11 the net capital spending for DARD was reported as negative because of a high level of expected receipts from asset sales.

**: Assembly Ombudsman/Commissioner for Complaints, Food Standards Agency, Northern Ireland Assembly, Northern Ireland Audit Office, Northern Ireland Authority for Utility Regulation and Public Prosecution Service.

Source: DFP 15 December 2010, *draft Budget 2011-15*.

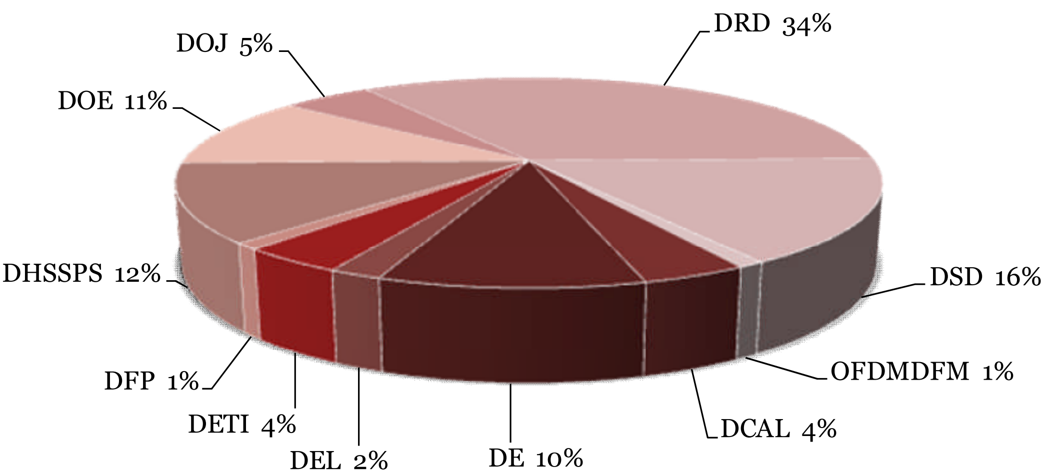
Table 1 demonstrates there is a wide variation in terms of the scale of spending across the Northern Ireland devolved Departments. In terms of current spending, Health (DHSSPS) is dominant with a share of about two-fifths. Education (DE) represents almost one-fifth of total current spending and Justice (DOJ) another 12%. Some of the Departments (Agriculture (DARD), Culture (DCAL), Enterprise (DETI), Finance (DFP), Environment (DOE) and Office of the First Minister and Deputy First Minister (OFMDFM)) are comparatively small with shares of only one or two per cent. This is illustrated in Figure 2.

Figure 2: Relative size of Departments – Current expenditure by Department 2010-11



A somewhat different pattern emerges with respect to the relative shares of capital spending; the Department of Regional Development (DRD) dominates with just over one-third, the Department of Social Development (DSD) has 16%, DHSSPS 12%, DOE 11% and DE 10%. This is illustrated in Figure 3.

Figure 3: Relative size of Departments - Capital expenditure by Department 2010-11



Decline in current spending across the Departments

Figure 4 shows the average real terms decline in current expenditure is 8% across all 12 devolved Departments.

Further detail on each of the Departments is shown in the following section of this report, but the first and most significant general observation is that no Department has managed to entirely preserve current spending in real terms and only one department, DHSSPS, comes close with a real terms decline of “only” 2%.

Figure 4: Real terms current expenditure outcomes of the Northern Ireland Departments in 2014-15 as % of 2010-11

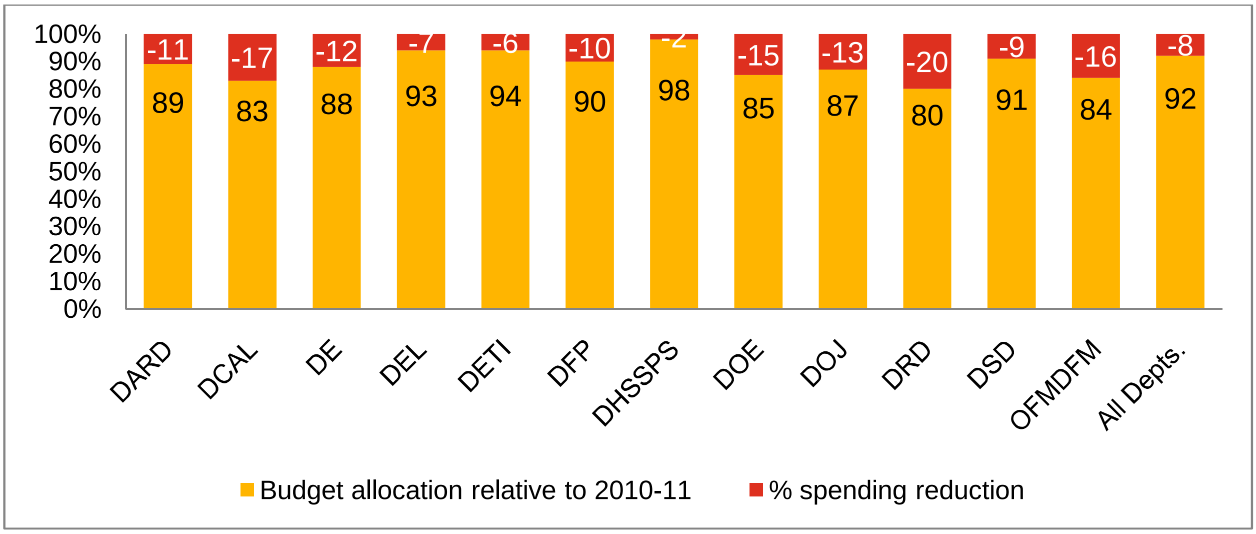


Table 2: Proposed expenditure outcomes (current and capital) for the Northern Ireland Departments, in real terms, 2014-15 compared to 2010-11 baseline

Departments	Real current spending 2014-15 as a % of 2010-11	Real capital spending 2014-15 as a % of 2010-11
DARD	89	n/a*
DCAL	83	130
DE	88	75
DEL	93	68
DETI	94	36
DFP	90	170
DHSSPS	98	74
DOE	85	4
DOJ	87	93
DRD	80	91
DSD	91	64
OFMDFM	84	194
Non-Ministerial Departments.**	78	131
All Departments***	92	84

Note: Using the HM Treasury (22 December 2010) forecast GDP deflator for 2014-15 compared to 2010-11, i.e. 1.10. If construction costs actually dip during 2010-11/2014-15, perhaps as a result of the downturn and its aftermath, then it would be less appropriate to use this "general" economy rate of inflation to deflate capital spending and real terms outcomes will be more favourable than those projected here.

*: In 2010-11 the net capital spending of DARD was reported as negative given a high level of expected receipts. 66% is the real terms growth in change 2014-15 compared to 2011-12 (there being a positive level of net capital spending in that latter year).

**: Assembly Ombudsman/Commissioner for Complaints, Food Standards Agency, Northern Ireland Assembly, Northern Ireland Audit Office, Northern Ireland Authority for Utility Regulation and Public Prosecution Service.

***: All 12 devolved Departments plus the Non-Ministerial Departments.

Source: DFP 15 December 2010, *draft Budget 2011-15*.

At the *Balancing the Budget* Conference, organised by the Chief Executives' Forum on 3 December 2010, the First Minister described the overall impact of the draft Budget on current spending as 8% over the four-year period and as such he thought it was"achievable". However, the relatively modest real terms impact on DHSSPS, which accounts for 41% of current spending, has the effect of concealing the real impact of the draft Budget on other departments, some of which (DE, DRD, DOE) face real terms cuts of 15-20%.

Furthermore, the DFP paper[4] proposes that, as in England, the level of spending on "health" should be somewhat protected in real terms. This protection applies to the 77% of the DHSSPS budget which is related to "health" narrowly defined, as opposed to personal social services. That protection is relative to "general" inflation across the economy (i.e. the GDP deflator measure as used here, e.g. in Tables 1 and 2) and *not* compared to any higher inflation rate specific to the health sector (e.g. cost of drugs, new technology or, indeed, staff pay increases).

The relatively favourable outcomes for Employment and Learning (DEL) and DETI with real terms declines of only 6-7% could be interpreted as evidence of the Executive's previously stated commitment (in the *Programme for Government 2008-11*) to make the economy top priority. Albeit the comparisons for both DEL and DETI compared to the 2010-11 are somewhat distorted by changes in the categories of spending which were included in the definition of baseline spending for the Spending Review years as compared to 2010-11 . DEL's baseline 2011-12/2014-15 is to include a ring fenced Barnett consequential and DETI's baseline is to include a spending line (various compensation payments) for which it previously bid in-year; so it could be argued that both the DEL and DETI proposed outcomes look slightly better than they really are relative to 2010-11 (see description of the individual Departments below).

Decline in capital spending across the Departments

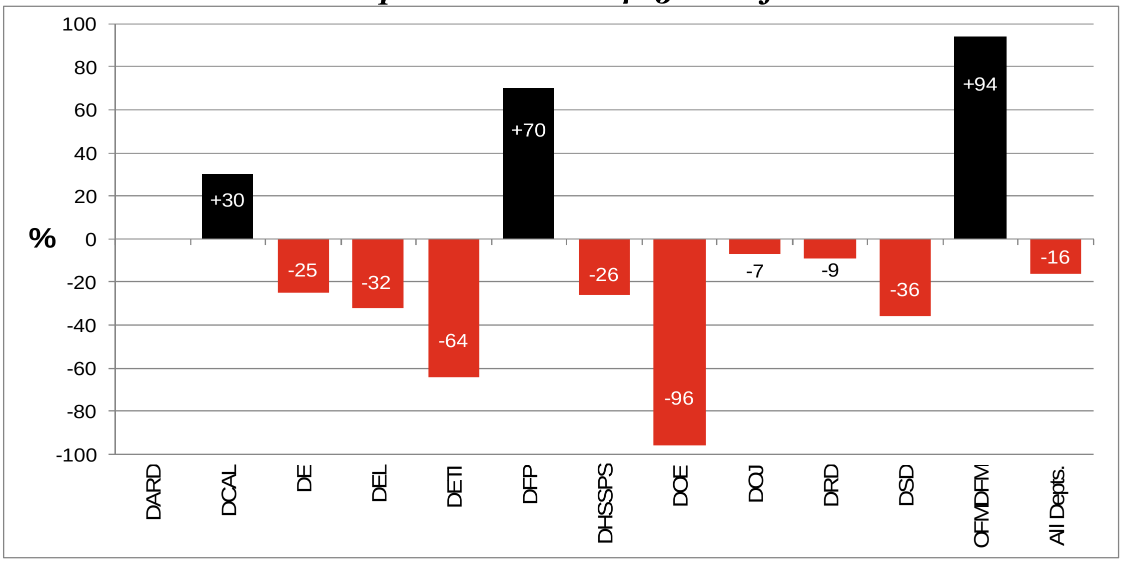
Turning to capital, the average across all Departments shows a real terms decline in capital spending of 16% comparing 2014-15 to 2010-11. This is notably better than the capital outcomes decline of 40% indicated by Northern Ireland's settlement in the Comprehensive Spending Review (20 October 2010). The difference arises largely from the use of various additional sources of income such as RRI (Reinvestment and Reform Initiative) borrowing,[5] some switches from current to capital and the Irish government's contribution to the A5 and A8 road building programmes (£274m over the Spending Review period).

Three Departments show quite dramatic *growth* in real terms capital spend; DCAL, DFP and OFMDFM (as well as the Non Ministerial Departments) as shown in Figure 5. However, this is deceptive since all three start from a very low base. Conversely, DOE shows a spectacular decline (from about £200m to only £4m in 2013-14). Despite the previously stated Executive commitment "to the economy", it is proposed that DETI will sustain a two-thirds decline in its planned capital spend (real terms). It is proposed that DHSSPS will receive a one-quarter reduction and DRD - the largest spending Department in terms of investment - will face a reduction of about 9%, rather better than the average.

[4] DFP 15 December 2010, *op cit.*

[5] The Reinvestment and Reform Initiative (RRI), was announced by the then Prime Minister and Chancellor of the Exchequer on 2 May 2002 and was designed to address the deficit in infrastructure provision resulting from 30 years of concentration on security needs whilst at the same time providing for the modernisation of key services. The Investment Strategy for Northern Ireland (ISNI) and the handover of ex-military sites to the Northern Ireland Executive also form part of the RRI programme.

Figure 5: Real terms capital investment outcomes of the Northern Ireland Departments in 2014-15 as % of 2010-11



Note: DARD capital expenditure in year 2010-11 was defined as negative, therefore a comparison cannot be made with 2014-15.

Some cross-cutting themes, and observations, arising from the Budget

Balanced budgets?

A number of Departments have produced unbalanced budgets, where the level of planned expenditure exceeds the allocated funding as per the DFP Minister's draft Budget of 15 December 2010. This suggests that they are unwilling to "settle" on their proposed Budget allocation (DHSSPS and DEL). Given that any additional resources are unlikely, any revisions to the Budget, even by these Departments could mean a significant upset across other Departments and impact on the draft Budget as a whole.

Transferring capital funding to revenue funding

Given the much reduced capital allocation in the Spending Review the question arises if the Executive could have moved more money from current to capital spending? In the DFP proposals in the 15 December draft Budget document, only about 5% (or £80m) of total capital investment from 2014-15 will be funded through a conversion from current spending. Indeed, the actual scale of current to capital switches could be much less than £80m in 2014-15. DFP has established an envelope of up to £38.5m in 2011-12 and £80m in 2014-15, from which Departments can request to have monies "*converted back*" from capital to current. So, the final net transfer from current to capital could be less than shown in Table 3.

Table 3: Proposed movements from current to capital spending within the Northern Ireland draft Budget (£m current prices)

	2011-12	2012-13	2013-14	2014-15
£m	38.5	61.0	73.0	80.0

Note: This is the sum of current to capital switches plus current to capital switches in the context of the Invest to Save funds, not adjusted for inflation.

Source: DFP 15 December 2010, *draft Budget 2011-15*.

Significantly, two of the Departmental spending plans (DE and DETI) do make such proposals and, although these will be subject to Executive approval, it might be argued that DE in 2011-12 and DETI in 2014-15 hope to use the ability to shift capital to current as an expedient to deal with their immediate funding difficulties. It would be unfortunate if Departments perceived that the ability to shift previously committed capital into current was a means of avoiding making hard choices.

Total Place

Is there additional scope for a Total Place/Place-Based approach to budgeting? Total Place involves, first, an attempt to sum the total volume of public spending in a particular locality (say, a local government area) and then, second, a consideration of the design of public service delivery to ensure than duplication is minimised. Early Total Place pilots in England and Wales established savings of up to 25% in service delivery where collaboration in order to co-design service delivery was undertaken.

The Total Place initiative has evolved under the Coalition government to Place-Based Budgeting which involves a much greater local voice in how public services are configured. Both initiatives are based around local authorities in England and Wales which, because of their scale, in terms of spending and the range of services, have more scope than their counterparts in Northern Ireland to allow for the re-design and co-location of services. With the demise of the proposed reform of local government (RPA) into an 11 Council model it will be much more difficult to establish a Total Place approach in Northern Ireland. However, the Hub[6] model used in Scotland to drive collaborative procurement and bring in private sector funding to co-locate and redesign service delivery should be examined here, based around groupings of Councils.

Joined-up government?

Can the case be made for having more joined up government in Northern Ireland? There would be widespread support for the argument that we should move beyond departmental silos, but this Budget process is dominated by 12 discrete Departmental Budget lines. One possibility would be to revive the early 2000s "experiment" in the use of Executive Programme Funds although it is not clear how far this promoted genuinely cross-cutting policy making. These were established during the first 1992-2002 period of devolution and were meant to encourage Departments to bid jointly for shared spending programmes. It may be that "we are where we are", and perhaps a more joined up approach will not occur until we have major structural and institutional reform in terms of the numbers and functions of Departments.

It is unclear whether this Budget process adequately addresses a range of cross-Departmental themes, e.g. children, environment/renewable energy, poverty, the future of the voluntary and community sector, social enterprise, tourism.

The Budget proposals suggest increased reliance within the Executive on centrally controlled pots of money, i.e. money is to be "taken away" from Departmental baselines and then they have the option of bidding back for some of that money for specific purposes. Examples include increased use of the Invest to Save funds, the Social Investment Fund and the Social Protection Fund. Aside from any political questions about the balance of power between OFM-DFM, DFP and the rest of the Departments it remains to be seen whether this approach will represent the most rational and effective way of apportioning responsibilities and funding.

Revenue Raising

Is there scope for the Executive to be more creative when considering ways of raising revenues from the services provided in Northern Ireland? In the preparation of the draft Budget, the Executive considered possible revenue raising measures with a total value of £1.6 billion over the Spending Review period. Of those measures only about one-half were considered as robust enough to be included in the Budget plans. Domestic water charges have, again, been considered as off limits and the Executive has yet to take a view on the level of university tuition fees; although it is understood that the independent review to the DEL Minister will recommend that fees should rise to a maximum of about £ 5,750.

Some further points regarding revenue raising and related subjects are as follows:

- More imaginative use of European funding should also be considered. This could include, for example, the development of an investment bank which could possibly leverage in ERDF funds and investment from the private sector. A further look at setting up a JESSICA[7] type fund in Northern Ireland using unused ERDF funding with matching investments to drive infrastructure projects might be a way forward.
- There are proposals to "squeeze the reserves" of various public bodies/organisations, e.g. Belfast Harbour, the universities and the Housing Associations (and, probably, the cash surpluses of many Northern Ireland schools). It might be questioned, for example, if the Executive has the power to say, levy the revenues from Belfast Port, as such a proposal may require amending legislation that would impact on Trust Ports throughout the UK.
- Could more to be done to open up Government to innovative ideas coming from outside regarding efficiency and effectiveness of service delivery? Examples could include the further development of social enterprise or the use of social investment bonds, which have been used in England.
- Does the Budget do enough to encourage more self-management, or self-responsibility on the part of the public? Members of the public can by their actions, e.g. diet, lifestyle, exercise, reduce certain demands on public spending and at the same time contribute to desirable social outcomes.

[6] Hub model, see http://www.scotland.gov.uk/resource/doc/924/0041326.pdf

[7] JESSICA, Joint European Support for Sustainable Investment in City Areas, is an initiative of the Commission in cooperation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), in order to promote sustainable investment, and growth and jobs, in Europe's urban areas.

NICS Pay Restraint

What of restraint on Northern Ireland Civil Service (NICS) pay and public sector pay more generally? The Budget implies that the Executive is going to follow exactly in step with England in terms of pay restraint for civil servants over the next two years (2011-12 and 2012-13)[8]. Previously, the Executive tended to the view that it could not extend such pay restraint into the rest of the public sector.[9] However, some of the Departmental spending plans seem to envisage that organisations/bodies/agencies wholly or largely funded by the Departments should broadly share in the pay constraints.

Given that labour costs represent a large share of current spending by the Northern Ireland Departments it is almost inevitable that spending reductions will lead to some reduction in staff numbers. Some of the Departmental spending plans are explicit about this and spell out proposals but most do not.

Green New Deal

The draft Budget includes a commitment to the Green New Deal, which is justified both as an environmental improvement measure and a means to create jobs at a time of rising unemployment. However, it is worth stressing that the sums of money being committed from the Executive (£4m annually) are very small indeed. Moreover, DOE spending on certain other areas of environmental concern may actually *decrease*. Similarly, it seems the DETI spending plans include little or no public money to promote the renewables sector and the shift to new sources of energy. It would seem that if Northern Ireland is going to make the shift to a more sustainable economy this will have to be financed largely by the private sector probably mainly in the form of higher energy prices.

Equality impacts

All Departments were required to assess their equality impacts at a high level. In most cases Departments have concluded that most effects are either neutral or even positive. Only a small number of Departments provide much detail on the outcomes of such analysis. In many cases, the high level equality impact assessments were not published at all.

Demand led expenditure

Whilst our emphasis in this report is on DEL (Departmental Expenditure Limits), possible pressures on Annually Managed Expenditure (AME) or demand led expenditure (especially on the welfare benefits side) should not be underestimated, given the attempt by the London Coalition Government to accelerate welfare reform. In 2010-11 DEL-type spending in Northern Ireland totalled £11.8 billion and AME-type spending was almost £10 billion.

[8] i.e. a small cash terms increase (£250) for the lowest grades and a freeze with respect to the annual inflationary upgrade (but probably not annual scale progression) for those earning more than £21,000. Whilst average pay in the public sector now substantially exceeds the private sector average we have some very high salaries for “top positions” alongside a long tail of low paid ones (although the NICS Equal Pay settlement has had some impact on that).

[9] It is notable that whereas NICS employment is about 30,000 but that in the wider public sector is about 220,000.

Analysing change at the level of the individual Departments

Introduction

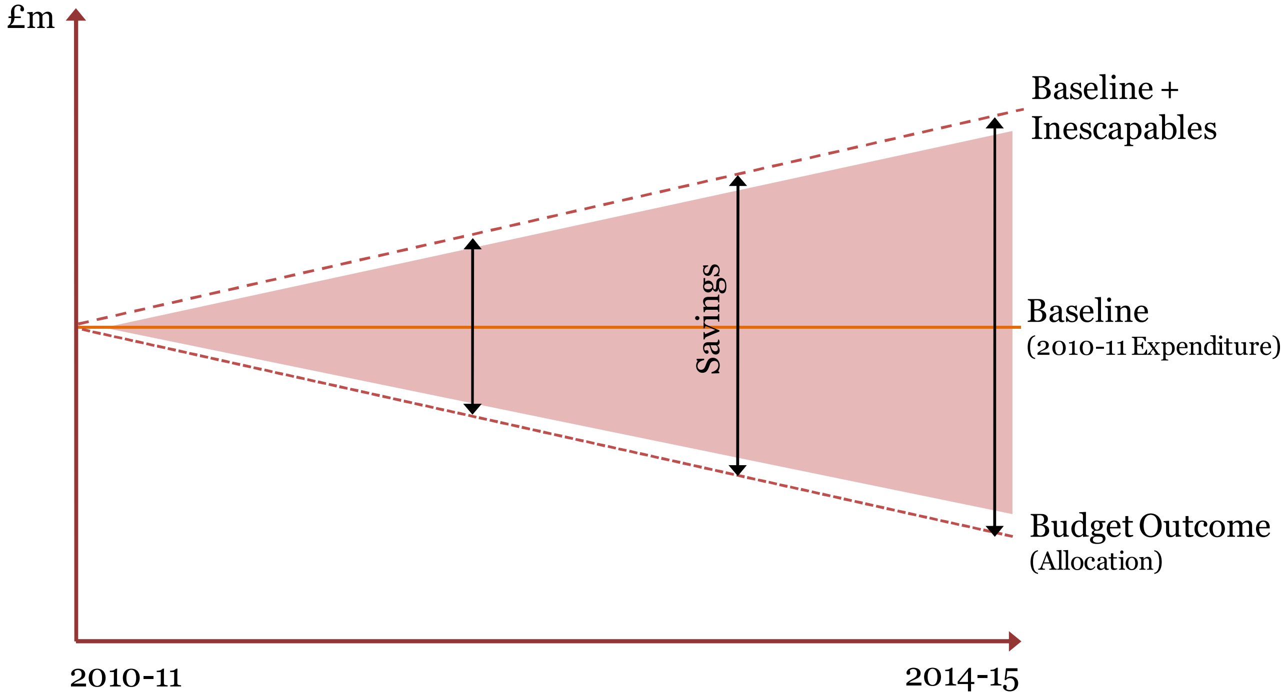
In principle, a way to analyse the Departmental spending and savings plans and to arrive at consistent and comparable outcomes would be as follows:

- First, set out the projected level of spending outcomes, both for current and capital, over the next four years.
- Second, add to the 2010-11 baseline (i.e. the amounts actually spent in the most recent year) an estimate of the spending which would be needed given the Department's assessment of "inescapable spending demands" (i.e. by how much would spending have to increase to cope with unavoidable demands to do "new things" compared to what they were already doing in 2010-11).
- Then, third, by comparing the outcome in terms of allocated resources against the baseline adjusted for inescapables, any "gap" (as will usually be the case in this draft Budget 2011-15) between the figure for baseline plus inescapables minus the figure for outcomes has to be "filled" by savings.

Unfortunately, most Departments have not provided sufficient detail to allow this process to be followed fully (this also constrains how much we can say about inescapables and savings plans, for example), and we believe that represents a serious shortcoming that should be corrected as part of the consultation debate.

Nevertheless, where possible, we have outlined in the following subsections the likely changes in spending at Departmental level, analysed in this way.

Figure 6: Analysing change at the level of the individual Departments



Department of Finance and Personnel (DFP)

Budget outcome

Table 4: DFP budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	182.9	190.5	187.1	179.9	180.9
Capital investment	15.2	16.5	12.1	10.6	28.4

Note: not adjusted for inflation.

In cash terms the Budget outcome with respect to current spending shows an initial increase compared to the baseline but it declines thereafter. By the end of the Spending Review period cash spending is slightly lower than at the start. Taking into account inflation over the four years the real amount of current spending in 2014-15 is about 10% lower than in 2010-11.

Capital spending outcomes are indicated to rise slightly in 2011-12 and then decline substantially. There is a major upsurge in the final year of the Spending Review (driven largely by spending on the civil service estate).

Inescapable spending demands

In terms of current spending, DFP list a number of areas of "essential additional funding requirements". It is worth stressing that this is DFP's definition of what is unavoidable. The total value is shown in Table 5:

Table 5: DFP inescapable spending demands (£m current prices)

	2011-12	2012-13	2013-14	2014-15
Inescapable spending	12.4	10.3	10.3	10.3

Note: not adjusted for inflation.

These unavoidable pressures are a combination of extra money needed in 2011-12 to run the Census (£2.1m), £5m annually to Land and Property Services (LPS), £2m in each of the years for essential maintenance to NI Civil Service (NICS) buildings and £2.8m in each of the years to NI Direct.

The extra spending on LPS is being justified in terms of projected extra revenue collection. The extra spending on NI Direct is argued to be justified in terms of better services to the NI public (e.g. a movement towards a "single telephone number" for government services).

Investment proposals

The proposed allocations to DFP are as follows:

Table 6: DFP capital investment proposals (£m current prices)

	2011-12	2012-13	2013-14	2014-15
To maintain existing services	16.5	12.1	10.6	11.6
To enhance services	-	-	-	16.8

Note: not adjusted for inflation.

DFP deem these investments to be essential to either maintain existing services (e.g. in terms of reducing accommodation costs through consolidating leases or investing in LPS to deliver a higher level of Rates' collection) or to enhance services (i.e. the £16.8m in the final year of the Spending Review which is to be invested in improving NICS buildings).

Savings plans

Given that current spending is declining slightly over the period as a whole and there are also considerable inescapables, some fairly substantial savings are envisaged. These are:

Table 7: DFP savings plans (£m current prices)

	2011-12	2012-13	2013-14	2014-15
Savings	5.3	8.9	11.3	12.6

Note: not adjusted for inflation.

Roughly half of these proposed savings are to come from procurement and corporate services.

Some questions arising from the DFP plans

Based on the previous analysis, the following questions seem to be relevant:

- DFP justifies the extra spending in Land and Property Services (LPS) by pointing to a projected increase in rates revenue collection (i.e. from £960m in 2009-10 to a planned level of £980+m in 2010-11). However, is the £20m increase realistic or is it too modest in light of the £157m of arrears declared by LPS as of 31 March 2010?
- Has the planned level of current and capital spending on NICS buildings fallen below the critical level whereby essential maintenance is not actually being undertaken and large (and expensive) problems may follow in the future?
- DFP proposes extra spending on EU Programmes, but how far does this represent good value for money in the round? On one hand, "investment" of some money by the NI Executive brings with it matched funding from the EU. On the other hand, the administration of such monies may bring with it complexities over and above the norm for Departmental spending programmes.
- Is DFP right to end capital funding for the Central Energy Efficiency Fund (which tried to incentivise public sector bodies to become more energy efficient)? DFP argues a combination of the "market" (i.e. the gains to public bodies from any reductions in their energy costs) plus the Carbon Reduction Commitment system should be sufficient to promote efficiency. Will this actually be the case?

Department of the Environment (DOE)

Budget outcome

Table 8: DOE budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	129.6	121.8	123.6	121.0	121.5
Capital investment	182.4	6.1	5.9	4.0	7.6

Note: not adjusted for inflation.

In cash terms the Budget outcome for current spending shows an initial decline and is fairly flat thereafter. Obviously, a more substantial real terms reduction is implied (about 15%).

The position with respect to capital spending requires further explanation, declining from £180m in 2010-11 to about £6m annually over each of the Spending Review years. The baseline figure is, however, distorted by the re-allocation of a large amount in 2010-11 originally intended for the Strategic Waste Infrastructure Fund. (In practice, this money was not spent by DOE and was largely re-allocated to DARD through in-year bids as "compensation" for the much less than expected receipts from the sale of the agricultural research station at Crossnacreevy).

Inescapable spending demands (plus some assumptions about revenues)

The DOE spending plan does not detail inescapable demands. However, it does note that £1.6m will be required next year for NICS pay progression and two areas where there is likely to be a reduction in available funds. First, fees paid to the Planning Service are likely to remain depressed (£21.3m in 2007-08 but only £12.4m projected for 2011-12). Second, the Plastic Bag Levy is intended to yield £4m annually, but the DOE has made contingency arrangements in case the revenue collected is less than this.

It is also assumed that the NI Environmental Agency and the Planning and Local Government Group will be able to make slight increases in their receipts.

Investment proposals

Whereas the previous Comprehensive Spending Review provided £200m to the Strategic Waste Infrastructure Fund, DOE now has only £24m for all its capital expenditure over the next four years. This implies that in the absence of other sources of funding DOE will no longer be in a position to fund site purchases or finance projects. Therefore, there are likely to be cost implications for local government.

DOE is proposing to make investments (£1m and £0.5m) in the first two years of the period to restore the Roe Valley Hydro Scheme (this originally operated during 1890s-1960s as one of the world's first hydro-electric power plants). Although this will represent an example of renewable energy generation, the tourism/heritage aspects of this scheme are probably more significant. It is reckoned the returns will equal the investment within about eight years.

Significant investments are required in the NI Driving Licensing System (a total of £4.2m over the four years) partly to ensure compliance with EU Directives, and partly to replace the system.

Savings plans

Given that real terms current spending is 15% lower at the end of the period, fairly substantial savings have to be envisaged of £15.4m annually. 80% of expenditure (excluding grants) is on staff and 200 posts have already been removed and a further reduction of 150 was planned even before the draft Budget 2011-15. It is now planned to make an additional reduction of 150. Savings in the Planning Service are somewhat dependent on how far staff can be redeployed.

The Resource element of the General Grant to District Councils is being reduced by £1.2m next year. The grant for Listed Buildings is ending. The Second Survey of buildings with historical/architectural interest is being suspended. There is to be a slowdown in the declaration of Areas of Special Scientific Interest (ASSIs).

As a contingency, DOE notes that if the Plastic Bags Levy fails to yield £4m (since the assumptions underlying that figure are not disclosed it is hard to assess its plausibility[10]) spending reductions must occur elsewhere, in areas such as river quality restoration and mapping of noise pollution, as well as payments to support repatriation of waste to the Republic of Ireland.

Some questions arising from the DOE plans

Based on the previous analysis, the following questions seem to be relevant:

- Should the DOE plans have built in some assumptions about possible change in the ownership of Vehicle (MOT) Centres?
- In the proposed reform of Planning Service fees, how far will the outcomes be sensitive to environmental objectives?
- Could the NI Environmental Agency raise more through fees?

[10] It is likely the assumption has been that plastic bag usage would show a responsiveness similar to that which followed the Republic of Ireland's levy.

- A number of the DOE proposals will have implications for the District Councils, e.g. the Planning and Local Government Group. Are some of central government's budget difficulties being devolved down to Local Government level?
- What are the implications of the slowdown in ASSIs?
- How well will the Plastic Bags Levy work as either a deterrent to bag use *or* as a revenue raising instrument? We believe there is probably a trade-off in that it cannot really do both well at the same time.
- If lower than expected revenues from the Plastic Bags Levy necessitate cuts elsewhere could any reduction in, say, noise mapping (as suggested in DOE's contingency arrangements) leave Northern Ireland vulnerable to fines based on EU Directives?

Department of Enterprise, Trade and Investment (DETI)

Budget outcome

Table 9: DETI budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	199.5	204.9	211.6	203.5	205.5
Capital investment	73.5	71.6*	44.7*	16.2*	29.1*

Note: not adjusted for inflation.

*: DFP 15 December 2010, *Draft Budget 2011-15*, gives slightly different figures for the four years, i.e. 71.7, 44.9, 16.0 and 28.8.

In cash terms the Budget outcome shows an initial increase in current spending which is then partially reversed. In real terms, DETI ends the period with about 6% less spending in 2014-15. There is a complication in comparing 2010-11 with 2011-12 and thereafter in that DETI now has an £8m annual provision in its baseline to make compensation for asbestosis and pleural plaques - something for which previously it had to rely on in-year bids.

The position with respect to capital spending is more striking. After 2011-12 there is a major decline which is only partly reversed in 2014-15. Real term spending in that year is 64% down on 2010-11.

Inescapable spending demands

The DETI spending plan does not detail these. However, emphasis is given to the fact that Invest Northern Ireland (INI), because of a "bow wave" in investment commitments just before the reduction in EU permitted maximum State Aid levels on 1 January 2011, carries forward very substantial spending pledges into the Spending Review period.[11] This type of spending is likely to have "first call" on INI's resources.

DETI also has some inescapable (legal) commitments, e.g. to make compensation payments relating to asbestosis, and pleural plaques.

Investment proposals

The reduction on the capital side is substantial. Nevertheless, DETI argues it will fulfil its commitments relating to tourism infrastructure, e.g. Titanic Quarter.

[11] These could amount to £270 m. Over 2011-12 to 2014-15 INI's total budget is to be about £670 m. However, it is important to stress that grant payments are usually made only when an investment project has actually been completed and jobs are delivered on the ground. Some of the investment projects "promoted" and agreed in the run up to 1 January 2011 may not reach that stage until after 2014-15.

Savings plans

DETI has committed itself to continued efficiency savings to use within the Department on spending programmes and to absorb pay increases.

Some questions arising from the DETI plans

Based on the previous analysis, the following questions seem to be relevant:

- The bow wave effect in INI's investments means that it will be constrained in its ability to support new Foreign Direct Investment projects; what might that imply for employment and wealth creation?
- What might be the deeper significance of the Short Term Employment Measure to spend £19m over the Spending Review to create 5,000 jobs? Does this indicate that the Executive has decided that whilst new FDI may, indeed, be the best means to promote higher productivity in the economy, there is also a pressing need to mop up some of the increase in unemployment?
- Given the proposed allocations will DETI struggle to meet NI objectives regarding sustainability and the promotion of the renewables sector?
- Does it make longer term economic sense that monies for tourism promotion are substantially reduced?
- Does it matter than INI will be constrained regarding land purchases, as the organisation has previously been vocal in articulating the necessity of acquiring industrial development land?[12]

Department of Culture, Arts and Leisure (DCAL)

Budget outcome

Table 10: DCAL budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	113.3	112.5	113.2	110.0	103.0
Capital investment	59.9	11.8	21.9	22.2	85.8

Note: not adjusted for inflation.

In cash terms the Budget outcome shows a continuous decline in current spending which accelerates towards the end of the period. In real terms, DCAL ends the period with about 17% less spending.

The decline in capital spending is even more substantial if the period up to 2013-14 is considered (during the first three years of the Spending Review the amount of cash spend declines by almost two-thirds). In 2014-15, however, the planned level of investment rises to a level higher than that in 2010-11 (this is largely associated with planned spending on the sports stadia).

Inescapable spending demands

The DCAL spending plan does not detail these. It does, however, note that they have received £6m to spend on the World Police and Fire Games and £4m on creative industries. It also notes that "some protection" is to be given to current spending on libraries and National Museums Northern Ireland.

[12] The counter argument would be that INI/DETI is now increasingly chasing a type of FDI (e.g. business services) which tends to opt for a city centre location; that type of property is currently readily available.

Investment proposals

DCAL notes that its capital allocation will enable the construction of the 50 metre swimming pool and the Metropolitan Arts Centre (in Belfast). The resurgence in capital spending in the final year of the Review should allow some progress regarding the upgrade of the regional sports stadia.

Savings plans

DCAL has committed itself to savings of £1.8m, £3m, £8.3m and £10.3m in years one, two, three and four of the Spending Review.

Some questions arising from the DCAL plans

Based on the previous analysis, the following questions seem to be relevant:

- The DCAL document talks of some protection for libraries (some libraries in north and west Belfast are to be refurbished) and National Museums in terms of current spending, but what is the extent of this protection and what is its rationale?

- What is the rationale for the Invest to Save spending; £1m, £3m and £5m over the first three years "...which will be transferred to capital in due course"?

Department of Justice (DOJ)

Budget outcome

Table 11: DOJ budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	1,223.7	1,213.1	1,189.0	1,166.7	1,176.4
Capital investment	80.0	78.3	64.5	51.8	82.0

Note: not adjusted for inflation.

These figures are taken from the DFP 15 December 2010; *draft Budget 2011-15,* because the figures in the DOJ's own spending plan seem to be based on some anticipated level of End Year Flexibility.

To a large extent the total allocation to DOJ is "ring fenced" or constrained. This is a consequence of the understandings with the Treasury at the time of the devolution of criminal justice in 2010. In other words, the Executive, even if it wished, could not opt for a lower allocation for DOJ than that proposed here because the likelihood would be that the Treasury would feel that the previous agreement had been breached and it is likely there would be negative financial consequences in terms of transfers from the Treasury to the Executive.

In cash terms the Budget outcome shows a decline in current spending. In real terms, DOJ ends the period with about 13% less spending (in 2014-15) compared to 2010-11.

Capital spending in 2014-15 is comparable to that in 2010-11 in cash terms. In the second and third years there is a substantial dip.

Inescapable spending demands

The DOJ spending plan does not detail or quantify these.

Investment proposals

DOJ notes that its capital allocation will enable it to deliver the following: an upgrading to forensic science accommodation, Desertcreat College, redevelopment of Magilligan, improved facilities for female prisoners and essential maintenance.

Savings plans

DOJ has committed itself to what appear to be substantial savings over the course of the Spending Review (£36.3m, £88.2m, £147.1m and £161.6m). The majority of these savings, especially in the first and second year, are to be in the PSNI but much more clarity is required regarding the detail of these plans.

Some questions arising from the DOJ plans

Based on the previous analysis, the following question seems to be relevant:

- Whilst the document mentions some aspirations (give priority to frontline policing, protect service delivery outcomes for the public and protect the community and voluntary sectors "as far as possible"), how far will these aspirations be fulfilled?

Once DOJ provides more detail about both its spending and savings plans other questions may present themselves.

Department for Employment and Learning (DEL)

Budget outcome

Table 12: DEL budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	798.9	775.4	767.4	785.6	813.8
Capital investment	37.6	41.2	32.3	18.5	28.3

Note: not adjusted for inflation.

In cash terms the Budget outcome for DEL, like some other Departments, shows a U-shaped profile, i.e. a decline in years one and two, but recovery by the end of the period. In real terms the current spend in 2014-15 is 7% down on 2010-11). The DEL document notes that part of its current allocation relates to a ring-fenced Barnett consequential (to cope with the higher loans associated with student fee changes in England), i.e. £0m, £5m, £20m and £36m. Arguably these figures should be subtracted to give a better indication of the resources available to the Department when comparing 2010-11 with 2011-12/2014-15 on a like for like basis.

On the capital side, the decline (both cash and real terms) is more marked, albeit with some recovery towards the end of the period.

Inescapable spending demands

In terms of current spending, DEL list a number of areas of "inescapable demands" and the total value of these is as shown in Table 13:

Table 13: DEL inescapable spending demands (£m current prices)

	2011-12	2012-13	2013-14	2014-15
Inescapable spending	56	66	87	119

Note: not adjusted for inflation.

These pressures include:

- Impact of higher unemployment on the Employment Service;
- Allied to the above, administrative costs of welfare reform;
- Student support;
- Continuing support for innovation given that the previous Funding for Innovation ceases in March 2011;

- The Assured Skills programme; and
- Pay and price inflation.

The bulk of the pressure comes from student support and pay/price inflation.

When the DEL resource (current) outcomes are set alongside these "inescapables", a large and growing gap in funding is implied.

Table 14: DEL funding requirements less resources available (£m current prices)

	2011-12	2012-13	2013-14	2014-15
Baseline (i.e. 2010-11)	799	799	799	799
Inescapable demands	56	66	87	119
Total requirements	855	865	886	918
Total resources*	775	762	765	777
Implied deficit	-80	-103	-121	-141

Note: *: DEL outcome in terms of current spending (not adjusted for inflation) but adjusted downwards to excluded ring fenced Barnett consequential of monies regained to higher English student fees.

Investment proposals

The proposed allocations to DEL enable it to:

- Fund contractually committed elements in respect of PFI contracts at two FE colleges (Belfast Metropolitan and South Eastern Regional)
- Fund the ongoing development works at Springvale E3 campus of Belfast Metropolitan
- Support further education in terms of minor Health and Safety and other works
- And fund some teaching and research infrastructure in the universities and university colleges.

DEL have indicated that major building projects such as the University of Ulster's proposals for York Street are not dependent on DEL funding and it is expected that this project will go ahead, if the University of Ulster can raise the required funding.

Savings plans

Given the funding gap (baseline plus inescapables minus resources) already identified, DEL has had to propose very substantial savings:

Table 15: DEL savings plans (£m current prices)

	2011-12	2012-13	2013-14	2014-15
Savings	40	72	108	144

Note: not adjusted for inflation.

In the first three years of the Review (and especially in years one and two) the proposed savings fall short of the gap identified between requirements and resources. The Department would face a deficit of £40m in year one and £31m in year two. Some of the largest proposed savings are in pay restraint (£12m in 2011-12 rising to £46m in 2014-15) and in the universities (£7.5m 2011-12 rising to £68m in 2014-15). DEL is demanding that the universities improve their "operational efficiency" by 22% by 2014-15.

Some questions arising from the DEL plans

Based on the previous analysis, the following questions seem to be relevant:

- Perhaps the greatest question raised by the analysis is the extent to which DEL is presenting a "balanced budget" at all? On the basis of these proposals DEL would face a funding deficit of about £40m and £30m in years one and two of the Spending Review. The DEL document goes on to list a range of services (many of them in the Employment Service) which could be scaled back albeit with a very significant negative impact. DEL is also seeking the views of both stakeholders and, ultimately, the Executive, as to what to do about this situation. But whatever the outcome, if the Budget is not balanced within the existing DEL funding envelope, there will be major implications for other Departments.
- What will be the long run consequences of the restrictions in the capital budget?
- Is there scope for DEL to follow its counterpart in England (DWP) in making greater use of private sector training companies (perhaps incentivised by payments by results) to work with the long term unemployed to get them off the register and into employment? Is there for role of social enterprises in this regard?
- What will be the impact on the universities of the major reduction in their funding?
- Will the Executive be able to continue with some of its targets/measures relating to raising the level of "innovation" in the economy (e.g. what might the consequences be if the funding stream ends for the 300 additional science related PhD places put in place under the *Programme for Government 2008-11*)?
- There are no explicit assumptions here regarding "raising the cap on tuition fees" but given the scale of the hit on universities funding it must surely be strongly implied that Northern Ireland is going to follow the lead of policy in England? The independent review to the Minister (Stuart report) suggests an increase to a ceiling of about £ 5,750 but this will require Ministerial/Executive approval.

Department of Education (DE)

Budget outcome

Table 16: DE budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	1,914.8	1,852.2	1,857.3	1,861.6	1,847.7
Capital investment	169.3	127.4	100.4	101.5	139.4

Note: not adjusted for inflation.

In cash terms the Budget outcome for DE shows a major decline in 2011-12 compared to 2010-11 and then remains flat thereafter (at a level about 3% lower than the baseline). The real terms reduction by the end of the period is 12%.

On the capital side, the initial decline steep is quite steep with partial recovery in the final year. In real terms the reduction is 25% by the end of the period.

The DFP Minister appears to have agreed with his DE counterpart (21 January 2011) that DE in general, and schools in particular, should be compensated for no longer have access to End Year Flexibility Funds. Whilst the details have to be agreed, this could mean DE having a first call on money during in-year bids. Previously, DHSSPS had this advantage.

Inescapable spending demands

DE's inescapable pressures are shown in Table 17:

Table 17: DE inescapable spending (£m current prices)

	2011-12	2012-13	2013-14	2014-15
Inescapable spending	76.6	125.8	172.4	236.3

Note: not adjusted for inflation.

DE does not detail what these pressures are. There may be ones that the Department has not allowed for, such as any impact of rising unemployment and the fragile economic recovery on scale of Free School Meals entitlements.

When the DE resource (current) outcomes are set alongside these "inescapables" a large and growing gap in funding is implied.

Table 18: DE funding requirements less resources available (£m current prices)

	2011-12	2012-13	2013-14	2014-15
Baseline (i.e. 2010-11)	1,914.8	1,914.8	1,914.8	1,914.8
Inescapable demands	76.6	125.8	172.4	236.3
Total requirements	1,991.4	2,040.6	2,087.2	2,151.1
Total resources	1,852.2	1,857.3	1,861.6	1,847.7
Implied deficit	-139.2	-183.3	-225.6	-303.4

Note: not adjusted for inflation.

Investment proposals

DE places these in context by saying that the schools estate (valued at about £4 billion) has a maintenance backlog of about £300-£400m. The proposed allocations to DE will *not* enable it to support planned "new builds". In fact, DE argues 44% and 35% of the draft Budget capital allocations for 2011-12 and 2012-13 will be required to meet inescapable pressures. The Department has received £738m less compared to the Investment Strategy (ISNI2) proposals.

Savings plans

Given the funding gap (baseline plus inescapables minus resources) already identified DE has to make very substantial savings to close that gap, i.e. £143.2m in the first year increasing to £308.7m in 2014-15. These savings are slightly larger than those required to close the gap, this is to enable small increases in spending on Free School Meals and Pre-School. Some of the largest savings include reduced Professional Support for Schools, ICT in schools and the Entitlement Framework. DE has also proposed (subject to Executive approval)[13] a transfer in year one of £41m of capital spend to current spend counts towards "savings".

Some questions arising from the DE plans

Based on the previous analysis, the following questions seem to be relevant:

- DE has offered a plan to close its funding deficit. However, one might seek an evaluation of the impacts of many of the proposed programme changes e.g.
  - Extension of Free School Meals Entitlement;
  - Change in Common Funding Formula;
  - Reduction in ICT in schools;
  - Reduction in Professional Support for Schools; and

[13] And, significantly, DE's likely request of £41m of capital to current transfers exceeds the total sum (£38.5m) which the Executive has to move in that direction.

- Reduction in the Entitlement Framework?

- Where does the draft Budget and spending plan leave the agenda of rationalising the schools' estate and promoting greater shared use of services? Given the Budget and delays in establishing ESA (and achieving savings), how far can Area-based Planning actually occur?

- What might be the staffing and other practical implications of the DE plans? DE allocates most of its funding to schools via a formula. So it will be decisions taken at the level of each individual school which will largely determine the impact on the ground of spending reductions (e.g. in terms of reductions in the number of teachers). Possibly 800 out of the total of 1200 Northern Ireland schools have some cash surpluses. It looks as though the rainy day has come when they will need to dip into those surpluses.

- Perhaps most importantly, what do the DE spending plans imply for outcomes? Will the comparative quality of Northern Ireland education as measured by, say, PISA and the OECD[14] increase or decrease and can we move closer towards "every school a good school"?

Department of Health, Social Services and Public Safety (DHSSPS)

Budget outcome

Table 19: DHSSPS budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	4,303.0	4,348.1	4,427.7	4,543.2	4,629.2
Capital investment	201.7	214.8	278.8	184.9	163.3

Note: not adjusted for inflation.

In cash terms the Budget outcome for DE shows a slight increase over the period (by 2014-15 up 7.6% on 2010-11) although this translates into a real terms decline of about 2%.

On the capital side, the decline is substantial, down 19% in cash and about 26% in real terms by the end of the period.

Inescapable spending demands

In terms of current spending, DHSSPS list their "inescapable pressures" to include:

- Demography (fastest growing and most rapidly ageing population in the UK);[15]
- The costs of new technologies;[16]
- Impact of higher VAT;
- Emergency pressures, e.g. elective care, winter pressures (flu and extra fractures);
- New buildings;
- Pay costs; and
- Goods and services inflation.

It is a moot point how far the second and the last two of these pressures are truly inescapable and how far they are a product of the way in which DHSSPS actually operates.

[14] Programme for International Student Assessment and Organisation for Economic Cooperation and Development.
[15] Northern Ireland Confederation for Health and Social Care January 2011, *Building on Progress- Rising to the Challenge*, attribute a 1.3 % p.a. increase in required funding to demography.
[16] Northern Ireland Confederation, *ibid*. attribute a 2.5 % p.a. increase to new technology, drugs and rising expectations.

Table 20: DHSSPS inescapable demands (£m current prices)

	2011-12	2012-13	2013-14	2014-15
Inescapable demands	391	610	869	1,154

Note: not adjusted for inflation.

The Department forecast that these demands will represent a large and growing amount.

When the DHSSPS resource (current) outcomes are set alongside these "inescapables" a large and growing gap in funding is implied.

Table 21: DHSSPS funding requirements less resources available (£m current prices)

	2011-12	2012-13	2013-14	2014-15
Baseline (i.e. 2010-11)	4,303	4,303	4,303	4,303
Inescapable demands	391	610	869	1,154
Total requirements	4,694	4,913	5,172	5,457
Total resources	4,348	4,428	4,543	4,629
Implied deficit	-346	-486	-629	-828[17]

Investment proposals

DHSSPS lists the capital commitments it will make given the capital allocation. However, it also notes that it would not be possible to provide revenue funding for the Radiotherapy Unit at Altnagelvin and the Fire and Rescue Service Training College at Desertcreat (hence the prospect of having completed facilities that cannot be used).

Savings plans

DHSSPS does not provide a savings plan as such. It is noted that meeting the challenges implied by the draft Budget would "...require significant change to the nature and extent of delivery of Health, Social Care and Public Safety Service..." but no details of such changes are provided.

The DHSSPS document points to a forthcoming (April 2011) Commissioning Plan but notes that the proposed reduction in spending in 2011-12 would lead to a range of outcomes, e.g. reductions in community care, fewer hospital beds, "reduction in grants to the voluntary sector" and job losses of about 4,000 posts.

Effectively this is not a balanced budget and if the Budget cannot be balanced within the Departmental envelope there will be significant implications for other Departments.

An interesting piece of context for considering health spending in either England or Northern Ireland is that during the period since 1997 health sector productivity has been at best static in England, but now a very dramatic improvement is proposed for the next four years in England.[18]

Some questions arising from the DHSSPS plans

Based on the previous analysis, the following questions seem relevant:

[17] A figure confirmed by Northern Ireland Confederation for Health and Social Care January 2011, *Summary Building on Progress- Rising to the Challenge.*
[18] *The Economist* 15 January 2011, "Health care reform the final frontier".

- The DHSSPS plan does not represent a "balanced" budget. How will this situation be resolved between the Health Minister and the rest of the Executive?

- If radical change were to happen what might it look like? Perhaps the most significant sentence in the DHSSPS spending plan is that which notes that the draft Budget would, *"... require significant change to the nature and extent of delivery of Health, Social Care and Public Safety Service..."* For example, closing of the implied deficit of about £800m in 2014-15 (as shown in Table 21) may require major structural reform such as the number, distribution and functions of hospitals.

- How robust is the estimate of a 4,000 job losses in 2011-12 (compared to a baseline health sector employment of about 65,000)? After all, the real terms decline in 2011-12 is only about 1-1.5% of the baseline current spending. It would appear this Departmental estimate relates to what would have happened by year four (given the shortfall between requirements and resources outlined in the Table 21, i.e. in 2014-15 £5.5 billion is required but only £4.6 billion is available), however, there is a strong sense that the job reduction would have to be weighted towards the start of the Spending Review period.[19]

- Could it be argued that the funding deficit relating to health is worse than that forecast in the Departmental spending plan? Some commentators[20] would argue that the per capita health needs of the Northern Ireland population are much higher than those in England (one estimate being 17% higher). DHSSPS argue that in 2009-10 per capita health spending in Northern Ireland was actually lower than both the English and UK average.

- What of the relative fortunes of the health and social care components of DHSSPS? The DFP proposal[21] is that the "health" part (77% of the Departmental budget) should be protected. This means that the DHSSPS Minister is left with the decision whether he decides to concentrate his entire Department's spending reductions on the personal social services or should some of that burden also be carried by "health"?

- Northern Ireland is *not* participating in the fundamental health reforms which are now beginning in England but is this approach right? The DFP draft budget document[22] implies that the "robust efficiency agenda" envisaged in England for 2011-12 to 2014-15 whereby savings of about £20 billion are to be made in NHS running costs, with these being recycled back to service delivery, is not to be applied here in Northern Ireland – given the financial challenges facing the Department, perhaps this should be reconsidered.

Department for Social Development (DSD)

Budget outcome

Table 22: DSD budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	521.1	516.7	532.0	543.0	523.4
Capital investment	269.6	150.3	120.6	98.9	190.2

Note: not adjusted for inflation.

In cash terms the Budget outcome for DSD shows a very slight increase over the period, which translates into a decline of about 9% in real terms.

On the capital side, within its spending plan DSD adopted the rather "purist" position that since the capital baseline was, technically, zero there was no need to supply a baseline figure for 2010-11. However, the 15

[19] It is worth stressing that reducing staff sometimes has considerable upfront costs, e.g. redundancy payments.
[20] Northern Ireland Confederation, *ibid.* being a notable example. Previously, the Appleby Report (J. Appleby 2005, Independent Review of Health and Social Care Services in Northern Ireland)
[21] DFP 15 December 2010, *op cit.*
[22] DFP 15 December 2010, *op cit.*

December draft Northern Ireland Budget[23] indicates a capital allocation for 2010-11 of £269.6m. By that standard, the capital proposals for 2011-12 to 2014-15 are very adverse (especially in the middle years).

Inescapable spending demands

DSD does not list these although it is implied that the administrative cost of welfare reform could be one. Spending to implement Bamford (mental health) could be another one. An increasing spend (£19.5m in year one, rising to £41.7m in year four) on pay and price inflation is noted.

Investment proposals

Pressures relating to the implementation of the Bamford reforms could be considered as an inescapable capital pressure. DSD bid for resources to allow a new build of 2,500 social houses annually but is unclear what the outturns will now be.

Savings plans

DSD lists an extensive list of efficiency improvements in order to protect front line services. The scale of these savings is not set out.

Some questions arising from the DSD plans

Based on the previous analysis, the following questions seem to be relevant:

- DSD has not accepted DFP's assessment that £20m per annum could be "unlocked" from the reserves of the Housing Associations; how are these views to be reconciled?

- What might happen to rent-related revenues? A decision has yet to be made on NIHE rent increases. An inflationary upgrade would yield about £12m annually.

- What might be the impact of the Social Protection Fund? The £20m per annum Social Protection Fund (guaranteed funding for first year only) lies with OFMDFM but DSD (like other Departments) could bid to this fund. This is also the case for the Social Investment Fund. Is this, however, the most appropriate way to manage investments?

- How far will DSD be able to implement welfare reform? DSD has been allocated only a small proportion of the funds transferred to the NI Executive consequent on the costs of welfare reform in England.

Department for Regional Development (DRD)

Budget outcome

Table 23: DRD budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	517.3	500.3	487.2	459.6	454.0
Capital investment	556.2**	438.3	425.3	540.9	558.8

Note: not adjusted for inflation.

**: Taken from *draft Budget 2011-15*.

In cash terms the Budget outcome for DRD shows a continuous and substantial decline over the period (by 2014-15 12% down on 2010-11) which translates into a substantial decrease of about 20%.

[23] DFP 15 December

On the capital side, the decline (both cash and real terms) is substantial. In the first two years there is a decrease of about 30% in real terms, with a partial bounce back thereafter so that the final year is 9% down on 2010-11.

Inescapable spending demands

DRD does not spell these out although (rightly or wrongly) the view seems to have been taken that the investments required to part fund two major roads (A5 Derry/Aughnacloy and A8 Belfast/Larne with the Irish government funding the rest) are “inescapable”. DRD’s position seems to be that they have no discretion given that the Northern Ireland Executive has made a binding international agreement with the Republic of Ireland government regarding the joint funding of these roads.

Investment proposals

£1.1 bn is to be spent over the Review period on roads. Significantly, 70%, or £790m, of that is to go to just two roads - the widening of the A5 and A8. By implication, a number of other road improvements will be postponed (A6 Randalstown, A2 Greenisland, York Street and Sydenham bypass).

DRD argue that they will be able fund a “pilot network” regarding a “bus-based Rapid Transit system” in Belfast as well as 20 new trains (on Northern Ireland Railways).

Similarly, there is money for the Coleraine/Derry railway track upgrade in 2014/15 but not for Knockmore/Lurgan (some of the spend on the Derry line is a follow on from the new facilities which are required to use some of the new train sets on that route).

There are to be substantial capital investments in NI Water (NIW) but those for 2012-13 are only three-quarters of those previously planned.

Savings plans

DRD provides fairly detailed information on a wide range of savings delivery plans. It is envisaged that savings of £15.7m, £28.8m, £56.4m and £62m will be made during the Spending Review period (having made allowance for a £1.3m p.a. Invest to Save spend).

A number of programmes are to be reduced in scale. For example, funding to the Rural Transport Fund will decline by £0.3m, £0.6m and £0.8m in the three final years of the Spending Review. This implies that a number of less economic Translink rural routes could probably cease and, similarly, some provision of public transport to groups in rural areas could be scaled back.

Similarly, the budget for the Transport Programme for People with Disabilities is to be scaled back (by £0.7m, £0.7m and £0.9m in the three final years of the Spending Review). By implication, evening door-to-door services for the disabled could stop and support for group travel organised by disabilities organisations could also cease.

A number of revenue raising schemes are counted as “savings”. Roads Service parking charges are to be increased more rapidly than inflation and cash income is expected to grow by 15% per annum. Penalties for illegal parking are to be upgraded and on-street parking charges are to be extended beyond Belfast-Derry-Lisburn.

It is also assumed that in the two final years of the Spending Review £15m annually can be released in the form of a dividend from Belfast Harbour Commissioners.

Additionally, it is assumed that £6m can be switched from capital to current spending in 2014-15 (although this will require Executive approval).

It is projected that staff posts will be reduced by 250 by the end of the Spending Review.

Some questions arising from the DRD plans

Based on the previous analysis, the following questions seem to be relevant:

- The A5 and A8 are being preferred compared to a list of other road improvements; is this based on a robust analysis of relative socio-economic return on the respective investments or did DRD in fact have no discretion but to prefer those two roads?
- Similarly, the Coleraine/Derry railway line is "preferred" compared to Lurgan/Knockmore, but what about relative passenger numbers? Even if there was little discretion, it may be regrettable that the upgraded line will not be in place for the 2013 City of Culture year?
- DRD is proposing to reduce its maintenance activity (e.g. on roads or car parks) but could such reductions produce serious longer term consequences?
- It is unclear how far DRD is actually increasing the subsidy to railway operations (the Public Service Obligation) and what are the implications for fares?
- Similarly, what about Translink bus fares?
- The scale of adverse equality impacts of the cut backs to rural public transport and transport for the disabled are unclear and can these be mitigated?
- Is the capital spending in NIW adequate (there appears to be a "gap" of at least several £100m over the period of the Review)?

Office of the First and Deputy First Ministers (OFMDFM)

Budget outcome

Table 24: OFMDFM budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	80.2	79.0	80.2	77.0	73.7
Capital investment	12.0	9.1	3.8	8.8	25.6

Note: not adjusted for inflation.

In cash terms the Budget current spending outcome for OFMDFM is flat which translates into a decline of 16% comparing 2014-15 with 2010-11.

On the capital side, it is a very extreme case of the U-shaped profile demonstrated by a number of Departments. By 2012-13 capital is 70% down on 2010-11 but by 2014-15 there is a recovery such that spending is to be 90% up on the baseline in real terms.

Inescapable spending demands

OFMDFM does not spell these out. However, we can imply that they will be some of the "key issues/challenges" which are identified in the document, e.g. growing the economy, dealing with poverty and disadvantage, maximising the Executive's international connections (especially with the US and EU), implications of the Barroso Taskforce (i.e. making the most of Northern Ireland's position within the EU), urban regeneration, Cohesion, Sharing and Integration, Ministerial Sub-Committee for Children and Young People, development of Commissioner for Older People and Victims and Survivors Service.

Investment proposals

These include steadily rising spending on Maze Long Kesh across the period, spending on Crumlin Road Gaol (in 2011-12 only) and on Ebrington Barracks (weighted towards 2014-15).

Savings plans

Savings of £3.8m, £6.9m, £10.3m and £13.8m are envisaged.

The Strategic Investment Board (SIB) "…budget will be reduced by £1.9m" (it is not stated if this is annually or across the Spending Review?). The wind-up of the Economic Research Institute of Northern Ireland (ERINI) in 2011 will release £0.9m annually.

Some questions arising from the OFMDFM plans

Based on the previous analysis, the following questions seem to be relevant:

- When will the next Programme for Government be published? One of OFMDFM's objectives is to drive the process towards an agreed Programme. Unfortunately, it looks as though the 2011-15 Budget will have to be agreed ahead of agreement on the targets and outcomes for public services over the next four years. This is a reversal of what should ideally be the sequence of decision making, i.e. agree desirable outcomes and then assign budget lines as necessary.

- OFMDFM has (rightly) identified maximising the economic gain from Europe (e.g. in the context of the Barroso Task Force) but what of implications of the substantial reduction in maximum permissible State Aids? Is the Executive minded to try to contest these changes or seek EU permission for some alternative type of incentive for Northern Ireland?

- The profile of spending on Ebrington Barracks might appear curious as much of it comes after the 2013 City of Culture year? OFMDFM say this is because the plans are not sufficiently advanced.

- Dealing with child poverty; is this dealt with adequately either by OFMDFM or, indeed, elsewhere within the Executive? The OFMDFM position seems to be that it is included within its spending on equality.

- The two "central funds", Social Investment and Social Protection; what is the rationale for their positioning in OFMDFM as opposed to, say, DSD (with urban regeneration)? OFMDFM seems to view this positioning as allowing "head room" for new initiatives. (It is worth noting that £4m of Atlantic Philanthropies' money is being used as a potential pilot to the Social Investment Fund and in particular the strand working at inter-faces.)

Department of Agriculture and Rural Development (DARD)

Budget outcome

Table 25: DARD budget outcome (£m current prices)

	2010-11 (baseline)	2011-12	2012-13	2013-14	2014-15
Net current expenditure	224.9	224.9	236.0	222.6	219.0
Capital investment	-173.5**	16.4	13.9	20.0	29.3

Note: not adjusted for inflation.

**: This considerably negative figure arises given the volume of expected receipts in 2010-11 relative to actual investment spending.

In cash terms the Budget outcome for DARD is relatively flat which translates into a decline of 11%in real terms comparing 2014-15 with 2010-11. On the capital side, there is a decrease in expenditure in 2012-13, but increases thereafter.

Inescapable spending demands

DARD does imply some of these when it lists "additional current expenditure proposals". The spending on the Land Parcel Identity System (£20m over the whole review period but almost all of this is concentrated in years one and two) is ring fenced as a form of "investment" because it mitigates the threat of the EU disallowing future land support. There is also some spending relating to animal health, traceability, DARD direct and the EU Floods Directive.

All told, inescapables are reckoned to sum to £13m, £15.5m, £7.5m and £6.6m over the Review.

Investment proposals

In addition to making considerable annual capital grants to farmers (£8.5m in the first year, though falling to £7m in the third and fourth years), DARD is proposing to invest £13m in 2014-15 towards the cost of relocating its headquarters to somewhere outside of Greater Belfast.

Savings plans

In order to cope with a combination of a flat (in current term) baseline alongside considerable inescapable pressures, savings of £6.7m, £8.7m, £12.8m and £15.2m are envisaged.

Staff numbers have already declined (3,331 in 2005-06, 2,945 in 2009-10 and 2,880 (full time equivalents) in December 2010). A reduction of a further 80 is now envisaged.

Receipts are to be increased by £1.1m albeit this increase in back-end loaded (only in 2014-15).

Some questions arising from the DARD plans

Based on the previous analysis, the following questions seem to be relevant:

- How far can an apparently fragile sector bear extra charges?
- What assumptions have been made around possible commercialisation of the Forest Service?
- Does movement to a new HQ in 2014-15 represent good economic value for money and what about the social returns calculation?
- What might be the total impact in terms of costs and effectiveness of service delivery of some of the proposed changes regarding procurement?

Conclusions

This Budget 2011-15 represents probably the most challenging spending review to face government in Northern Ireland for over a generation.

The information that has been made available, mainly through the 12 Departments' spending plans, enables us to go some way in analysing the impact of the Budget.

For some of the Departments it is possible to compare resources required (or sought) against those allocated in the draft Budget delivered to the Assembly on 15 December 2010 in order to measure the implied deficit in funding. Where a deficit exists, it will have to be met, either by extra cash from "the centre" (which really means less money for some other Departments), or by savings plans.

First, we would emphasise some conclusions relating to the contents of the draft Budget and the Departmental spending plans:

- It is encouraging the Executive has got this far in the Budget making process.

- It is commendable that the aspiration is for a four year Budget (by comparison, the Scottish Government has agreed only a one year Budget)

- It is very important for the Northern Ireland private and community and voluntary sectors that certainty is provided through agreement on a final Budget as soon as possible.

- At present this is not a balanced Budget. As this stage, and with reference to the published information, it is not clear how two major spending Departments – certainly DHSSPS and possibly DEL – will balance the books. The outcome of this may hold important implications for other Departments.

- While some revenue raising is proposed, more imaginative funding mechanisms, savings and revenue-raising programmes and projects might have been suggested.

- It is less than ideal that a Budget is to be agreed before a new Programme for Government is in place.

- The indications in this Budget do not tell us if the Executive has an adequate response to many of the challenges facing Northern Ireland, e.g. rising unemployment and a rebalancing of energy use and the economy towards renewables.

- This Budget had been conducted on a piecemeal Department by Department basis and fails to provide fundamental reform of the structure of Government and the public sector.

Second, we would draw some conclusions regarding the way the Budget process itself has been handled:

  - It is clearly unfortunate that the timescales have been so compressed as to reduce the overall time available for consultation.

  - From the point of view of stakeholders does the "two level" style of consultation really make best sense, one where stakeholders have the option of making broader comments about the Budget as a whole to DFP, and then any specific ones to each individual Department?

The draft Budget was delivered to the Assembly by the Finance Minister on 15 December 2010, but it was made clear that subsequent consultation, now extended, would be managed not by DFP, but by individual *Department*s, when the DFP Minister said: *"…This process will not be led by DFP but by individual Departments who will now publish their savings plans and spending proposals. This will allow interested* *parties to provide the views that will shape the final Budget position that I will bring before this Assembly in February."*

Given the foregoing, it is difficult to be certain how far responses to consultation should be directed to individual Departments and, if so, how the subsequent responses are to be consolidated into a single set of proposals, and by whom. Perhaps a fragmented Budget process is a reflection of a fragmented system of government. Whatever may have been the intention on 15 December 2010, DFP has been unable to enforce much by way of standardisation in terms of the documents produced by the devolved Departments which vary widely in terms of style, format and the level of detail of information.