

# Briefing on Northern Ireland Budgetary Outlook

2018-20



Department of  
**Finance**

An Roinn

**Airgeadais**

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# Executive Summary

## Purpose

This document sets out the broad strategic issues that will inform an incoming Executive's decisions on a Budget for 2018-19 and 2019-20 (and 2020-21 for Capital).

Departments are required to live within their budget every year. To do so for 2018-19 and onwards, decisions are becoming pressing. It is our assessment that, for an effective budget to be set and delivered by a new Executive, it should be agreed early in February 2018.

In normal circumstances, the Minister of Finance would have presented a Draft Budget to the Executive for agreement and later approval, after debate, by the Assembly. This year, in the absence of Ministers, the Department of Finance is now taking the unusual step of publishing information about the broad choices available for balancing the Budget to help inform decisions to be taken by an incoming Executive.

The allocation of funds will need to reflect Ministerial priorities. Although an incoming Executive will set out its own priorities, the previous Executive agreed to develop a Programme for Government (PfG) focussed on achieving the outcomes people said mattered most to them.

## Available Resources

The main source of funding for the Executive is the block grant from the UK Government. As set out in the tables below, the Resource DEL Budget (the budget for day to day expenditure and running costs), whilst increasing in cash terms, will decline in real terms over the two years of the Budget. For Capital DEL, the situation is more positive with the Capital DEL outcome seeing real terms increases.

**Figure E1: UK Autumn Budget 2017**

£million

NI NON RING FENCED RESOURCE DEL	2017-18	2018-19	2019-20	2020-21
<b>UK Budget Outcome</b>	9,968.7	10,022.5	10,021.9	
Real Terms change (from 2017-18)		-0.9%	-2.3%	

Note: Excludes Fresh Start, Air Ambulance and Apprenticeship Levy top-up funding

**Figure E2: UK Autumn Budget 2017**

£million

NI Capital DEL (Excluding FTC)	2017-18	2018-19	2019-20	2020-21
<b>UK Budget Outcome</b>	1,114.9	1,183.7	1,287.2	1,350.1
Real Terms change (from 2017-18)		4.6%	12.2%	15.7%

Note: Excludes Fresh Start and Reserve Claim Funding

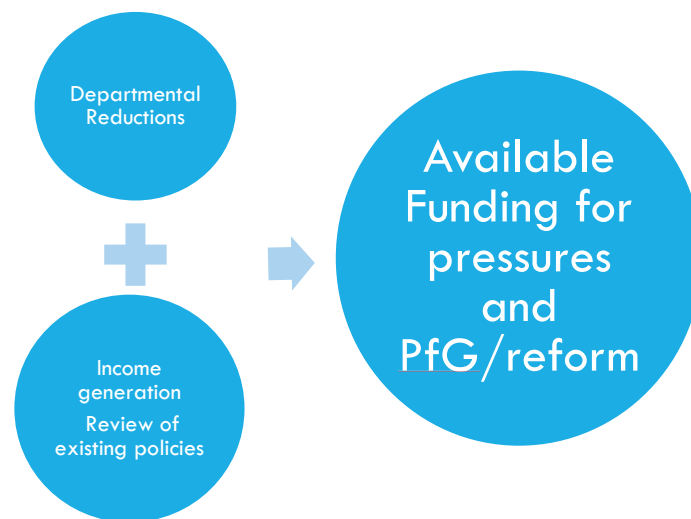
For the Resource DEL budget, this means that the cost of delivering services is increasing more rapidly than the budget available. The budgetary pressures across the public sector, and particularly in health and education, far outweigh the budget available and continuing with the same pattern of spend as in previous years is simply unsustainable.

### **Balancing the Budget**

In the longer term, public services can be transformed to improve outcomes while living within resources. Some of those actions will initially involve additional expenditure.

In the short term, more immediate solutions will be required in order to balance the budget. Producing a balanced budget would require spending to be reduced or the available resources to be increased. In practice, both measures may be needed.

**Figure E3**



The broad choices available to an incoming Executive are to:

- Cut departmental allocations, leaving it to Departments to manage the consequences;
- Reduce or stop support for some existing services and policies; and/or
- Ask citizens to pay some more for the services they receive e.g. through the household rates, perhaps earmarked to fund the increasing costs in areas such as health and education.

No decisions have been taken as to which, if any, income generation or review of existing policies should be implemented. Those are decisions for an incoming Executive.

### **Resource DEL Scenarios**

Taking account of the broad options available, a budget could be constructed in a number of ways, bearing in mind the scale of pressures which need to be funded to deliver Ministers' priorities and how those pressures should be addressed.

The number of potential scenarios is limitless but to illustrate the choices available, we have constructed three scenarios which outline different

approaches to balancing the Budget in delivering the PfG. These are purely illustrative.

The three scenarios are:

- Scenario one is similar to the approach of the previous Executive in 2016-17 (and then maintained in 2017-18). It provides no central fund for new actions and interventions.
- Scenario two is similar to scenario one but assumes a level of new funding from additional income generation/reviews of existing policies which could be used to fund additional pressures. It provides a central fund for new actions and interventions in support of PfG of £40 million in 2018-19 and £50 million in 2019-20.
- Scenario three relies more heavily on departmental reductions to allow available funding to be redirected to priorities such as health and schools. It provides a central fund for new actions and interventions in support of PfG of £30 million in 2018-19 and £40 million in 2019-20.

These scenarios are based on a number of assumptions, which are broadly consistent with the approach to previous Budgets. No decisions have been taken. The final budget agreed by an Executive may be different from any of the three scenarios presented in this document.

The scenarios are set out in Chapter Five and their potential impacts on departmental services are set out in Chapter Six.

### **Capital Scenario**

A zero-based approach has been taken to developing a capital scenario. To arrive at this scenario, departments began with a capital budget of zero and we have then sought to distribute the Capital DEL to projects on a priority basis, with existing contractual, health and safety and Flagship projects benefitting first. A proposed capital scenario and the implications for departments is set out in Chapter Seven and, as for Resource DEL, this is subject to Ministerial decision.

## ***Feedback***

Any feedback on this document is welcome. Chapter Nine sets out a series of questions which could help you provide views on the briefing document, along with details of how to submit your feedback.

Given our assessment that a Budget should be set early in February, and to plan and prepare decisions for a new Executive on that basis, any feedback should be provided by 26 January 2018.

# Chapter One: Introduction

This document sets out the broad strategic issues that will inform an incoming Executive's decisions on a Budget for 2018-19 and 2019-20 (and 2020-21 for Capital).

Ahead of every new financial year, a Budget must be put in place to allow departments to plan to live within the resources available to them. This Budget should deliver the Executive's priorities, as set out within a Programme for Government.

The decisions underpinning a Budget shape the delivery of public services and can have significant impacts on the lives of every citizen.

Decisions on the allocation of resources can only be taken by democratically-elected Ministers. Without Ministers, the Northern Ireland Departments cannot put a Budget in place for 2018-19 or future years. However, Departments are required to balance their books every year. To do so for 2018-19 and onwards, decisions are becoming pressing. It is our assessment that, for an effective budget to be set and delivered by a new Executive, it should be agreed early in February 2018.

In normal circumstances, the Minister of Finance would have presented a Draft Budget to the Executive for agreement and later approval, after debate, by the Assembly. This year, in the absence of Ministers, that democratic process has not taken place. This vacuum has created uncertainty for departments and made it extremely difficult to plan for the delivery of services in 2018-19 and beyond.

In this context, the Department of Finance is now taking the unusual step of publishing information about the broad choices available for balancing the Budget to help inform decisions to be taken by an incoming Executive.

The Department of Finance has gathered and considered information from Departments. The Department's assessment is that, if the nine Departments continue to spend on their current profiles, particularly in health and education, the available Budget for 2018-19 would be significantly exceeded.



The resources available in 2018-19 are broadly the same as in the current year however, with inflation rising, this has created a real-terms reduction in the spending power of the Executive. The vast bulk of those resources comes through the Barnett formula to the Northern Ireland block grant, which will stay broadly level. Against that position, departmental pressures are increasing.

An incoming Executive will therefore need to make choices between competing priorities.

In the longer term, many public services need to be transformed to improve outcomes and lead to more effective use of resources. However, this will take time and investment.

In the short term, more immediate solutions will be required in order to balance the budget. The broad choices that will be available to an incoming Executive are:

- Cut departmental allocations, leaving it to Departments to manage the consequences;
- Reduce or stop support for some existing services and policies; and/or
- Ask citizens to pay some more for the services they receive e.g. through the household rates, perhaps earmarked to fund the increasing costs in areas such as health and education.

This document sets out three scenarios which combine these approaches to different extents to show how a balanced Budget might be produced in this difficult context. The scenarios are not proposed budget settlements. They are an illustrative framework to inform consideration of the issues that will need to be considered by Ministers. **No decisions have been taken, as the strategic choices involved are ultimately and rightly for Ministers to decide.**

In illustrating the choices available, this document sets out some options for raising additional resources and for reviewing existing services and policies. It also provides an outline assessment of the impacts on public services in a number of scenarios.

**Views on the contents of this document can be provided to the Department of Finance using the details set out in Chapter Nine.**

# Chapter Two: Strategic Context

## A. Programme for Government

The allocation of resources is one of the most important tasks of any government. While it will be for an incoming Executive to set out its priorities, the former Executive agreed to develop a Programme for Government (PfG) focused on achieving the outcomes people said mattered most to them.

Following extensive stakeholder support and engagement, a Programme has been prepared based on a framework of societal wellbeing. It is designed to target those things that will make real improvements to people's quality of life.

A focus on outcomes, rather than inputs and outputs, provides an opportunity to take a fresh approach to tackling the biggest challenges we face. The Organisation for Economic Co-operation and Development, in a major report to the Executive in 2016, recommended such an approach. The outcomes-based approach had previously secured cross-party agreement in Fresh Start and received widespread support during extensive and highly positive consultation and engagement with stakeholders.

As a result, there is broad consensus around a wellbeing framework comprising twelve core population outcomes. The Programme's overarching purpose is "Improving wellbeing for all – by tackling disadvantage and driving economic growth".

Achieving that, and responding to what people have said is important, means tackling some of the most difficult, entrenched and persistent problems, including the challenges of:

- keeping pace with a rapidly changing global economy,
- improving the health of our citizens,
- giving our children the best possible start in life,
- looking after our environment,
- caring for the more vulnerable,
- dealing with the legacy of our past,

- respecting our neighbours, and creating communities where people can feel safe and
- dealing with the uncertainties presented by the EU exit process.

Previous Programmes for Government were prepared on the basis of service inputs and outputs with only limited scope to assess actual impact. As a result, funding decisions have not always directed resources towards doing more of the things that are important to people and that evidence shows work well.

Evidence tells us that taking an outcomes-based approach is more likely to promote innovation and creativity and identify new ways of working. The Budget therefore needs to be constructed with the aim of delivering the Programme for Government outcomes.

While the public sector can frame and lead the new outcomes-focussed approach, it will require the active involvement of people and communities everywhere. The Programme for Government, therefore, is highly reliant on collaboration and engagement with others; it is a Programme that has implications for expenditure in every budget line. By acting together and maintaining a joint focus on outcomes, it should be possible to secure benefits and tackle a number of issues that have held back progress.

The outcomes-focussed Programme for Government Framework is set out below:

Figure 2.1

**This framework remains subject to political agreement**

PROGRAMME FOR GOVERNMENT OUTCOMES FRAMEWORK	
Our purpose:	
Improving wellbeing for all – by tackling disadvantage and driving economic growth	
Outcomes	Population Indicators
<b>1</b> <b>We prosper through a strong, competitive, regionally balanced economy</b>	<ul style="list-style-type: none"> <li>• Private sector NI Composite Economic Index</li> <li>• External sales</li> <li>• Rate of innovation activity</li> <li>• Employment rate by council area</li> <li>• % change in energy security of supply margin</li> </ul>
<b>2</b> <b>We live and work sustainably – protecting the environment</b>	<ul style="list-style-type: none"> <li>• % all journeys which are made by walking/cycling/public transport</li> <li>• Greenhouse gas emissions</li> <li>• % household waste that is reused, recycled or composted</li> <li>• Annual mean nitrogen dioxide concentration at monitored urban roadside locations</li> <li>• Levels of soluble reactive phosphorus in our rivers and levels of Dissolved Inorganic Nitrogen in our marine waters</li> <li>• Biodiversity (% of protected area under favourable management)</li> </ul>
<b>3</b> <b>We have a more equal society</b>	<ul style="list-style-type: none"> <li>• Gap between highest and lowest deprivation quintile in healthy life expectancy at birth</li> <li>• Gap between % non-FSME school leavers and % FSME school leavers achieving at Level 2 or above including English &amp; Maths</li> <li>• % population living in absolute and relative poverty</li> <li>• Employment rate of 16-64 year olds by deprivation quintile</li> <li>• Economic inactivity rate excluding students</li> <li>• Employment rate by council area</li> </ul>
<b>4</b> <b>We enjoy long, healthy, active lives</b>	<ul style="list-style-type: none"> <li>• Healthy life expectancy at birth</li> <li>• Preventable mortality</li> <li>• % population with GHQ12 scores <math>\geq 4</math> (signifying possible mental health problem)</li> <li>• % people who are satisfied with health and social care</li> </ul>

Outcomes	Population Indicators
	<ul style="list-style-type: none"> <li>• Gap between highest and lowest deprivation quintile in healthy life expectancy at birth</li> <li>• Confidence of the population aged 60 years or older (as measured by self-efficacy)</li> </ul>
<p style="text-align: center;"><b>5</b></p> <p style="text-align: center;"><b>We are an innovative, creative society, where people can fulfil their potential</b></p>	<ul style="list-style-type: none"> <li>• Rate of innovation activity (% of companies engaging in innovation activity)</li> <li>• Proportion of premises with access to broadband services at speeds at or above 30Mbps</li> <li>• % engaging in arts/cultural activities</li> <li>• Confidence (as measured by self-efficacy)</li> <li>• % school leavers achieving at least level 2 or above including English and Maths</li> </ul>
<p style="text-align: center;"><b>6</b></p> <p style="text-align: center;"><b>We have more people working in better jobs</b></p>	<ul style="list-style-type: none"> <li>• Economic inactivity rate excluding students</li> <li>• Proportion of the workforce in employment qualified to level 1 and above, level 2 and above, level 3 and above, and level 4 and above</li> <li>• Seasonally adjusted employment rate (16-64)</li> <li>• A Better Jobs Index</li> <li>• % people working part time who would like to work more hours</li> <li>• Employment rate by council area</li> <li>• Proportion of local graduates from local institutions in professional or management occupations or in further study six months after graduation</li> </ul>
<p style="text-align: center;"><b>7</b></p> <p style="text-align: center;"><b>We have a safe community where we respect the law, and each other</b></p>	<ul style="list-style-type: none"> <li>• Prevalence rate (% of the population who were victims of any NI Crime Survey crime)</li> <li>• A Respect Index</li> <li>• % the population who believe their cultural identity is respected by society</li> <li>• Average time taken to complete criminal cases</li> <li>• Reoffending rate</li> </ul>
<p style="text-align: center;"><b>8</b></p> <p style="text-align: center;"><b>We care for others and we help those in need</b></p>	<ul style="list-style-type: none"> <li>• % population with GHQ12 scores <math>\geq 4</math> (signifying possible mental health problem)</li> <li>• Number of adults receiving social care at home or self-directed support for social care as a % of the total number of adults needing care</li> <li>• % population living in absolute and relative poverty</li> <li>• Average life satisfaction score of people with disabilities</li> <li>• Number of households in housing stress</li> </ul>

Outcomes	Population Indicators
	<ul style="list-style-type: none"> <li>Confidence of the population aged 60 years or older (as measured by self-efficacy)</li> </ul>
<p><b>9</b></p> <p><b>We are a shared, welcoming and confident society that respects diversity</b></p>	<ul style="list-style-type: none"> <li>A Respect Index</li> <li>% who think all leisure centres, parks, libraries and shopping centres in their areas are “shared and open” to both Protestants and Catholics</li> <li>% of the population who believe their cultural identity is respected by society</li> <li>Average life satisfaction score of people with disabilities</li> <li>Confidence (as measured by self-efficacy)</li> </ul>
<p><b>10</b></p> <p><b>We have created a place where people want to live and work, to visit and invest</b></p>	<ul style="list-style-type: none"> <li>Prevalence rate (% of the population who were victims of any NI Crime Survey crime)</li> <li>Total spend by external visitors</li> <li>% of the population who believe their cultural identity is respected by society</li> <li>Nation Brands Index</li> <li>A Better Jobs Index</li> </ul>
<p><b>11</b></p> <p><b>We connect people and opportunities through our infrastructure</b></p>	<ul style="list-style-type: none"> <li>Average journey time on key economic corridors</li> <li>Proportion of premises with access to broadband services at speeds at or above 30Mbps</li> <li>Usage of online channels to access public services</li> <li>% of all journeys which are made by walking/cycling/public transport</li> <li>Overall Performance Assessment (NI Water)</li> <li>Gap between the number of houses we need, and the number of houses we have</li> </ul>
<p><b>12</b></p> <p><b>We give our children and young people the best start in life</b></p>	<ul style="list-style-type: none"> <li>% babies born at low birth weight</li> <li>% children at appropriate stage of development in their immediate pre-school year</li> <li>% schools found to be good or better</li> <li>Gap between % non-FSME school leavers and % FSME school leavers achieving at Level 2 or above including English and Maths</li> <li>% school leavers achieving at Level 2 or above including English and Maths</li> <li>% care leavers who, aged 19, were in education, training or employment</li> </ul>
<p><b><i>These outcomes will be delivered through collaborative working across the Executive and beyond government and through the provision of high quality public services</i></b></p>	

## B. Economic Context

The Executive's Budget needs to deliver in the current economic conditions.

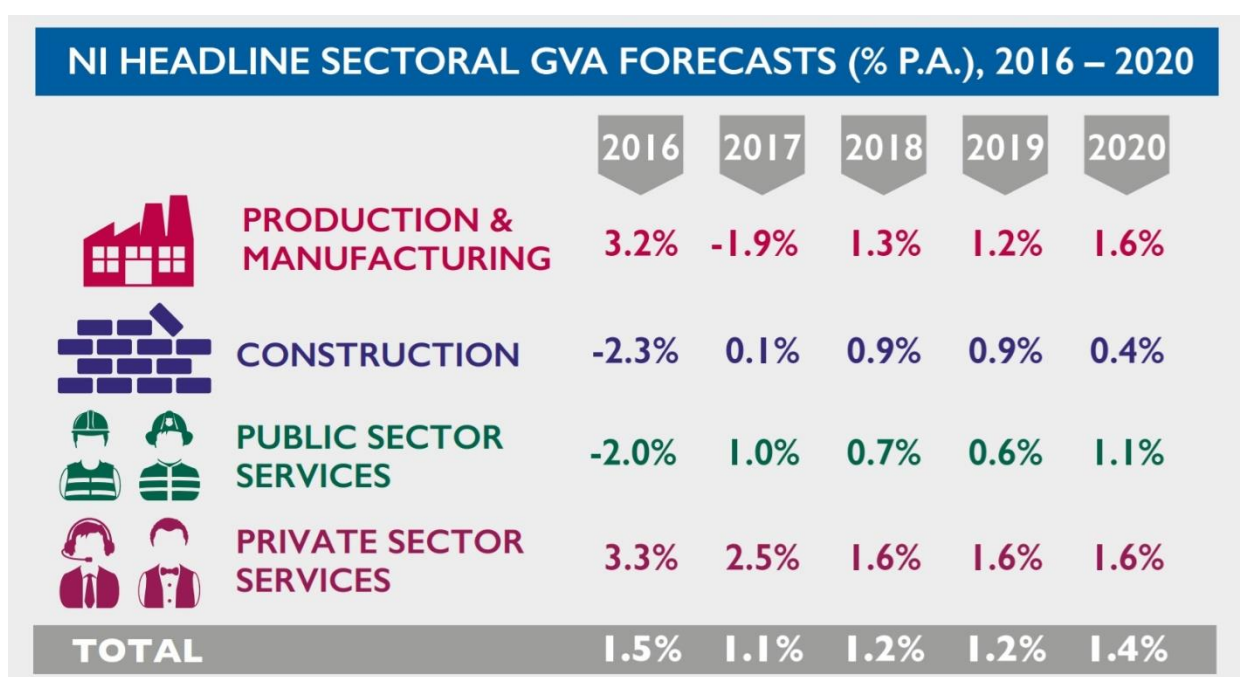
There has been a 'jobs-rich' recovery in Northern Ireland, although economic growth has been relatively modest in historical terms.

As a small open economy, Northern Ireland is vulnerable to national and international conditions outside of its control. Reflecting broader uncertainty and a number of other challenges, forecasters have downgraded their growth prospects for the NI economy.

Economic growth is therefore expected to slow to around 1% in 2017<sup>1</sup> and remain close to this rate over the next two years. This is linked to a number of factors, including slower growth forecasts at the UK level, weak productivity performance, structural labour market challenges and reduced consumer spending.

As shown in Figure 2.2, the Ulster University Economic Policy Centre (UUEPC) expects Northern Ireland growth this year and next to be driven largely by private sector services, with a more mixed outlook for the other main sectors of the economy.

Figure 2.2: NI Headline Sectoral GVA forecasts<sup>2</sup>



<sup>1</sup> University of Ulster Economic Policy Centre Outlook, Summer 2017

<sup>2</sup> University of Ulster Economic Policy Centre Outlook, Summer 2017



In a constrained fiscal environment, the Northern Ireland economy faces some significant challenges ahead.

More information on the economic context is set out in **Annex A**.

### **C. EU Exit**

Another significant strategic issue is the UK's exit from the European Union. The formal process started with the Prime Minister's Article 50 letter sent on Wednesday 29th March 2017, which notified the intention of the UK to withdraw from the European Union. Negotiations between the UK and the European Union started on 19 June 2017.

The implications of the UK's decision to leave the EU are being worked through. Departments are working to ensure that the UK Government and other stakeholders have a full factual understanding of the NI issues and implications at all stages of the negotiation process.

# Chapter Three: Available Resources

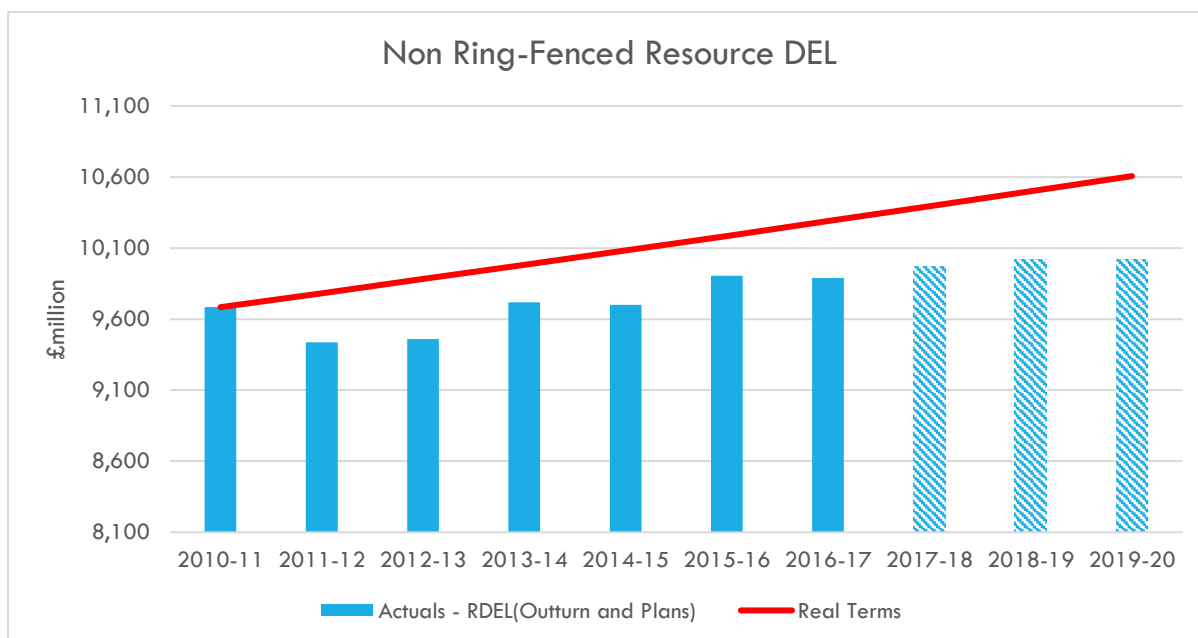
## Introduction

Against the backdrop of a challenging economic environment, the resources available to an incoming Executive to deliver its Programme for Government will remain largely flat. At the same time, various increasing pressures on Departments' budgets have also been identified. Strategic decisions will therefore be required to enable balanced sustainable Budgets to be set for the years ahead.

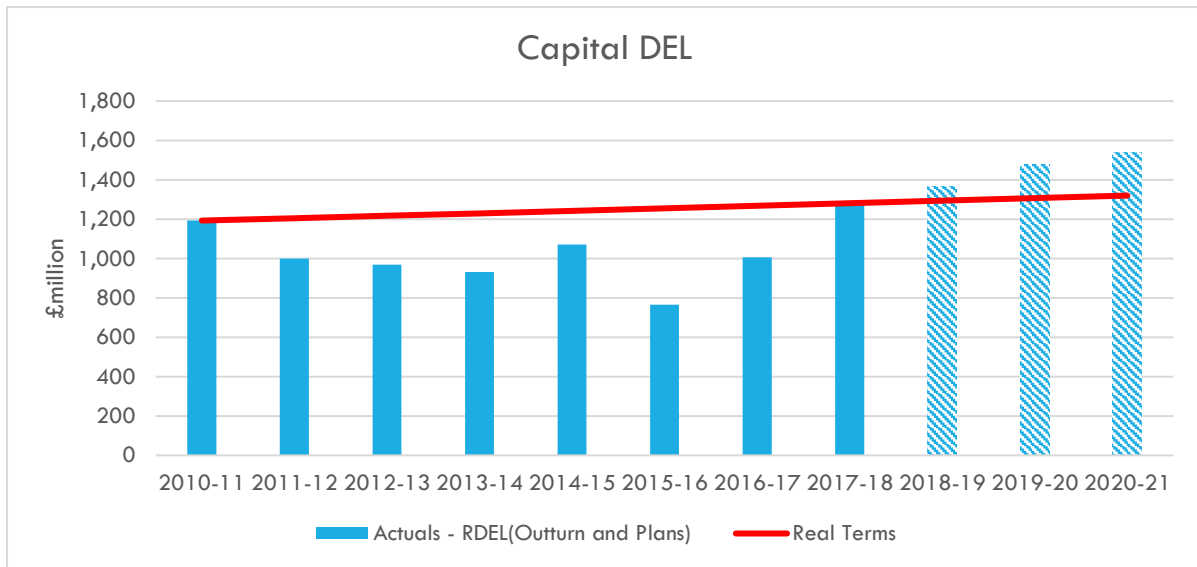
## Public Expenditure Trends

The following charts set out the Northern Ireland non ring-fenced Resource DEL budgets (which fund the running costs of public services) and Capital DEL budgets (to fund capital investment) since 2010-11. Both graphs show Public Expenditure in cash terms, with a red line to demonstrate what the Budget might have been had it increased in line with inflation as measured by GDP.

**Figure 3.1: Non Ring-Fenced Resource DEL**



**Figure 3.2: Capital DEL**



Over the last number of years, whilst the Non Ring-Fenced Resource DEL Budget has increased in cash terms, the Northern Ireland Budget has seen significant reductions in real terms (i.e. after taking into account the effect of inflation). For Capital DEL, the situation is more positive. While there were deficits in earlier years, the Capital DEL outcome is in line with or above real terms from 2017-18 onwards.

Figure 3.3 shows that public expenditure growth has also been reasonably flat across the UK in recent years.

Figure 3.3: Total identifiable expenditure per head of population

Region	2011-12	2012-13	2013-14	2014-15	2015-16
England	£8,440	£8,484	£8,563	£8,716	£8,816
Scotland	£10,020	£10,187	£10,196	£10,327	£10,536
Wales	£9,760	£9,623	£9,765	£9,887	£9,996
NI	£10,684	£10,773	£10,927	£11,041	£10,983

## Funding Sources

A number of funding sources can contribute to the Northern Ireland Budget. The main sources of funding are:

- The Northern Ireland Block Grant
- Regional Rates
- Income Generation
- Fresh Start Agreement funding
- Financial annex to the Confidence and Supply Agreement

### A. Northern Ireland Block Grant

The Northern Ireland Executive, like other Devolved Administrations, receives most of its DEL funding through a block grant from the UK Government. Changes in the block grant are generally determined by using the Barnett formula, which provides funding based on a population share of comparable spend by the UK Government in England.<sup>3</sup>

The table below sets out the latest position for the Northern Ireland Departmental Expenditure Limits, as set out following the Chancellor's Autumn Budget of 22 November 2017. The extent of the budgets for forward years is determined by the UK Government (two forward years for Resource DEL, three forward years for Capital DEL).

*Figure 3.4: Northern Ireland DEL*

£million	2018-19	2019-20	2020-21
<b>Non Ring-fenced Resource DEL</b>	10,022.5	10,021.9	-
<b>Ring-fenced Resource DEL</b>	574.0	587.2	-
<b>Conventional Capital DEL</b>	1,183.7	1,287.2	1,350.1
<b>Financial Transactions Capital</b>	182.2	192.4	188.1

<sup>3</sup> More detail on the process for calculating the Northern Ireland Executive's block grant can be found in the Statement of Funding Policy, which can be found at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479717/statement\\_of\\_funding\\_2015\\_print.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf)

Whilst the Resource DEL will increase in cash terms, it will decline in real terms over the two year period of the Budget. This means that, taking account of inflation, the resources available through the block grant to fund public services will decrease. For Capital DEL (the resources available for capital investment), funding will increase in real terms.

This is set out in the tables below:

**Figure 3.5: UK Autumn Budget 2017**

£million

<b>NI NON RING FENCED RESOURCE DEL</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
<b>UK Budget Outcome</b>	9,968.7	10,022.5	10,021.9	
Real Terms change (from 2017-18)		-0.9%	-2.3%	

Note: Excludes Fresh Start, Air Ambulance and Apprenticeship Levy top-up funding

**Figure 3.6: UK Autumn Budget 2017**

£million

<b>NI Capital DEL (Excluding FTC)</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
<b>UK Budget Outcome</b>	1,114.9	1,183.7	1,287.2	1,350.1
Real Terms change (from 2017-18)		4.6%	12.2%	15.7%

Note: Excludes Fresh Start and Reserve Claim Funding

## *B. Regional Rates*

Aside from the Block Grant allocation for Northern Ireland, the most significant source of funding for central public services is the revenue generated locally through the Regional Rates.

There are two elements to the rates bills paid by both households and the non-domestic sector in Northern Ireland. The district rate, set by each of the District Councils, is used to finance the services provided by Councils. The Regional Rate then generates additional resources to support central public services and the work of Government Departments.

Currently, £1.2 billion of Rates are collected each year, approximately half of which make up the Regional Rate element which is available for use by the Executive.

Regional Rate revenue is “unhypothesized”, meaning that the revenue collected is not targeted on any specific public spending programme. Instead, the revenue received is added to the total sums available for allocation by the Executive.

### *C. Income Generation*

In addition to the above funding, the Executive is able to make use of funding generated by the provision of cost recovery services, the sale of assets and certain levies. These all provide additional spending power to the Executive to provide public services. NI Departments also receive income from the European Union that is used to fund European Programmes here. In 2016-17 EU income equated to £338.8 million.

There are certain restrictions to what departments can do locally in order to raise additional funding. For example, the retention of income from licences and levies or fines and penalties is subject to Treasury agreement. Tax policy is generally a matter reserved for the UK Government and is beyond the scope of this document.

In considering how to raise additional funding, it is important to understand that there are a number of challenges that might impact on certain options. It is likely that many of the measures would require public consultation and legislative change.

In particular, some challenges might be:

- Legislation – there may be an existing legal necessity to carry out a service, or new legislation may be required to implement the change;
- Public expectation – there may be a reasonable expectation that services are maintained; and
- Timing – changing some services may require a long lead in period.

### *D. A Fresh Start – The Stormont Agreement and Implementation Plan*

Following the agreement reached on 17 November 2015, the Stormont Agreement and Implementation Plan provided the Executive with access to additional funding for the following:

- Reinvestment and Reform Initiative borrowing to fund a public sector Voluntary Exit Scheme;
- Further RRI borrowing for economically important Capital projects;

- £500 million Capital over ten years for Shared and Integrated Education and shared housing;
- £25 million per annum to 2020-21 from the Irish Government for upgrading the A5;
- £25 million per annum for five years for welfare reform and fraud and error detection;
- £160 million over five years for national security funding;
- £150 million over five years for funding the Stormont House Agreement legacy bodies;
- £25 million over five years to tackle paramilitary activity;
- £60 million over five years for Shared Future

The table below sets out to the Fresh Start funding available over the coming years.

Further detail can be found in the Agreement:

<https://www.gov.uk/government/publications/the-stormont-house-agreement>

**Figure 3.7: Fresh Start Funding**

**£million**

<b>Fresh Start Funding</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
<b>Funding Incorporated into Department's Budgets/Scenarios</b>			
Welfare Reform - including Fraud and Error	25.0	25.0	
Security Funding	33.7	31.1	
ROI Funding for A5	25.0	25.0	25.0
<b>Funding Yet to be Agreed/Drawn</b>			
VES Borrowing	100.0		
Shared and Integrated Education and Housing	50.0	50.0	50.0
Additional Borrowing for Capital	50.0		
Dealing with the Past	30.0	30.0	30.0
Dealing with Paramilitary Activity	5.0	7.5	7.5
Shared Future	12.0	12.0	12.0
<b>Total Budget Implications</b>	<b>330.7</b>	<b>180.6</b>	<b>124.5</b>

### *E. UK Confidence and Supply Arrangements*

In the financial annex to the Confidence and Supply agreement, the UK Government set out a financial package which it was prepared to make available to the Executive. Access to this funding and its profile, requires agreement with HM Treasury and an incoming Executive and need the approval of both Parliament and the Assembly.

The table below sets out the following financial arrangements:

**Figure 3.8: UK Government Confidence and Supply Financial Annex**

<b>Area</b>	<b>Amount per annum (£m)</b>	<b>Time Period</b>
Infrastructure Development	200.0	2 years
Ultra-fast Broadband	75.0	2 years
Targeting Pockets of Severe Deprivation	20.0	5 years
Health and Education Pressures	50.0	2 years
Health Transformation	100.0	2 years
Mental Health	10.0	5 years

The UK Government agreed to make available some of these resources in the current financial year. The Department of Finance has asked to draw down £20 million of funding in relation to health and education pressures in 2017-18 and is keeping the drawdown under review.

### **Centrally Held Funding**

Usually, as part of any Budget process some funding is held centrally and not allocated to departments. This can be due to the nature of the funding, which may require it to be held centrally and allocated to departments as required, or it can be related to the timing of decisions on how to allocate the funding to departments.

Central funding is a good way of directing specific resources across departmental boundaries. However, the more funding held for central items, the less is available for individual departmental budgets. More information on the current centrally held budgets is set out in Annex B.



## **Corporation Tax**

Finally, the figures outlined in this document do not factor in the introduction of devolved corporation tax. The setting of corporation tax locally would have a significant impact on the budget process in future years.

The Department of Finance and the Department for the Economy continue to work towards implementing past Executive policy around the introduction of a reduced Corporation Tax rate of 12.5% in line with the commitment in the Fresh Start Agreement.

However, it has been recognised during the course of 2017 that the conditions for implementation have not been in place, and as such, the proposed implementation date of April 2018 was unlikely to be realised. That continues to be the case and consequently this document does not assume Corporation Tax devolution in 2018-19 or indeed 2019-20.

The timing of the introduction of the reduced rate would be a matter for Ministers to determine in conjunction with the UK Government. The UK Government indicated at Autumn Budget 2017 that it remains committed to giving the Northern Ireland Executive the power to set the rate of Corporation Tax, once a restored Executive demonstrates its finances are on a sustainable footing. Subject to that, it would consider an announcement in 2018-19 on implementing the regime.

Current estimates suggest that Corporation Tax devolution would represent a net reduction to the Northern Ireland Budget of around £250 million per annum.

# ***Chapter Four: Balancing the Budget***

## **Introduction**

This chapter considers the broad options for producing a balanced budget that are available to an incoming Executive.

## **Budgetary Pressures**

At present, taking account of all currently-available resources, the Resource DEL Budget continues to lag behind real-terms growth. The cost of delivering services is increasing more rapidly than the available budget. Departments have identified significant budgetary pressures, which far outweigh the budget available. In a recent exercise conducted by the Department of Finance, departments registered over £1 billion of pressures by 2019-20. These include:

- Health service pressures reflecting the increasing and ageing population with greater and more complex needs;
- Increasing cost pressures in schools and additional special education needs;
- Investment in skills to drive economic development now and post EU Exit;
- The costs of preparing for EU Exit in a number of departments, most notably in DAERA and DfE; and
- Specific cost pressures in individual areas for example public transport, roads maintenance, justice and TB compensation

In any budget exercise, bids for resources exceed the available funding. However, with inflationary pressures and the significant pressures outlined above, it is clear that continuing with existing patterns of expenditure would result in spend levels which are in excess of the funding available in both 2018-19 and 2019-20.

## **Transformation**

Given the increasing cost pressures, it is clear that transformation is needed in many of our services in order to meet increasing demand and make services sustainable in the long term.

Doing more of the same will get the same results as now at increasing cost. To improve outcomes for citizens and to make services sustainable will require transformation, particularly in our major public services of:

- Health
- Education
- Housing
- Justice

These four areas make up over 80% of our Non Ring-Fenced Resource DEL. Each particular area presents its own unique set of circumstances, with both challenges and opportunities. The current challenges for each of these sectors and the benefits that transformation might bring are set out below.

### *Health*

We currently have increasing demand for GPs, waiting lists that continue to increase across a broad range of services and waiting times at Emergency Departments that are in excess of four hours for over 25% of patients.

A transformative approach could build capacity in communities by providing more support in primary care, reform community and hospital services and deal with the current unacceptable backlog of patients

### *Education*

Northern Ireland currently has a significant number of schools below the sustainable schools threshold in both the primary and post-primary sectors. Cost pressures are increasing in responding to Special Educational Needs. There is a risk of sub-optimal educational outcomes for too many children and young people.

Transformation could result in better outcomes for pupils and for our economy, for example by using resources more efficiently, better

aligning accessibility and the curriculum and maximising impact in the early years and at age 14-19.

### *Housing*

There is currently a growing shortfall in available housing which impacts on house prices, labour mobility and community tensions. There is a shortfall in investment in housing stock and new build across all tenure types.

A transformative approach to housing could tackle these issues by delivering new models of housing and removing institutional and structural barriers to new financial investment in social housing to facilitate long term investment.

### *Justice*

Recorded crime related to sexual offences, drug offences and violence against the person offences is increasing. The average time taken to complete criminal cases is in excess of four months and there are currently high reoffending rates.

Transformation could allow a more fit-for-purpose and affordable service delivery model across the areas of policing, courts, reducing re-offending, and access to justice.

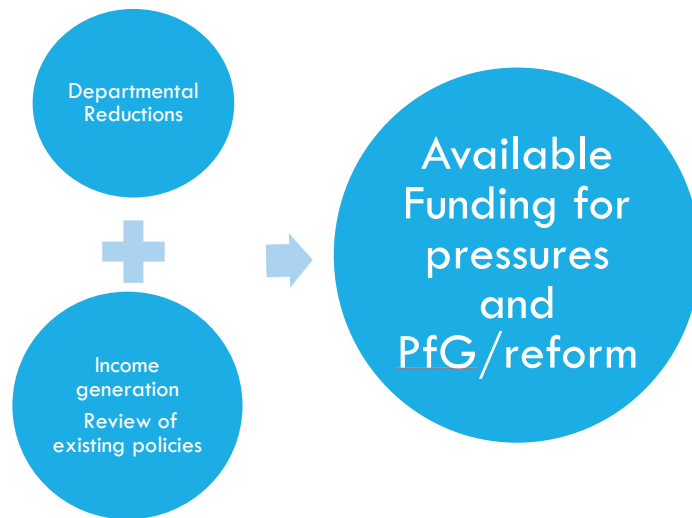
### **Long-term and short-term choices**

In the longer term, with appropriate investment, public services can be transformed to improve outcomes while living within resources. Some of those actions would initially require additional expenditure to deliver longer-term benefits. In the short term, more immediate solutions will be required in order to balance the budget.

### **Budget Choices**

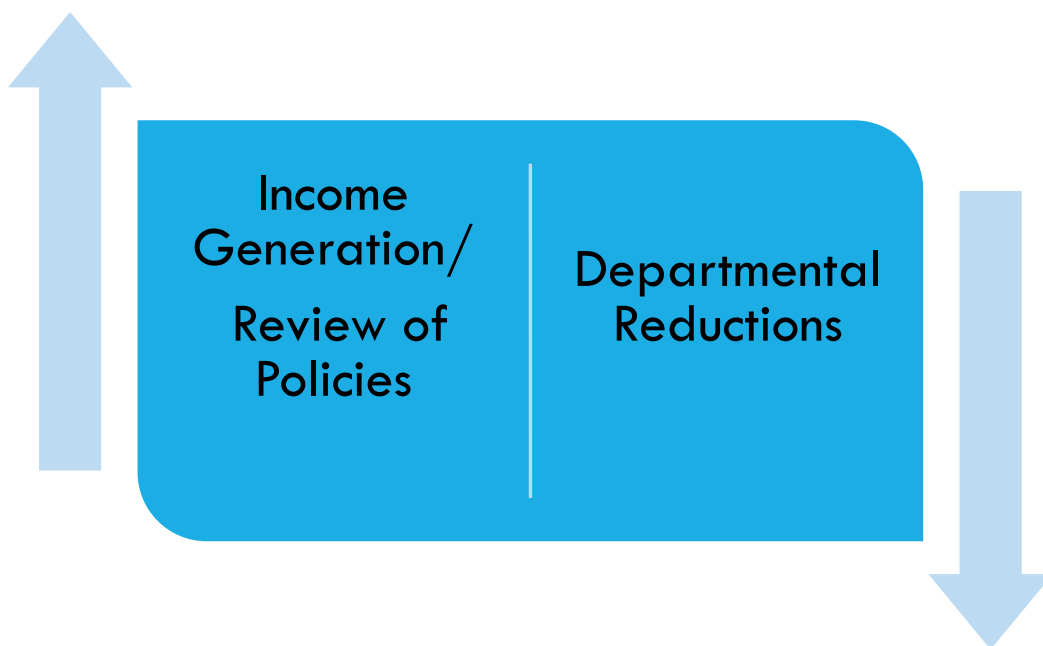
Producing a balanced budget will require spending to be reduced or the available resources to be increased. In practice, both measures may be needed to address the Executive's strategic priorities.

Figure 4.1



The greater the level of income that can be generated or savings made from reviewing existing policies, the less departmental reductions would be needed and vice versa. The higher the departmental reductions, the more impact there would likely be on the provision of services and on staff numbers. As more than half of the Resource DEL is spent on pay, any significant reductions to pay budgets would require pay controls, potentially to include recruitment controls or Voluntary Exit Schemes, depending on the extent of the reductions.

Figure 4.2



The broad choices available to an incoming Executive are to:

- Cut departmental allocations, leaving it to Departments to manage the consequences;
- Reduce or stop support for some existing services and policies; and/or
- Ask citizens to pay some more for the services they receive e.g. through the household rates, perhaps earmarked to fund the increasing costs in areas such as health and education.

No decisions have been taken on any of these options. Such decisions would be for an incoming Executive.

### **Raising Additional Revenue**

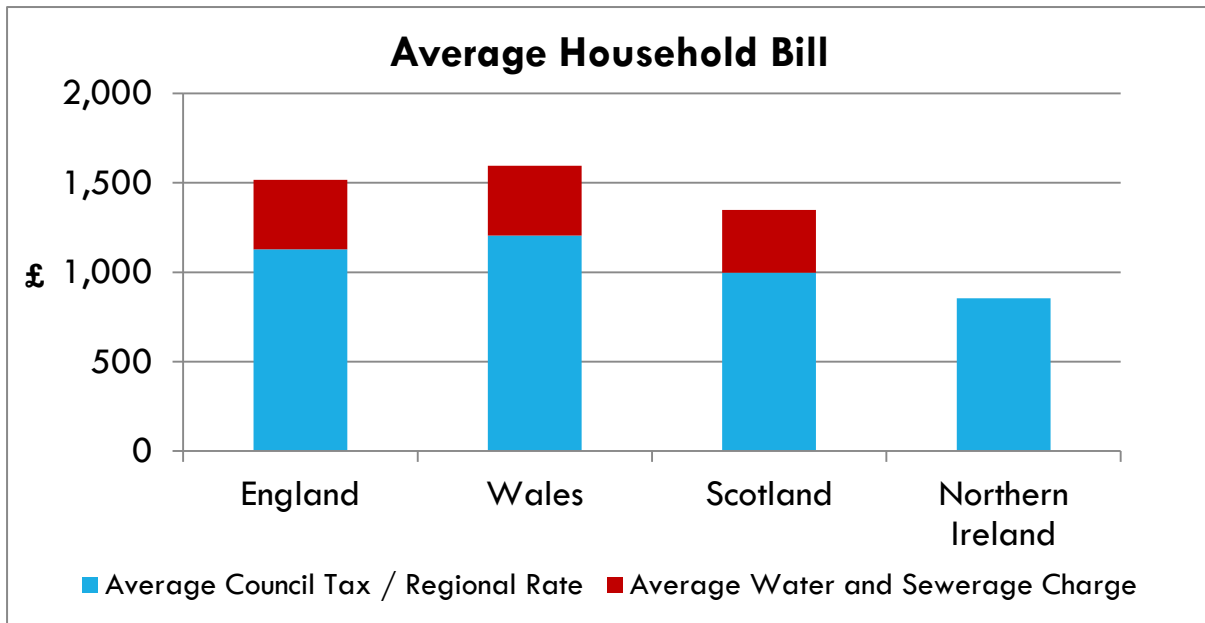
One option is to ask citizens to contribute additional resources in order to fund the increasing costs in areas such as health and education. The Executive could raise additional revenue through increases to the Regional Rate or by charging for services that have been provided for free or at a subsidised rate. This charging may be a new charge for something that is currently being provided for free, or it may be an increased charge for something that is currently being provided at a subsidised cost. There are a number of options that could be considered:

#### *Regional Rates*

One of the key contributions to the overall funding envelope is the Regional Rate. In recent years the Executive has managed to hold the Regional Rate to inflationary increases only. However, it would be possible to increase the Regional Rate above inflation to generate additional income. For example, every 1% increase applied to both the domestic and non-domestic Regional Rate provides approximately £7 million, which for a domestic increase only, could equate to approximately 19 pence per week for the average household.

As context, Figure 4.3 sets out a comparison of the average household charges across the UK which demonstrates the current position in Northern Ireland compared to England, Scotland and Wales.

**Figure 4.3: Average Household Bills**



Regional Rates apply to both domestic and non-domestic properties and an Executive could consider whether any increases should apply to both sectors and to what extent.

The table below sets out some sample rates increase options and approximately how much might be generated from each increase.

**Figure 4.4: Sample Rates Increase Options**

Sample Rates Increase Options (£million)	2018-19	2019-20
Inflation (domestic & non-domestic)	17.5	32.5
5% above inflation (domestic) and inflation only (non-domestic)	35.3	68.5
10% per annum (domestic) and inflation only (non-domestic)	44.6	88.2
7% per annum (domestic & non-domestic)	53.1	105.8
10% per annum (domestic & non-domestic)	74.2	151.6

### *Increase in Patient Charging for Dental Services*

Given current pressures on the dental budget, the percentage of the dentist’s fee payable by the patient (among the group of patients who pay for their dental treatment) could be increased.

Currently, patients who pay for their dental treatment are charged at a rate of 80% of the cost of their treatment. The charge to patients

could be increased to reflect 90% of the treatment cost. This could result in additional revenue of £1.2 million in 2018-19 and £2.5 million in 2019-20.

#### *Increased Health Trust Car Parking charges*

Given the overall health service pressures, recovering the cost of car parking provision on Health and Social Care sites through the introduction of car parking charges for staff and users where these are not currently applied could be considered.

Existing policy permits Health and Social Care bodies to charge staff and users for car parking, however the policy has not been fully implemented across all Health and Social Care sites.

Charging could be introduced on larger Health and Social Care sites (perhaps 100 spaces and above) where it is economically efficient to install and collect car parking charges for both staff and visitors. This could generate income in excess of some £1 million, with effect from 2019-20 with the potential to generate £0.3 million in 2018/19.

#### *NI Civil Service (NICS) Staff Car Parking*

This would see the introduction of a singular NICS wide car parking policy which would charge staff for parking at their place of work. This would include the Stormont Estate.

Additional work is required to assess the feasibility of this option including the costs of developing and maintaining a system administration of passes, payments, collection and enforcement. Therefore it is not possible to quantify the additional income this option could generate at this time.

#### *New Controlled Parking Zones*

Additional revenue could be raised by introducing charging for on-street car parking across over 30 towns and cities across Northern Ireland and by extending the current controlled parking zone (CPZ) in Belfast.



Legislation would be required to amend the existing On-street Parking Order for the extension to the Belfast CPZ and a new Order to introduce new CPZs in other towns and cities.

If this option were to be introduced, this would result in increased income in 2018-19. Following implementation, an estimated £3 million could be generated in 2019-20 and £5 million every year thereafter.

#### *Increased Housing Executive Rents*

Given the pressures on the housing maintenance budget, the Executive may wish to consider increased housing Executive rents. There could, for example, be annual rent increases of CPI+3% starting in 2018-19, generating around £8 million per annum which could be re-invested in the NIHE's housing stock.

These would need to be part of a longer term multi-annual programme of rent increases stretching further into the future. The NIHE rent increases would aim to reach parity with rental charges in NI Housing Associations, resulting in greater consistency, in terms of rental charges, to NI's social sector with rental charges in Housing Associations currently being broadly 25% above those of the NIHE in real terms.

However, increases in social rents would see any corresponding increase in Housing Benefit above the current forecast level having to be met by the Executive budget. Further consideration would be required.

#### *Concessionary Fares*

Free public transport is currently provided here to those over 60, many of whom may still be working. Increasing the use of public transport was a priority of the previous Executive. The projected cost of the current concessionary fares scheme in 2017-18 is approximately £45.5 million against a baseline budget of £40.5 million.

In light of these demands, it would be possible to minimise the increasing costs of the NI Concessionary Fares Scheme by ceasing new applications for the 60-64 SmartPass and by linking the age of eligibility for the Senior SmartPass to the State Pension Age.

This would bring the scheme into line with the rules for the current English National Concessionary Travel Scheme (ENCTS) and proposals for

changes to schemes in Scotland and Wales. Current 60-64 SmartPass holders would not be affected by the changes. Initial estimates are that the changes outlined would alleviate pressures on the scheme by £1.5-£4 million rising to £8 million per year over time.

An alternative would be to remove the use of the SmartPass from all 60-64 SmartPass holders and raise eligibility for the Senior Smart Pass to the State Pension Age for all current pass holders. This would reduce costs below the baseline budget.

### *Home to School Transport*

Home to School transport is currently provided free of charge to around 90,000 pupils each day. The current average cost per pupil (excluding Special School pupils) is approximately £700 per annum.

Given the pressures on the education budget, a number of high level options are available that could enable reductions in the cost of delivering home to school transport. These include:

- Introduction of a charge for some pupils to receive home to school transport. Based on the model currently used in the Republic of Ireland which exempts approximately 40% of primary school pupils and approximately 50% of post primary pupils on the basis of SEN or eligibility for a medical card, approximately 43,000 of NI pupils would potentially be eligible for a charge to be applied if they choose to receive home to school transport;
- A policy change that results in pupils being eligible to receive assistance only to their closest school in each category provided it is more than 2 miles from their home (3 miles for post primary);
- Means testing eligibility for free home to school transport, where a number of options could be considered. Examples include, restricting eligibility only to those in receipt of free school meals or restricting eligibility only to households in receipt of Universal Credit. It is likely that pupils whose special educational needs require the provision of transport would also be eligible; and
- Further consideration of integrated transport options with other sectors.

The extent of the income generated would depend on the approach adopted and the charging model used. For example, a reduction in eligible pupils of between 10-15% could reduce expenditure by around £4-8 million depending on the method used to reduce eligibility. The use of means testing could potentially reduce the number of eligible pupils by 50-60% which could reduce expenditure by £25-30 million. Some options would require legislative change and it may therefore take 2-3 years to implement.

### *Higher Education Fees*

Currently Northern Ireland fees are capped significantly below the level in England. This means that the funding available to our local universities is lower, with the potential to impact on the quality and range of courses on offer.

University fees are paid directly to the University or College by either the student or, if a fee loan has been taken out by the student, by the Student Loans Company. As a result, increasing fee levels would increase the amount of income received by the University from students themselves. This would not raise revenue for the NI Executive. However, it could provide additional resources for the higher education sector, thereby reducing pressures on the funding provided by the Executive.

Given the time necessary to make such a change, any increase could only be introduced for the academic year 2020-21 at the earliest. However this could be considered now to allow a decision to be taken in order to reduce costs in the next Budget period.

### *Prescription Charges*

In 2016, in excess of 41 million prescription items were dispensed in community pharmacies in Northern Ireland with an ingredient cost of approximately £440 million before discount. Up to 2016, the annual growth in prescriptions numbers has been quantified as approximately 1 million items. Health Service prescriptions have been available to all patients at no charge since 2010 but with such growth in demand, the sustainability of the current policy will need to be considered.

A charge could be applied to each Health Service prescription item dispensed. There are a number of different models for applying such a charge which includes the potential to consider certain exemptions.

The amount of income that could be generated annually would depend on the charging model adopted, any exemptions from payment that might apply and any charging arrangements in recognition of those patients reliant on a significant number of prescription items. Administrative charges would also have to be offset against any income generated. Given these considerations, the amount of income generated annually could be up to £20 million.

Any new charging system would require amendment to regulations. Together with the development of new IT systems, this means that implementation would take up to 12-18 months following any decision to re-introduce prescription charges.

#### *Broadening of Community Care Services*

Charging for domiciliary care and day care (and the associated transport costs) could be introduced, and an increase in the charge levied by Trusts for community meals could be implemented, as these are currently heavily subsidised.

Currently, domiciliary care is provided free of charge and the total cost of providing this service is £225 million. Day care and the associated transport is also provided free of charge to around 5,000 users. By contrast, residential care and nursing care is not provided free to everyone and hence there is an inconsistency in our current approach to social care.

A charging mechanism for domiciliary care on a means tested basis could be introduced. For example, with charging kept relatively low (at 5% and 10%), recognizing the relatively lower household incomes of older people and people with a disability, this could generate income of £11.3 million based on the lower rate of 5%, and £22.5 million based on the higher rate of 10%.

With regard to community meals, a charge of £1.50 per meal is currently in place, however the true cost to the HSC is approximately

£4.00. An increased charge of £2.00 per community meal to £3.50 could generate £1.3 million per annum from 2018-19.

## **Review of existing policies**

Departments could adjust policies and programmes in the face of new challenges and current service pressures or could stop certain public services, freeing up the funding that would have been directed to them to invest in other public services, such as health. One of the strengths of an outcomes-focussed approach to the Programme for Government is that it allows evidence-based analysis of the impacts of existing, as well as new, actions and interventions to identify those things that work to do better.

More detail on each of these areas and some measures that could be considered are set out below. The measures listed below are simply options – they may not be taken forward or indeed, there may be other alternative options which are more viable.

### *Non- Emergency Patient Transport*

The non-emergency Patient Care Service (PCS) provides transport and care for patients travelling to hospital for pre-planned appointments, patients travelling between hospitals and thereafter for discharge to home. It is important to note that the PCS is provided on the basis that the patient has a medical need, as defined by a medical practitioner. It is not intended to be a substitute for public or private transport.

The eligibility criteria covering the use of free transport for patients to and from hospital (rather than the transport which HSC Trusts provide to clients for social care purposes) could be changed.

The introduction of new eligibility criteria and booking procedures would ensure that:

- The service is not incorrectly used by patients who could use alternative services for their journey;
- Limited resources are directed where they are most needed, i.e. higher acuity patients with greater medical and mobility needs.

The introduction of such a change has the potential to reduce the number of outpatient related journeys by up to 100,000 which would equate to cost reduction of £1.5 million to £3 million annually, following a suitable implementation period.

#### *Educational Maintenance Allowance (EMA)*

EMA is a scheme whereby students aged 16 to 19 from low income households who opt to remain in post-compulsory education are eligible to receive an attendance based allowance of £30 per week as well as two bonus payments of £100 on reaching certain learning milestones. There are currently around 17,500 recipients of EMA.

The scheme could be removed (for new students) or the level of payments reduced (for all students) and savings could be generated from 2019-20 onwards. Removal of the scheme would generate £13.3 million per annum. Reducing weekly payments from £30 to £20 would generate £3.7 million in 2019-20. While removing the bonus payments would generate £1.5 million per annum.

#### *Teacher Training (Reduced Annual Intake)*

The overall Initial Teacher Education (ITE) intakes each year are informed by a statistical model, the Teacher Demand Model (TDM), and other policy considerations. The 2014 TDM indicated a need for between 381 and 393 places. However, in recent years, the total annual intake allocated across the four Higher Education Providers has been 580.

If approved, intakes were reduced to reflect the TDM, this would result in savings in the range of approximately £780k - £816k per annum.

The estimated saving in this Budget period would be £0.5 million in 2018-19 and £0.8 million in 2019-20.

#### *Council Rates Support Grant*

The Rates Support Grant provides support to less well-off councils in providing key services. Based on 2017-18 levels, this costs central government £17.6 million per annum.

Primary legislation would be required to fully remove the Rates Support Grant but the level of support provided could be reduced without the need for legislation.

### *Industrial De-Rating*

The business rates system in Northern Ireland currently provides 70% Industrial De-rating to 4,400 manufacturing properties; i.e. mostly factories and workshops. This currently costs approximately £58 million per annum. It would be possible to reduce the level of relief or remove it in its entirety.

As well as considering the level of support this provides to the manufacturing sector it is also important to note that in its current form this relief is permitted as non-State Aid as it was introduced pre-accession. While a reduced form (i.e. less than 70%) would also be permitted as non-State Aid, if the scheme is removed it cannot be reinstated and it cannot be replaced by another scheme.

### *Small Business Rate Relief*

The small business rate relief scheme provides rate relief to over 26,000 business with a rateable value (NAV) of up to £15,000.

It was introduced in 2010 as a temporary measure to support small business at a time of economic downturn. Most ratepayers get a 20% discount.

This relief costs approximately £17.5 million per annum. However, it would be possible to reduce the level of relief or remove it in its entirety.

## **Cuts to Departmental Budgets**

The third available option is to apply cuts to departmental budgets and ask departments to live within a lower level of funding. This approach has been followed in recent years and Departments have already made considerable cost savings - the NICS is 18 % smaller than in April 2014. This means that the scope for further departmental reductions is more challenging. Nonetheless, further reductions could be applied and the

consequences for public services in a number of scenarios are set out in Chapter Six.

## **Conclusion**

A number of options are available for balancing the budget and the options considered are not exhaustive. They are intended to inform debate about the issues that will face an Executive Ministers ahead of the new financial year.



# ***Chapter Five: Departmental Scenarios***

## **Introduction**

Taking account of the broad options available, a budget could be constructed in a number of ways, bearing in mind the scale of pressures which need to be funded to deliver Ministers' priorities and whether these pressures should be funded through reductions to certain departmental budgets or through income generation/reviews of existing policies or a combination of these.

To illustrate these choices, we have constructed three scenarios which outline different approaches to balancing the Budget. The number of potential scenarios is limitless but the three scenarios help to illustrate the scale of challenge and the potential impact of the choices available.

The three scenarios are:

- Scenario one is similar to the approach of the previous Executive in 2016-17 (and then maintained in 2017-18). It provides no central fund for new actions and interventions in support of PfG.
- Scenario two is similar to scenario one but assumes a level of new funding from additional income generation/reviews of existing policies which could be used to fund additional pressures. It provides a central fund for new actions and interventions in support of PfG of £40 million in 2018-19 and £50 million in 2019-20.
- Scenario three relies more heavily on departmental reductions to allow available funding to be redirected to priorities such as health and schools. It provides a central fund for new actions and interventions in support of PfG of £30 million in 2018-19 and £40 million in 2019-20.

The scenarios are not proposed budget settlements. They are an illustrative framework to inform consideration on the kinds of choices that will need to be considered by Ministers. No decisions have been taken.

An important challenge in all scenarios would be to maintain momentum on progressing the outcomes-focused Programme for Government. The PfG's strategic approach and use of collaborative working across different sectors means that it has the potential to identify innovative and more efficient ways of achieving outcomes through the delivery of services, programmes and projects.

However, a reduction in the resources available to Departments would undoubtedly require Ministers to prioritise and direct efforts towards the things that evidence shows will achieve the biggest impact and the pace of delivery of Programme for Government will be impacted by the level of resources available.

### **Assumptions Common to All Scenarios**

There are a number of assumptions in all three scenarios, which are broadly consistent with the approach to previous Budgets. Again, the final assumptions underpinning an agreed Budget may be different, reflecting Ministerial priorities.

- The Resource budgets of the Department of Health and the Department of Education would be exempt from reductions
- Police Service of Northern Ireland (PSNI) Budgets would be offered a degree of protection (Fresh Start security funding is fully exempt and of the remainder of the PSNI budget, 25% is exempt from budget reductions)
- North South Bodies budgets would be protected in cash terms
- Housing Benefit (Rates) in DEL would be protected
- Supporting People Grant would be protected
- EU match funding<sup>4</sup> is included in the Resource DEL and Capital DEL outcomes
- The following Non-Ministerial Departments would be protected in cash terms:
  - i. Northern Ireland Assembly
  - ii. Northern Ireland Audit Office
  - iii. Northern Ireland Public Services Ombudsman
  - iv. Food Standards Agency

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<sup>4</sup> This is funding that government must provide in order to access EU funding

#### v. Northern Ireland Authority for Utility Regulation

- Voluntary Exit Scheme funding has been removed from 2017-18 for comparative purposes.
- £100 million would be available for Voluntary Exit Schemes in 2018-19 but no allocations have yet been made.
- In year monitoring allocations could be made to reallocate funding internally to priorities – based on past trends, this could be approximately £100 million but it can only be allocated as funding becomes available during the year.

The levels of protections could be adjusted and alternative approaches used. For example, as an additional scenario, a 1% saving reduction applied to Health and Education would yield approximately £70 million, but this would increase the pressures on those departments.

### **Financial Annex to Confidence and Supply Agreement – Resource DEL**

The departmental Resource DEL scenarios all incorporate £80 million of funding in 2018-19 for health and education pressures arising from the financial annex to the Confidence and Supply agreement. This reflects the balance of the funding to be utilised over two years, with £20 million having been accessed already in 2017-18.

In addition to the health and education funding assumed within the scenarios, further Resource DEL Confidence and Supply funding is also assumed to be available. This is set out in the table below based on assumed spending profiles.

Whilst these are working assumptions for the purposes of this document, the funding and profile require agreement with HM Treasury and an incoming Executive and need the approval of both Parliament and the Assembly.

**Figure 5.1: Confidence and Supply****£million**

<b>Scenario One</b>	<b>2018-19</b>	<b>2019-20</b>
UKG Confidence and Supply Annex		
<i>Deprivation</i>	20.0	20.0
<i>Mental Health</i>	10.0	10.0
<i>Health Transformation</i>	100.0	100.0
<b>Total</b>	<b>130.0</b>	<b>130.0</b>

### **Scenario One – Approach broadly in line with 2016-17 and 2017-18**

Scenario One applies 4% reductions in 2018-19, and then 8% in 2019-20 (both as compared to the 2017-18 baseline), to non-protected departments/areas and assumes an inflationary increase to Regional Rates (domestic and non-domestic). This approach is similar to that taken in both 2016-17 by the Executive and broadly maintained in 2017-18. The 4%/8% reductions would make available £113.9 million in 2018-19 and £228.2 million in 2019-20 for reallocation. When combined with additional funding available from the Block Grant and assumed Confidence and Supply funding, the reallocations are limited to the Health and Education departments, given the scale of ongoing pressures in these two sectors. It provides no central fund for new actions and interventions in support of PfG and progress on the Programme for Government would be made through rebalancing of programmes and resources by Ministers.

**FIGURE 5.2: SCENARIO ONE**

£million	2017-18	2018-19	2019-20	%	%
DAERA	190.8	185.0	175.0	-3.1%	-8.3%
DfC	914.7	895.0	865.0	-2.2%	-5.4%
DfE	764.0	735.0	710.0	-3.8%	-7.1%
DE	1,859.8	1,925.0	1,935.0	3.5%	4.0%
DoF	142.7	135.0	130.0	-5.4%	-8.9%
DoH	5,035.3	5,280.0	5,325.0	4.9%	5.8%
DfI	366.2	355.0	340.0	-3.0%	-7.1%
DoJ	1,026.9	995.0	960.0	-3.1%	-6.5%
TEO	58.4	58.0	56.0	-0.8%	-4.2%
FSA	8.1	8.1	8.1	0.0%	0.0%
NIA	38.4	38.4	38.4	0.0%	0.0%
NIAO	7.0	7.0	7.0	0.0%	0.0%
NIAUR	0.2	0.2	0.2	0.0%	0.0%
NIPSO	2.7	2.7	2.7	0.0%	0.0%
PPS	32.5	31.2	29.9	-4.0%	-8.0%
<b>Total</b>	<b>10,447.7</b>	<b>10,650.6</b>	<b>10,582.3</b>	<b>1.9%</b>	<b>1.3%</b>

DfC 2017-18 position adjusted down by £30m iro Welfare Reform for better comparison

Figures are not always 4% and 8% reductions mainly due to impact of EU funding streams and protections applied within certain departments budgets (eg. DfC and DoJ).

## Scenario Two – Higher Income Generation/Review of Policies

This scenario begins from the same 4% and 8% areas as in scenario one, with the same £113.9 million and £228.2 million for reallocation in 2018-19 and 2019-20 respectively. The scenario also assumes that funding of approximately £130 million in 2018-19 and £200 million in 2019-20 is made available through either income generation measures or through review of some current policies and services. Possible options that could contribute to this funding pot were set out in Chapter Four. When combined with additional funding available from the Block Grant and the assumed Confidence and Supply funding,

compared to scenario one, this would provide additional funding to support additional investment in other departments (as well as health and education). It also provides a central fund of £40 million in 2018-19 and £50 million in 2019-20 for investment in new actions and interventions in support of PfG (in addition to the funding available through the financial annex to the confidence and supply agreement).

**FIGURE 5.3: SCENARIO TWO**

£million	2017-18	2018-19	2019-20	%	%
DAERA	190.8	194.0	180.0	1.7%	-5.7%
DfC	914.7	898.0	865.0	-1.8%	-5.4%
DfE	764.0	755.0	725.0	-1.2%	-5.1%
DE	1,859.8	1927.0	1945.0	3.6%	4.6%
DoF	142.7	137.5	131.0	-3.6%	-8.2%
DoH	5,035.3	5285.0	5395.0	5.0%	7.1%
Dfi	366.2	363.0	345.0	-0.9%	-5.8%
DoJ	1,026.9	1015.0	970.0	-1.2%	-5.5%
TEO	58.4	57.5	56.0	-1.6%	-4.2%
FSA	8.1	8.1	8.1	0.0%	0.0%
NIA	38.4	38.4	38.4	0.0%	0.0%
NIAO	7.0	7.0	7.0	0.0%	0.0%
NIAUR	0.2	0.2	0.2	0.0%	0.0%
NIPSO	2.7	2.7	2.7	0.0%	0.0%
PPS	32.5	32.5	30.9	0.0%	-4.9%
<b>Total</b>	<b>10,447.7</b>	<b>10,720.9</b>	<b>10,699.3</b>	<b>2.6%</b>	<b>2.4%</b>

DFC 2017-18 position adjusted down by £30m iro Welfare Reform for better comparison

### **Scenario Three – Higher Departmental Reductions**

This scenario assumes a larger departmental reduction level of 7% in 2018-19 and 12% in 2019-20 for non-protected departments/areas. The 7%/12% reductions would make available £199.3 million / £342.7 million for reallocation, along with additional funding available from the Block Grant and the assumed Confidence and Supply funding. The scenario also assumes that funding of approximately £40 million in 2018-19 and £100 million in 2019-20 is made available through either income generation measures or through review of some current policies and services. This would provide funding to departments and a central fund for new actions and interventions in support of PfG of £30 million in 2018-19 and £40 million in 2019-20 (in addition to the funding available through the financial annex to the confidence and supply agreement). The further reduction in available resources would have a corresponding impact on the pace of delivery of PfG, and would require greater mitigating measures to rebalance priorities than under scenarios one and two.

**FIGURE 5.4: SCENARIO THREE**

£million	2017-18	2018-19	2019-20	%	%
DAERA	190.8	185.0	170.0	-3.1%	-10.9%
DfC	914.7	890.0	835.0	-2.7%	-8.7%
DfE	764.0	740.0	695.0	-3.1%	-9.0%
DE	1,859.8	1,920.0	1,960.0	3.2%	5.4%
DoF	142.7	132.0	125.0	-7.5%	-12.4%
DoH	5,035.3	5,265.0	5,400.0	4.6%	7.2%
Dfi	366.2	355.0	335.0	-3.0%	-8.5%
DoJ	1,026.9	1,005.0	945.0	-2.1%	-8.0%
TEO	58.4	56.0	54.0	-4.2%	-7.6%
FSA	8.1	8.1	8.1	0.0%	0.0%
NIA	38.4	38.4	38.4	0.0%	0.0%
NIAO	7.0	7.0	7.0	0.0%	0.0%
NIAUR	0.2	0.2	0.2	0.0%	0.0%
NIPSO	2.7	2.7	2.7	0.0%	0.0%
PPS	32.5	32.2	28.6	-0.8%	-12.0%
<b>Total</b>	<b>10,447.7</b>	<b>10,636.6</b>	<b>10,604.0</b>	<b>1.8%</b>	<b>1.5%</b>

DfC 2017-18 position adjusted down by £30m iro Welfare Reform for better comparison

Details of how each scenario might impact on the delivery of public services can be found in Chapter Six.

## Conclusion

Whilst there is a need for transformation in the longer term, we assess that a Budget should be agreed by a new Executive early in February 2018 so that departments can plan effectively to deliver their services and live within the resources available. Consideration of the types of options to raise funds or review policies (as set out in Chapter Four) and the assessment of impacts on departments in three scenarios (as set out in Chapter Six) will help inform decisions on a budget by the Executive.



## **Chapter Six: Departmental Overviews and Impacts**

This chapter provides an overview of the work of each department along with the departmental implications of each scenario, including key impacts and key challenges. This provides more detail as to the specific approach departments might take to different budgetary scenarios, though the final decisions on policy priorities will be for Ministers to decide.

### **Department of Agriculture, Environment and Rural Affairs**

#### **Aim**

DAERA's Vision is for "*A thriving and sustainable economy, environment and rural community*". In pursuit of this Vision, the key Strategic Outcomes of the Department are:

- Sustainable agri-food, fisheries, forestry and industrial sectors;
- A clean, healthy environment, benefitting people, nature and the economy; and
- A thriving rural economy, contributing to prosperity and wellbeing.

DAERA has a pivotal role in delivering aspects of the Programme for Government (PfG). The Department has a particular focus on Outcome 2 - *We live and work sustainably – protecting the environment*, and plays an important role in supporting Outcome 1 – *We prosper through a strong, competitive, regionally balanced economy*, Outcome 6 - *We have more people working in better jobs* and Outcome 11 - *We connect people and opportunities through our infrastructure*.

The Department is uniquely placed to promote prosperity across the region by supporting a competitive, regionally balanced economy. It is essential that DAERA remains equipped to take forward these capital programmes and support the agri-food sector in particular with its annual turnover of approximately £4.4 billion which is so important to the Northern Ireland economy.

DAERA is by far the department which is most affected by EU Exit operationally. Consequently, DAERA will need to transform to prepare for Day One readiness. In addition, post EU Exit, DAERA will need to develop and enforce a suite of agriculture, fisheries and environmental policies and regulations against a dynamic trade and regulatory landscape. At the same time, the Department will need to continue to deliver on its Common Agriculture Policy (CAP) obligations, including the distribution of around £300 million per annum of EU funding. The Department is working to the assumption that any Barnett Consequential funding to be allocated from HM Treasury for EU Exit will be used to meet in full any EU Exit-related costs.

### Implications of Budget Scenarios

Figure 6.1: DAERA Scenarios

Scenario	2017-18	2018-19	2019-20	2018-19	2019-20
	£m	£m	£m	%	%
<b>1</b>	190.8	185.0	175.0	-3.1%	-8.3%
<b>2</b>	190.8	194.0	180.0	1.7%	-5.7%
<b>3</b>	190.8	185.0	170.0	-3.1%	-10.9%

The Department has identified a short list of inescapable pressures and high priority initiatives that require funding across the two years which total £32 million in 2018/19 and £48 million in 2019-20 (or £26 million and £42 million excluding EU Exit costs which are assumed to be separately funded).

Payroll within the core Department, combined with that within AFBI, totals £137 million or approximately 72% of the department's total Resource budget. There would therefore be a requirement to reduce headcount which cannot be avoided when managing material budget reductions.

## **SCENARIO TWO**

### **Key Impacts**

All three scenarios present DAERA with major challenges. Of these, Scenario two is least difficult to manage. The key areas that DAERA would aim to address in this scenario are its statutory obligations and core programmes:

- To support the delivery of PfG;
- To optimise and manage all EU funds in a compliant manner, including approximately £300 million of CAP funding;
- To continue to implement the “Going for Growth” obligations through investment in the Farm Business Improvement Scheme and the RDP;
- To meet the statutory objective of protecting the environment and human health by preventing or reducing the adverse impacts of waste and by improving resource use;
- To maintain a compliant waste industry through the effective regulation of the waste sector;
- To continue to support industry-led herd health programmes to eradicate and/or control production diseases; and
- To support industry initiatives to optimise animal health and welfare.

However, the proposed 7.2% budget reduction between 2018-19 and 2019-20, coupled with unfunded pressures noted below across both years, would force the Department to take far-reaching actions to scale back substantially on these areas.

### **Key Challenges**

Scenario two would create unfunded pressures (excluding EU Exit costs) of £23 million and £53 million in 2018-19 and 2019-20 respectively. In order to meet these pressures, the Department would be required to take the following actions:

- Deferring planned expenditure in respect of the TB Strategic Partnership Group, and Sustainable Agricultural Land Management Strategy; and
- Scaling back existing Rural Development and Environmental programmes

However, this would still leave a residual pressure of £5 million and £25 million that would have to be funded from:

- The cessation of all Rural Affairs programmes;
- Reducing payroll costs;
- Reducing running costs; and
- Working closely with DoF to secure additional funding from monitoring rounds which would reduce the overall pressures noted above.

Reducing payroll costs would require the implementation of various personnel interventions, including the possibility of access to central funds to fund compensation.

This scenario would necessitate not only a significant reduction in the Department's ability to enter into new commitments across the range of its programmes, it would also severely impact its ability to deliver existing services and programmes and introduce significant additional risk into its operations as a result of the loss of staff, particularly in 2019-20. In particular, there would be a substantial risk to the delivery of PfG Outcome 2 which the Department leads on and the indicators that underpin it. DAERA's capacity to combat illegal waste crime would also be reduced with the associated risks to the environment.

## **SCENARIOS ONE & THREE**

### **Key Impacts**

Under scenario one, DAERA would have £9 million less funding in 2018-19 compared to Scenario two and £5 million less in 2019-20 (£9 million and £10 million less compared to scenario two for scenario three). Therefore, key areas identified above would have to be scaled back, and in some cases very significantly.

## Key Challenges

Scenario one would create unfunded pressures (excluding EU Exit costs) of £32 million and £58 million in 2018-19 and 2019-20 respectively (£32 million and £63 million for scenario three).

As with Scenario two, the Department would propose to fund these by taking the following actions:

- Deferring planned expenditure in respect of the TB Strategic Partnership Group and Sustainable Agricultural Land Management Strategy; and
- Scaling back existing Rural Development and Environmental programmes

This would leave a residual pressure of £14 million and £30 million for scenario one (£14 million and £35 million for scenario three) that would have to be funded from:

- The cessation of all Rural Affairs programmes;
- Reducing pay roll costs;
- Reducing running costs; and
- Working closely with DoF to secure additional funding from monitoring rounds which would reduce the overall pressures noted above.

The sheer scale of the reduction, particularly in relation to the loss of experienced manpower would inevitably mean that the delivery of core programmes, including CAP, would be severely disrupted. Inspections of whatever kind would take longer to complete and payments would be subject to delay and high risk of error (and subsequent disallowance). The Department would seek to minimise penalties in disallowed EU income and infraction charges.

Reducing payroll costs would require the implementation of various personnel interventions, including the possibility of access to central funds to fund compensation.

Under these scenarios, the Department would be unable to enter into any new commitments that created a liability in both 2018-19 and 2019-20.

## Department for Communities

### *Aim*

The Department's vision is **'Empowering People, Families and Communities'**.

Within the context of the Programme for Government and the supporting Social Strategy/Anti-poverty Strategy, the Department aims to improve communities, support equality and diversity and promote employment, culture and heritage.

The Department's programmes focus on supporting the most vulnerable in society and aim to tackle poverty, disadvantage and inequality ensuring that citizens benefit from renewed and revitalised communities.

The Department aims to:

- provide a fair system of financial help to those in need
- tackle disadvantage
- promote social and economic equality and personal development
- tackle poverty and social exclusion;
- provide services to encourage effective child maintenance arrangements;
- provide access to decent, affordable, sustainable homes and housing support services;
- improve the physical, economic, community and social environment of neighbourhoods, towns and cities;
- secure excellence and equality across culture, arts and leisure, developing a confident, creative, informed and healthy society;
- help people into employment;
- protect, conserve and enhance our diverse built heritage and support principles of sustainable development, so that it can be enjoyed by future generations;
- promote and protect the interests of children, older people, people with disabilities, and other socially excluded groups; and
- provide social security administration.

## Implications of budget scenarios

Figure 6.2: DfC Scenarios

Scenario	2017-18	2018-19	2019-20	2018-19	2019-20
	£m	£m	£m	%	%
1	914.7	895.0	865.0	-2.2%	-5.4%
2	914.7	898.0	865.0	-1.8%	-5.4%
3	914.7	890.0	835.0	-2.7%	-8.7%

### Scenarios One and Two

#### Key Impacts

The Department aims to continue to deliver a high quality service to all of our customers and stakeholders, ensuring existing and new external challenges will be managed in ways that minimise the impact on the level of service the Department provides. The Department will prioritise the budget allocated to maximise beneficial outcomes for communities. The Department will:

- continue to deliver a range of key public services;
- continue to work in partnership across all levels of Government and with our main stakeholders in the wider public sector and in the community;
- work in conjunction with our Arm's Length Bodies and many diverse stakeholders to deliver vital public services across the community;
- focus on priority areas and ensure value for money from the resources spent;
- provide decent, affordable, sustainable homes and housing support and create urban centres which help bring divided communities together;
- progress regeneration schemes to transform areas, remove eye sores and create more sustainable town centres;
- support the creation of more vibrant and sustainable communities;

- continue to make life better for people and to give those at risk of exclusion, improved life chances and opportunities;
- work with communities and support them in designing and delivering interventions that will support the development of those communities;
- invest in physical infrastructure and deliver tailored programmes and services that will focus on outcomes such as skills development, improving physical and mental health, increasing physical activity, tackling poverty and enhancing social inclusion;
- promote work, wellbeing and fairness;
- help people to find work; help people to stay in work and make work pay; removing barriers to participation for people with a disability; helping older people to stay active and healthy; paying pensions and other benefits; protecting public money by reducing fraud and error; tackling child poverty; paying more money to more children through Child Maintenance; helping people to escape poverty and promoting inclusion in terms of gender and sexual orientation;
- continue excellence in provision of services for the Department for Work and Pensions (DWP); and
- continue to tackle fraud and error and develop a comprehensive person-centred Wraparound Service.

### Key Challenges

In Scenario one and two the Department would have to stop or reduce a number of activities/funding streams in order to live within the proposed budget and to meet significant internal pressures. The budget reduction would be passed on to DfC's Arm's Length Bodies and Local Councils. In this scenario the Department would find it difficult to meet commitments in relation to breaking cycles of deprivation, reducing anti-social behaviour and increasing civic participation. Challenges would include:



- maintaining participation in cultural, arts and leisure activities, impacting on the more disadvantaged in society;
- providing opportunities for improving community cohesion and tackling social exclusion and reducing wider social impacts through a fall in volunteer capacity;
- maintaining educational opportunities for those from disadvantaged backgrounds and neglecting community cohesion at local levels;
- sustaining the fabric of social and cultural life and preventing NI from becoming a less attractive place to live in and a less attractive destination for inward investors and tourists;
- addressing pressures in the Housing programme;
- maintaining necessary support to local government and some councils;
- managing security, business continuity, Health and Safety and Estate risks;
- managing any negative impact of reduced regeneration in towns and city centres, and to enable them to attract longer term investment.

### **Scenario Three**

#### Key Impacts

The Department's capacity to deliver becomes increasingly challenging in Scenario three with 7% and 12% budget reductions in 2018-19 and 2019-20. Coupled with internal financial pressures, the Department's effective reduction is 19%. The Department would ensure that optimum use is made of available funding in line with the areas set out in Scenario one, however areas of funding which have historically been protected by the Department could no longer be protected and services/funding would be severely constrained.

#### Key Challenges

It is likely that some programmes would cease entirely, impacting on a wide range of services and service users and potentially resulting in job losses. It would significantly reduce the Department's ability to tackle the problems of multiple and cyclical deprivation suffered within our most deprived neighbourhoods.

In addition the Department's ability to deliver Programme for Government outcomes would be severely limited.

The Department's budget reduction would be passed on to DfC's Arms Length Bodies (ALBs) and Local Councils in the form of the Rates Support Grant (subject to decisions on policy review as set out in Chapter 4). Some of the ALBs would find it extremely difficult to operate within such reduced budgets and may have to cease operations.

By 2019-20, cuts of this level would mean that the Department would be, in the main, constrained to mandatory statutory functions. Frontline services would be impacted with direct and negative impacts on people. The Department would potentially consider amending legislation to stop Grant programmes. The effect on community-based services would be significant and an increased number of smaller directly funded bodies would close.

Reductions in services delivered and reduced funding to external bodies have broad reaching consequences with much wider social impacts such as job losses. Reduced investment in cultural areas would directly impact tourism and potential for inward investment in Northern Ireland and associated benefits.

## Department for the Economy

### Aim

The work of the Department for the Economy is crucial to a globally competitive economy that works for everyone.

The Department's mission is to develop and implement agile policies and programmes which promote a competitive, sustainable and inclusive economy through investment in:

- Skills;
- Economic infrastructure;
- Research and innovation; and
- Business Development.

The Department pursues its strategic objectives through the following areas of activity:

- Accelerate innovation and research;
- Enhance education, skills and employability;
- Drive inclusive, sustainable growth;
- Succeed in global markets;
- Build the best economic infrastructure;
- Deliver a regulatory environment that optimises economic opportunities for business and commerce, while also protecting consumers and workers; and
- Ensure the Department has effective governance and manages its resources, both financial and staff.

### Implications of budget scenarios

Figure 6.3: DfE Scenarios

Scenario	2017-18	2018-19	2019-20	2018-19	2019-20
	£m	£m	£m	%	%
<b>1</b>	764.0	735.0	710.0	-3.8%	-7.1%
<b>2</b>	764.0	755.0	725.0	-1.2%	-5.1%
<b>3</b>	764.0	740.0	695.0	-3.1%	-9.0%

In considering the scenarios outlined below, it is important to note that the Department already faces inescapable pressures of at least £40 million in 2018-19 and £39 million in 2019-20. These would be in addition to the reductions described in each scenario.

## **Key Impacts**

The focus for the Department for all three scenarios is on ensuring progress across the PfG outcomes. The Department for the Economy has a particular focus on three of the PfG outcomes:

Outcome 1 – to prosper through a strong, competitive, regionally balanced economy.

Outcome 5 – to be an innovative, creative society, where people can fulfil their potential.

Outcome 6 – to have more people working in better jobs.

The Department also contributes significantly to three other PfG Outcomes:

Outcome 3 – to have a more equal society.

Outcome 10 – to have created a place where people want to live and work, to visit and invest.

Outcome 11 – to connect people and opportunities through our infrastructure.

The key challenge for the Department under each of the three scenarios will be in maintaining the pace of progress, particularly in relation to delivery of PfG outcomes 1, 5 and 6 which would be extremely challenging to achieve. Given the reduced level of funding available in the scenarios it would be difficult if not impossible to deliver the current level of skills provision, and this does not take into account the provision that is likely to be required post EU Exit.

## **Industrial Strategy for Northern Ireland**

It is intended that the Programme for Government will also be supported by an Industrial Strategy which will set out our economic priorities going forward, reflect current economic conditions and developments in key policy areas, and will reflect the outcomes-based accountability methodology which forms the basis of the Programme for Government (PfG).

In examining scenarios 1 to 3, the Department has looked at a number of options in order to identify those with the best prospect of being able to deliver on Programme for Government.

In terms of key outcomes, the Department will:

- Lead on the development of economic policy and strategy (focused on the draft Industrial Strategy), working with delivery partners such as Invest NI and the local Councils on the programmes and projects that support business development and investment and job creation;
- Support the development of businesses, including through our plans to lower corporation tax, to compete successfully in the local and global markets and to create employment;
- Develop and begin implementation of a new International Trade plan to ensure that Northern Ireland's businesses can exploit post-EU Exit export opportunities and prepare as necessary for EU Exit;
- Enhance air connectivity as a driver for economic growth and develop the economy through prioritising business travel and inbound tourism connectivity for Northern Ireland;
- Support the growth of the agri-food sector through development of proposals for an Agrifood Marketing Body for Northern Ireland, working with industry and other relevant stakeholders;
- Increase the number of NI premises with access to superfast broadband services and improve access to telecommunication services across Northern Ireland;
- Work with relevant stakeholders on key energy matters, including delivery of the new wholesale Single Electricity Market (I-SEM) by May 2018, and progression of the gas network extension projects in both the West and East Down areas of Northern Ireland;
- Support the development of tourism and the marketing of Northern Ireland as a tourist destination to support economic development;
- Champion economic, social and personal development by providing relevant high quality learning, research and skills;
- Continue the implementation of FE Means Success, the Northern Ireland strategy for further education;

- Continue to improve the Skills profile of the population at all levels and in particular in Science, Technology, Engineering and Maths subjects;
- Continue delivery of the Department's Apprenticeships NI and Training for Success Programmes and taking forward implementation of *Securing our Success: The Northern Ireland Strategy on Apprenticeships and Generating our Success: The Northern Ireland Strategy for Youth Training*;
- Continue the implementation of 'Preparing for Success 2015-2020 – A Strategy for Careers Education and Guidance.'
- Continue delivery of the Higher Education Strategy *Graduating to Success*;

### **Scenario One – Key Challenges**

Scenario one would require a £29 million reduction in 2018-19 and £54 million in 2019-20. This scenario would present the Department with significant challenges and to achieve this level of reductions within the timeframe consideration would need to be given to key spending priorities:

- Potential cessation of skills programmes that offer entry level and Level 1 qualifications, through Further Education Colleges and the Training for Success Programme. This significantly puts at risk the Department's ability to offer the Youth Guarantee to all those aged 16-17 and could damage the employment prospects of thousands of the most risk disadvantaged young people particularly when the skill of our workforce is going to become increasingly important for our economic growth and social inclusion.
- Potential cessation of support for Post Graduate Studentships, this would be detrimental to the delivery of the economic indicators in the Industrial strategy and in the research capacity of our local universities.
- Potential reductions in support to InvestNI and Tourism NI which would seriously hamper growth in important sectors of the economy, reversing any gain of the last few years.

### **Scenario Two – Key Challenges**

Scenario two would require a £9 million reduction in 2018-19 and £39 million in 2019-20. This scenario is a 1.2% reduction of the baseline in 2018-19 and would extend the lead in time/delay significant reductions as set out under scenario one until 2019-20.

### **Scenario Three – Key Challenges**

Scenario three requires a £24 million reduction in 2018-19 and £69 million 2019-20. This scenario presents the same significant key challenges as per Scenarios 1 with even greater impact in 2019-20.

## Department of Education

### **Aim**

The Department's vision is for:

*"...an education system that is recognised internationally for the quality of its teaching and learning, for the achievements of its young people and for a focus on meeting their needs."*

The Department's primary statutory duty is to promote the education of children and young people in Northern Ireland and to ensure the effective implementation of education policy. The Department's main statutory areas of responsibility range from early years and pre-school through to post-16 secondary education, encompassing 0-4 early years provision, primary, post-primary and special education and the youth service. The Department aims to provide a network of sustainable schools providing quality education for all children and young people. The Department also has responsibilities in relation to services for children and young people, and lead responsibility for the development and management of the Executive's Childcare Strategy and an Executive Strategy for Children and Young People.

The Department is supported in delivering its functions by a range of Arm's Length Bodies, each of which is accountable to the Department.

The Department's activities are focussed on achievement of the outcomes contained in the Programme for Government, in particular Outcome 12 *"we give our children and young people the best start in life"*. Going forward, the Department will be required to contribute to delivering the Programme for Government and the Children and Young People's Strategy.



## Implications of budget scenarios

**Figure 6.4: DE Scenarios**

<b>Scenario</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2019-20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	<b>%</b>
<b>1</b>	1,859.8	1,925.0	1,935.0	3.5%	4.0%
<b>2</b>	1,859.8	1,927.0	1,945.0	3.6%	4.6%
<b>3</b>	1,859.8	1,920.0	1,960.0	3.2%	5.4%

The 2017-18 baseline Resource position as set out in this document reflects the 2017-18 indicative Budget position (excluding funding from the Public Sector Transformation Fund) announced by the Secretary of State on 24 April 2017. It therefore excludes the additional £30 million for Education announced on 19 July 2017 and any further in-year allocations to DE during 2017-18. Therefore, the percentage uplift for DE under each scenario is considerably less when compared to the budget including the allocations to DE during 2017-18, rather than the opening position.

### Key Impacts

The key impacts under each of the three scenarios are as follows:

- continued funding of schools, albeit at levels below those required to address current and anticipated pressures arising from pay and price inflation;
- a year of funded pre-school education provision but with no uplift to cover pay and price inflation;
- children under four years supported and developed through a suite of targeted early intervention initiatives but with no uplift to address pay and price inflation;
- school improvement promoted through a range of school and pre-school inspections;
- management of the Shared Education Signature Project and Peace IV Programme;

- ongoing implementation of the Sustainable Schools Policy, the Area Plan and the Annual Action Plan to support improved provision and an enhanced network of sustainable schools; and
- delivery of effective youth services but with no uplift to address pay and price inflation.

### Key Challenges

The outcome for Education would be extremely challenging, as a number of significant cost pressures could not be funded. This would particularly impact on areas such as schools' budgets and the rising costs of special education needs (SEN), and these will carry forward into 2019-20 and beyond. Education faces year on year increases in pay costs of almost £60 million and increase in demand in relation to SEN services of over £10 million.

Whilst the Department proposes that some of the additional funding would be made available to schools to partially address in-year pay pressures, this would not meet the full extent of pressures facing schools, particularly as responsibility for absorbing the majority of pay increases and price inflation was passed on to schools in the previous three financial years. However, their difficulty in doing so has manifested itself in the trend of increasing school deficits.

The Department has proposed that the remaining available funding is allocated to the Education Authority (EA), to partially address pay and SEN pressures. This would not meet the full extent of pressures facing the EA, as pay pressures and SEN pressures have not been fully funded in the previous three financial years.

In order for the Department to live within its budget, pay and price pressures would have to be absorbed. Given recent trends, this is likely to lead to increasing deficits in schools which would in effect have to be funded by the EA. To avoid a potential overspend situation, the Department would have to implement commensurate budget cuts to other areas such as funding to a range of third party organisations, DE's Arm's Length Bodies, the Entitlement Framework, Extended Schools, the Curriculum Sports Programme and a range of other programmes. Whilst

the Department would seek to avoid reducing core services, reductions to the funding of Early Years and Youth Services may also have to be considered in order to operate within its budget.

## Department of Finance

### **Aim**

The Department of Finance is responsible for the delivery of a wide range of public services. Its overall aim is "to help the Executive secure the most appropriate and effective use of resources and services for the benefit of the community".

In pursuing this aim, the key objective of the Department is to deliver quality, cost effective and efficient public services and administration in the Department's areas of Executive responsibility. The Department performs a strategic finance and policy role for the Northern Ireland Executive by:

- Providing support to the Finance Minister and Executive on the budget setting process;
- Maintaining a framework of guiding principles for application across the public sector on the management of public expenditure, Value for Money, good governance, accounting and accountability;
- Developing and maintaining corporate human resources policies and procedures;
- Developing and implementing Northern Ireland's taxation policies, including Rating Policy and Corporation Tax; and
- Providing strategic economic and fiscal policy advice.
- Enabling delivery of the Programme for Government and ensuring an alignment between Programme for Government and Budget processes.

The Department provides statistical services through NISRA, and delivers a wide range of shared services (e.g. IT, Accommodation, Finance, HR, Procurement, Legal) to the public sector.

The Department has responsibility for rates collection (£1.2bn per year) and a range of frontline services (including: registry of births, adoptions, deaths, marriages and civil partnerships; maintenance of the Land Register; provision of valuation and mapping services).

## Implications of budget scenarios

Figure 6.5: DoF Scenarios

Scenario	2017-18	2018-19	2019-20	2018-19	2019-20
	£m	£m	£m	%	%
1	142.7	135.0	130.0	-5.4%	-8.9%
2	142.7	137.5	131.0	-3.6%	-8.2%
3	142.7	132.0	125.0	-7.5%	-12.4%

The Department will face additional pressures in the next two financial years which need to be funded: roll-out of the new Rate Rebate Scheme and the delivery of Census 2021. It is estimated that these new pressures amount to £2.8 million in 2018-19 and £4.9 million in 2019-20.

### Scenarios One and Two

#### Key Impacts

Under these scenarios the Department is faced with a reduction in its current baseline budget of between 3.6% and 5.4% in 2018-19 and 8.2% and 8.9% in 2019-20. At the same time, the Department is faced with the additional financial pressures of delivering the new rate rebate scheme and Census 2021.

The Department currently spends approximately 12% of its annual budget allocation on providing strategic finance, policy and statistical services to central government. These services are essential to the efficient and effective operation of government in Northern Ireland and, as such, there is little or no scope to reduce the expenditure on these services.

Over 70% of the Department's budget allocation is spent delivering shared services to the public sector. Any reduction in budget allocation would require the Department to review the levels and range of shared services it provides given the reduced funding envelope.

While the Department would continue to collect regional and district rates, its ability to maximise collection is directly related to the level of funding available for managing the service. Any reduction in funding to this service would directly impact on the level of rates collected and consequently on the provision of service by local and central government.

### *Key Challenges*

The Department is developing a range of planning assumptions and delivery impact options for consideration by an incoming Minister in order to live within a reduced budget allocation while at the same time minimising the impact on service delivery.

Given the Department directs 70% of its budget to the delivery of shared services across the public sector, it is inevitable that the budget cuts proposed under these scenarios will mean a reduction in services levels across all shared services over the next two financial years.

The Department has responsibility for implementing the Executive's Asset Management Strategy and is progressing the reform of property management across the NICS. Successful delivery of this programme would secure material financial savings for the NICS as a whole. However, delivery is dependent on availability of appropriate levels of funding. The Department will be considering the impact of a reduced budget on its ability to continue with this programme, given that the savings generated will alleviate financial pressures in other government departments.

The Department's current IT systems and processes for collecting rates are outdated, with commercial contracts nearing an end. To address this situation, the Department is progressing the digital transformation of its Land and Property Services in order to modernise and improve customer service and deliver efficiencies through a new service delivery model. As it prioritises service delivery, the Department recognises the need to continue to maximise the collection of rates and the criticality of continued IT infrastructure to support this. There is a real risk that the Department would not have sufficient funding available to maximise the future savings possible from a transformed service.

The Department is leading on the expansion of shared services across the public sector. This is a programme of work that will deliver benefits across the public sector. Delivery is dependent on availability of appropriate levels of funding. The Department will be considering the impact of a reduced budget on its ability to continue with this invest to save programme.

### **Scenario Three**

#### *Key Impacts*

Under this scenario the Department is faced with a reduction in its current baseline budget of 7.5% in 2018-19 and 12.4% in 2019-20. At the same time, the Department is faced with the additional financial pressures of the delivering new rate rebate scheme and Census 2021.

#### *Key Challenges*

This scenario would lead to a material reduction in the service levels across the Department's shared services provision. The impact of these reductions would be felt across the wider public sector.

The Department would continue to collect Regional and District Rates but, under this scenario, it is highly likely that the collection levels would not be sustained at current levels, leading to an inevitable impact on the provision of service by local government.

Under this scenario, the Department would not be in a position to continue to fund from its baseline the implementation costs associated with delivering the reform of property management or the expansion of shared services across the public sector.

# Department of Health

## Aim

The Department of Health (DoH) has a statutory responsibility to promote an integrated system of health and social care (HSC) designed to secure improvement in:

- the physical and mental health of people in Northern Ireland;
- the prevention, diagnosis and treatment of illness; and
- the social wellbeing of the people in Northern Ireland

The Department's statutory responsibilities under the Health and Social Care (Reform) Act (Northern Ireland) 2009 are to:

- Develop policies;
- Determine priorities;
- Secure and allocate resources;
- Set standards and guidelines;
- Secure the commissioning of relevant programmes and initiatives;
- Monitor and hold to account its ALBs; and
- Promote a whole system approach.

The Department is also responsible for establishing arrangements for the efficient and effective management of the Fire and Rescue Services in Northern Ireland. It discharges these duties both by direct departmental action and through its 17 Arm's Length Bodies (ALBs).

The cost of providing services is increasing, with estimates suggesting 5-6% annually. This is due to an increasing ageing population with greater and more complex needs, increasing costs for goods/services, and growing expertise and innovation which means an increased range of services, supporting improvement in our population health. All of these bring increases in the funding required each year to maintain services and meet demand.

It has been acknowledged through several strategic reviews that there is a need for service transformation. The most recent 'Health and Wellbeing 2026: Delivering Together' (published in October 2016, supported by the Bengoa Report) set out a Ministerial vision for the service. This describes a new service model that would see a



reconfiguration of our acute hospital services, appropriately resourced to deliver high quality acute care, with specialist services delivered from fewer sites and greater investment in community and primary care services at a local level.

## Implications of Budget Scenarios

Figure 6.6: DoH Scenarios

Scenario	2017-18	2018-19	2019-20	2018-19	2019-20
	£m	£m	£m	%	%
<b>1</b>	5,035.3	5,280.0	5,325.0	4.9%	5.8%
<b>2</b>	5,035.3	5,285.0	5,395.0	5.0%	7.1%
<b>3</b>	5,035.3	5,265.0	5,400.0	4.6%	7.2%

A preliminary assessment by the Department of the three draft budget scenarios has identified that the residual cost pressure to maintain existing services after implementation of Regional Medicines Optimisation Efficiency (MORE) programme savings ranges from **£151 million - £171 million** in 2018-19 and **£265 million - £340 million** in 2019-20. In considering this position, it is noteworthy that the overall financial position is complex, and subject to ongoing variation; a 0.1% change in overall forecast expenditure represents a movement of £5 million. It is important to consider this volatility alongside the potential impact of the budget scenarios.

### Forecast Cost

The forecast cost to maintain existing services in 2018-19 is estimated to be some £5,466 million, an increase of £281 million (5%) on the 2017-18 total forecast outturn position of £5,185 million (which includes the in year monitoring allocations received during 2017-18). For 2019-20, the cost is estimated to be some £5,695 million, an increase of £229 million (4%) when compared with 2018-19 and £510 million (9.8%) when compared with the 2017-18 total forecast outturn position.

The increased costs for 2018-19 and 2019-20 reflect:

- Costs associated with demography – effectively an ageing population;

- Family Health Services;
- Pay and non-pay inflation;
- Revenue consequences of capital expenditure;
- Increased costs of drugs and therapies;
- Specialist Hospital and Paediatric Services, including plastic surgery, immunology and the ongoing implementation of the paediatric services strategy;
- Children's Services, including for the Children's residential review and autism framework;
- Workforce training pressures as a result of recent increases in GP training numbers and increases in pre-registration nurse education;
- Learning Disability, including funding to support young people transitioning to adult services, and for adults whose family care arrangements break down;
- Older People, including to support the dementia strategy sustainability and implementing the Adult Safeguarding: Prevention and Protection policy;
- Mental health services including adults with mental health problems whose family care arrangements break down; and
- To support health promotion including the 2<sup>nd</sup> workstream of the Early Intervention Transformation Programme.

Work will continue to support the delivery of an ongoing Regional Medicines Optimisation Efficiency (MORE) Programme to deliver **£30 million** of recurrent prescribing efficiencies.

### **Key Impacts**

The budget scenarios do not provide sufficient funding to maintain existing services. Maintaining existing services effectively means supporting the services which we currently have, for example, maintaining the current levels of elective care capacity which are not sufficient to meet increased demand or deal with the elective care waiting lists; and largely continuing with the current service delivery model which it is recognised we need to change.

We know the health and social care system is under mounting pressure and the costs associated with maintaining the existing models of service continues to increase at a pace which cannot be sustained. It is clear that

services are under significant pressure and without radical change there is no doubt the situation will further deteriorate with negative impacts for those who use and provide our services.

However, there is an ambitious transformation agenda and the Department remains committed to that ambition and that journey, but it is inevitable that the pace of transformation will be impacted by the level of funding available to both maintain existing services and take forward transformation in parallel.

While separate funding could be available for transformation through the Confidence and Supply agreement, subject to agreement with the UK Government, it is essential, as the Executive recognised in 2016, that we maintain the existing service until the impact of transformation has been realised. In the context of the urgent need for change, it would be potentially catastrophic to divert transformation funding to simply prop up the existing service model.

Within the current budgetary constraints we must ensure our limited resources are used to maintain safe services and to achieve the best outcomes for citizens. Whilst every effort will be made to ensure that we remain focused on achieving the outcomes set out in *Delivering Together*, this means making very difficult choices. It also means that we must pursue the reform of the system to safeguard vital services for the future.

## **Key Challenges**

Health and social care services have faced year on year increases in demand against the backdrop of financial constraints. In 2017-18 HSC Trusts undertook a consultation which identified **£70 million** of savings proposals of which **£42 million** are being taken forward, the majority of which are non-recurrent. The majority of major and / or controversial savings were set aside as the result of additional funding being secured late in the year. The consultation clearly illustrated the difficult savings options available to HSC Trusts and the detrimental impacts on service delivery.

Nonetheless, we will continue to work with the HSCB, Public Health Agency, HSC Trusts and all of our Arm's Length Bodies to review and refine their financial forecasts for 2018-19 and 2019-20 and to reduce the financial gap identified under each of three budget scenarios. We

will continue to work with our service providers to identify the measures necessary to live within the available funding.

We will, of course, continue to work with the Department of Finance to seek to secure additional funding necessary to support existing services through in year monitoring. This is far from ideal in terms of the planning and management of services, the shortfall in funding under each of the budget scenarios means that impacts will be greater if we do not secure significant additional funding as part of in year monitoring.

However, if sufficient in year funding or internal measures cannot be identified to address the significant shortfall in funding under the three scenarios, service reductions would be necessary across health and social care. As the Trusts' 2017-18 consultation on savings measures has illustrated, reductions across a range of services would then be necessary, including in elective care and community care services with a deterioration in access to services and waiting times. Services would be unable to respond effectively to the growing needs of the population in Northern Ireland, for example through not funding all demand led pressures such as access to NICE drugs, specialist hospital services, resettlements etc.

The challenging financial circumstances mean that hard choices are unavoidable, but we will be working across the health and social care service to ensure that the most vulnerable continue to have access to the quality services they need and the impact of any reductions is reduced.

Ensuring that patients have access to safe, quality and timely care remains a key priority. However, as demand for elective care services currently exceeds health service capacity by over 60,000 new outpatients and almost 35,000 inpatient / day case treatments annually, regrettably it is inevitable that waiting times will increase. HSC Trusts will continue to prioritise the most urgent patients to ensure they are seen and treated as quickly as possible and the HSCB is working with Trusts to maximise the activity that can be delivered from existing capacity.

## Health Transformation

Aligned with the aspirations set out in the Programme for Government, Health and Wellbeing 2026: Delivering Together provides the roadmap for transforming health and social care. Transformation cannot be achieved without investment. Whilst good work has been achieved so far within the existing resource allocation this cannot be sustained.

The previous Executive agreed the need for a period of double running in order to continue to deliver existing health and social care services whilst developing and implementing change. Additional funding over and above the baseline allocation is necessary if the Department is to drive forward change.

Under the funding arrangement provided for by the financial annex to the Confidence and Supply Agreement, it is anticipated **£200 million** will be invested in transformation in 2018-19 and 2019-20 in order to improve our health and well-being; improve the quality and experience of care we receive, ensure sustainability of services and support and empower those working within the HSC. Whilst this is a working assumption for the purposes of this document, the funding and profile require agreement with HM Treasury and an incoming Executive and need the approval of both Parliament and the Assembly.

Whilst it will be for a Health Minister to determine how this funding will be utilised, proposals have been developed in line with the priorities set out in Health and Wellbeing 2026 for investment in:

- Tackling elective care waiting lists;
- Supporting and developing the health and social care workforce;
- Building capacity in communities, supporting well-being and early intervention initiatives;
- Enhancing support in primary care;
- Reforming community and hospital services;
- Improving quality and safety;
- Partnership working;
- Making better use of technology and data.

## **Mental Health Funding**

Under the funding arrangement provided for by the financial annex to the Confidence and Supply Agreement, **£50 million** will be provided for a restored Executive to invest in mental health services over 5 years. This will enable the Department to instigate a programme of transformation and make good progress towards our Programme for Government aim of improving mental health. Whilst this is a working assumption for the purposes of this document, the funding and profile require agreement with HM Treasury and an incoming Executive and need the approval of both Parliament and the Assembly.

Whilst it will be for a Health Minister to determine how this funding will be utilised, key areas for investment include:

- A mental trauma model to reform provision in respect of legacy issues and unmet mental health need;
- Further development of Primary Care Talking hubs and Psychological Therapy services;
- Drug, alcohol prevention and substance misuse;
- Children and Adolescent Mental Health Services (CAMHS) and infant mental health focusing on early intervention;
- Promotion of parity of esteem;
- Suicide prevention and mental health promotion; and
- Enhancement of Recovery model and co-production framework.

The establishment of a Regional Mental Trauma Network is a key commitment that will contribute to delivering the Programme for Government, and progress is being made in establishing the Network, to address the unmet needs of people in Northern Ireland with mental health problems directly related to the conflict here and to improve the mental health of people suffering as a result. The intention is that this will be a world-leading service providing a range of services both from within the community and in clinical settings, dealing with a spectrum of severity and providing additional capacity to address the unmet need created by the conflict. It is assumed that funding for mental health in the financial annex to the Confidence and Supply Agreement will fund the scaling up of this service during the 5 year availability period.

## Department for Infrastructure

### *Aim*

The Department is responsible for much of the infrastructure that is essential for a modern society and for creating the capacity and connectivity needed to support economic growth. The creation of Dfl has enabled a more integrated response on a range of issues, for example, regional development, active travel, road safety, and flood risk management. To maximise our role as an enabling department, we work with others ensuring that our plans for transport and water infrastructure dovetail with the plans others have for improving all aspects of society.

The Department's Strategic Objectives are:

- Shaping the region and promoting economic growth;
- Developing our infrastructure in a sustainable way; and
- Connecting people to opportunities and services.

The Department for Infrastructure (Dfl) delivers services to every citizen, visitor and business in the region multiple times a day. Dfl is a key contributor to a number of the Executive's Programme for Government (PfG) outcomes, from unlocking the economic potential of the region, to tackling disadvantage, to protecting the environment and in promoting the health and wellbeing of our citizens.

The Department has a particular focus on Outcome 11: We connect people and opportunities through our infrastructure. In addition, the Department makes a particular contribution to Outcome 2: We live and work sustainably, protecting the environment.

## Implications of budget scenarios

Figure 6.7: Dfl Scenarios

Scenario	2017-18	2018-19	2019-20	2018-19	2019-20
	£m	£m	£m	%	%
1	366.2	355.0	340.0	-3.0%	-7.1%
2	366.2	363.0	345.0	-0.9%	-5.8%
3	366.2	355.0	335.0	-3.0%	-8.5%

These scenarios take as their starting point the baseline funding position faced by the Department. In the past three years the baseline position has not been sufficient to deliver the core services the Department has had responsibility for and in-year additions have been needed to sustain services at a basic level. In 2017-18 the Dfl has received an additional £14 million so far and this has been used to deliver limited road maintenance services and a winter service on roads as well as to meet a small part of the pressure on the concessionary fares budget.

Furthermore, due to reduced subsidy for bus and rail services since 2014-15, Translink has maintained the public transport network by sustaining annual losses of around £13 million. These losses have been covered by drawing on their reserves but there is limited capacity for this to continue beyond the 2019-20 financial year. Our response assumes that public transport fares continue to rise in line with inflation each year.

### Scenarios One and Three

#### Key Impacts

Under scenario one, the Department is faced with a reduction in its current baseline budget of 3.0% in 2018-19 (£355.0 million) and 7.1% in 2019-20 (£340.0 million), with a reduction of 8.5% in 2019-20 (£335 million) under scenario three. The key areas of focus would be to maintain the element of our strategic trunk roads and motorways covered by PPP contracts and maintain a reactive response service for the remainder of the network; to reshape the public transport network



in line with the constrained resource available; to process regionally significant planning applications; commence the development of a Regional Infrastructure Delivery Plan; and to minimise the disruption to delivery of clean, safe drinking water to households and businesses.

### *Key Challenges*

The challenge to the Department would be to minimise the impact on public services through net reductions of £11 million and £26.2 million in 2018/19 and 2019-20 for scenario one and £11 million and £31.2 million for scenario three (reductions shown against 2017-18 baseline). Given these cuts together with the considerable reductions to budgets over the past three to four years, reductions to service levels would be inevitable and severe. They would include:

#### NI Water

A £7 million reduction in 2018-19 represents a 7% reduction on the allowance calculated by the Regulator as necessary for an efficient company, and could reduce resilience and lead to reductions in customer facing services. A £10.6 million reduction in 2019-20 for scenario one (£12 million scenario three) would increase the risk of water outage events and environmental impact.

This would impact on the company's ability to respond to events of

- Service outage 'no water'
- Out of sewer flooding incidents
- Extreme weather

Environmental compliance failures would result in fines. In addition to the damage to the environment, these failures would also create legal problems and potential licence issues for NIW.

#### Roads

Roads resource budget amounts to some £138 million, however, when committed amounts for Public Private Partnerships, salaries and wages, Road Drainage and other expenditure is taken into consideration, there remains only a budget of £16.8 million in 2018-19 and £10.7 million in 2019-20 for scenario one (£16.5 million for 2018-19 and £9.6 million for 2019-20 for scenario three) for energy and maintenance

costs. To place this in context, a fully resourced service in these areas would cost £43 million.

As for scenario two, the consequences of the budget reductions would be that only traffic signals would be energised and maintained, with statutory electrical inspection and testing carried out. There would be no routine roads and street lighting repairs outside of strategic trunk roads and motorways with only a limited reactive response capability. This would mean no grass cutting, no gully emptying and no repair of almost all potholes.

In addition, in 2018-19 around half of street lights in Northern Ireland would have to be turned off. There would also be no funding to provide a Winter Service (£4.5 million), including salting and road clearance.

In 2019-20 when the reduction in budget is considerably greater, all street lights, with the exception of those on motorways and strategic trunk roads, would have to be switched off. There would be no funding for a Winter Service.

### Public Transport

Due to reduced subsidy for bus and rail services since 2014-15, Translink has maintained the public transport network by sustaining annual losses of around £13 million. These losses have been covered by drawing on reserves but there is limited capacity for this to continue beyond the 2019-20 financial year. There would be a requirement to significantly reduce the public transport network to ensure financial viability going forward. This would require a reduction in service levels.

### Rural and Community Transport

A budget reduction of £1.7 million in 2018-19 would require a fundamental change to the delivery of demand responsive services including Dial-a-Lift services, the Disability Action Transport Scheme (DATS) and Shopmobility. In 2019-20 a reduction of £3.7 million for scenario one and three would require changes beyond service reductions and would necessitate stopping grant funding to at least one of the service providers.

The consequences of reductions of this level are reductions / cessation in services to the disabled and those in rural areas and redundancies in the service organisations. Cuts of this scale could place into question the viability of continuing these services.

### Road Safety

A £1.0 million budget reduction to road safety in each year, would mean a complete cessation to all road safety advertising and other programmes.

## **Scenario Two**

### *Key Impacts*

While this is the best scenario for the Department, it still would require difficult and painful choices. Under this scenario the Department is faced with a reduction in its current baseline budget of 0.9% in 2018-19 (£363.0 million) and 5.8% (£345.0 million) in 2019-20. The key areas would be to maintain the element of our strategic trunk roads and motorways covered by PPP contracts and maintain a reactive response service for the remainder of the network; to reshape the public transport network in line with the constrained resource available; to process regionally significant planning applications; commence the development of a Regional Infrastructure Delivery Plan; and to deliver clean, safe drinking water to households and businesses.

### *Key Challenges*

The challenge to the Department would be to minimise the impact on public services while managing budget reductions (shown here against the 2017-18 baseline). However, given the considerable reductions to budgets over the past three to four years, reductions to service levels would be inevitable and include:

## NI Water

Reduction of £6 million in 2018-19 represents a 6% reduction on the allowance calculated by the Regulator as necessary for an efficient company, and could reduce resilience and lead to reductions in customer facing services.

In 2019-20 a reduction of £11 million would increase the risk of water outage events and environmental impact.

This would impact on the company's ability to respond to events of

- Service outage 'no water'
- Out of sewer flooding incidents
- Extreme weather

Environmental compliance failures would result in fines. In addition to the damage to the environment, these failures would also create legal problems and potential licence issues for NIW.

## Roads

Roads resource budget amounts to some £138 million. When committed amounts for PPPs, salaries and wages, Road Drainage payments to NIW and other expenditure is taken into consideration, there remains only a budget of some £19.8 million in 2018-19 and £11 million in 2019-20 for energy and maintenance costs. To place this in context a fully resourced service in these areas would cost £43 million.

The consequences of the budget reductions would be that only traffic signals would be energised and maintained, with statutory electrical inspection and testing carried out. There would be no routine roads and street lighting repairs outside of strategic trunk roads and motorways, with only a limited reactive response capability. This would mean no grass cutting, no gully emptying, and no repair of almost all potholes.

In 2018-19 street lights could be kept on, but there would be no funding to provide a Winter Service (£4.5 million), including salting and snow clearance.

In 2019-20 when the reduction in budget is considerably greater, all street lights, with the exception of those on motorways and strategic

trunk roads, would have to be switched off. There would be no funding for a Winter Service.

### Public Transport

Due to reduced subsidy for bus and rail services since 2014-15, Translink has maintained the public transport network by sustaining annual losses of around £13 million. These losses have been covered by drawing on reserves but there is limited capacity for this to continue beyond the 2019-20 financial year. There would be a requirement to significantly reduce the public transport network to ensure financial viability going forward. This would require a substantial reduction in service levels.

### Rural and Community Transport

Service provision would continue in 2018-19 but savings of £2.2 million in 2019-20 would require a fundamental change to the delivery of demand responsive services including Dial-a-Lift services, the Disability Action Transport Scheme (DATS) and Shopmobility.

The consequences of reductions of this level are the reduction of some services to the disabled and those in rural areas and potential redundancies within the organisations.

### Road Safety

A £1.0 million budget reduction to road safety in each year, would mean a complete cessation to all road safety advertising and other programmes.

## Department of Justice

### Aim

The role of the Department of Justice (DoJ) is to support the Minister of Justice to help build a fair, just and safer community in Northern Ireland. In addition to its statutory functions, the Department provides resources and a legislative framework for its agencies and arm's length bodies, which jointly constitute most of the justice system in Northern Ireland. Together with these organisations, the Department is responsible for ensuring there is a fair and effective justice system in Northern Ireland and for increasing public confidence in that system.

The Department has a particular focus on Outcome 7 of the Programme for Government:

**“We have a safe community where we respect the law and each other”**

### Implications of budget scenarios

Figure 6.8: DoJ Scenarios

Scenario	2017-18	2018-19	2019-20	2018-19	2019-20
	£m	£m	£m	%	%
1	1026.9	995.0	960.0	-3.1%	-6.5%
2	1026.9	1015.0	970.0	-1.2%	-5.5%
3	1026.9	1005.0	945.0	-2.1%	-8.0%

The Fresh Start Agreement provided the Executive with additional non-ring-fenced Resource DEL Security Funding for PSNI - £33.7 million in 2018-19 and £31.1 million in 2019-20. Although included in the three scenarios above, this is a particular package of funding for a specific purpose and is treated separately from the PSNI's baseline funding. The opening position above includes £34.3 million which was provided in 2017-18 for this purpose.

The high level impacts and challenges of the scenarios outlined will be further investigated as the Department continues to engage with its Agencies, Non Departmental Public Bodies and other stakeholders. When this work has been completed, the Department will then assess how its total budget should be allocated across its range of spending areas. However, an overview of the potential impacts and challenges is provided below.

There are a range of challenges facing the DoJ in 2018-19 and beyond. The Department will seek to minimise the impact of budget reductions to front line areas as far as possible within the total funding available. But, given the scenarios proposed and budget cuts sustained to date, difficult funding and prioritisation decisions will have to be made under all of the scenarios that will have a significant impact on the wider justice system and the services the Department provides.

The majority of DoJ costs are demand led, such as policing, delivery of court services, safe custody and payment of legal aid costs. In the majority of cases costs are inescapable or there are very limited options to reduce the levels of service provided.

Across the wider criminal justice system a very significant level of emerging pressures have been identified including operational and inflationary pressures and these need to be managed as far as possible before budget reductions can be absorbed.

### Key Impacts

The key areas the Core Department, its Executive Agencies and larger NDPBs will seek to deliver are set out below. However, the extent to which these can be delivered, and, therefore, the impact on frontline services and public safety, will be dependent on the level of cuts and the Department's final budget settlement. The areas that can be delivered will be further considered.

#### Access to Justice Directorate

- Problem-Solving Justice - Problem Solving Justice (PSJ) was designated as one of three 'pathfinder' projects that will be used to test the Outcome Based Accountability approach to delivering public services in Northern Ireland;

- Sentencing review - a significant review of Sentencing Policy covering the policy, legislation and systems in place to deliver effective sentencing;
- Legal Aid Reform – a programme of work to reform legal aid; and
- Civil and Family Justice reform - the response to civil and family justice aspects of the Access to Justice Review Part II Report in respect of civil and family courts and Lord Justice Gillen’s review of Civil and Family Justice.

#### Safer Communities Directorate

- Domestic and sexual violence and abuse programmes - creating a new domestic abuse offence; improved reporting; better support and protection for victims; education and awareness raising to reduce the incidence of domestic violence and abuse in the longer term;
- Tackling paramilitary activity, criminality and organised crime - implementing the Executive’s Fresh Start Action plan on tackling paramilitary activity and related criminality;
- Victims’ action plan - improving services for victims and witnesses of crime;
- Community safety - reducing crime and the harm and vulnerability caused by crime; and
- Interfaces – reducing the number of peace walls.

#### Reducing Offending Directorate

- Delivering safe, secure and decent custody - the Northern Ireland Prison Service will develop its people, its services, its infrastructure and its partnerships to ensure that people in its care are held in a safe, decent and secure environment;
- Achieving better outcomes for people in its care - the Northern Ireland Prison Service will work with partners to develop service delivery models focussed on providing opportunities for people in its care;
- Ensuring continuous improvement through ‘Prisons 2020’ - Prisons 2020 will ensure that the Northern Ireland Prison Service is structured and resourced to provide an efficient, effective, modern



and affordable service which is focussed on the development of our staff and capable of rehabilitating people in our custody;

- Extending restorative practices to the adult justice system - the Department of Justice will work with key stakeholders to develop a comprehensive strategy to introduce restorative interventions at all stages of the criminal justice system; and
- Delivering a greater welfare based approach to children engaged in offending behaviour - proposals were developed following a comprehensive examination of current youth justice arrangements.

#### Police Service NI

- Keeping people safe through policing with the community – increasing trust and confidence in policing and ensuring the PSNI engages with and involves the community where possible; and
- Preventing harm, Protecting people and Detecting Crime - Reducing harm caused by crime and anti-social behaviour with a focus on protecting the most vulnerable.

#### Forensic Science NI

- Maintaining, as far as possible, its current range and core capacity of forensic services within available budgetary and funding provision; and
- Further supporting the development of a Forensic Services Strategy for Northern Ireland.

#### NI Courts and Tribunals Service

- Northern Ireland Courts and Tribunals Service will continue, as far as possible, to provide administrative support to the Northern Ireland courts and the majority of tribunals, together with the operation of the Enforcement of Judgments Office; and
- Fine Collection and Enforcement Service (subject to legislation) - the establishment of a Fine Collection and Enforcement Service within the Northern Ireland Courts and Tribunals Service (NICTS)

## Office of the Police Ombudsman NI

- Continuing to provide an independent, impartial police complaints system for the people and the police of Northern Ireland and maintain the confidence of the public and police in that system.

## Probation Board NI

- Protecting the Board's statutory function as far as possible.

## Scenario One

Reductions of the scale proposed under this scenario and the limited amount of additional funding being proposed would undermine the delivery of frontline services across the justice system.

A high level assessment of the impact of budget reductions in 2018-19 and 2019-20 for the Department's spending areas is set out below.

Under this scenario a **significant staff reduction** would be required across the wider justice system, including a reduction in police and prison officer numbers. Options to do this, for example a Voluntary Exit Scheme (VES) or severance programme, would need to be considered. The ability to deliver the required savings is made more challenging by the limited timeframe available.

Other impacts include:

PSNI (assuming 25% of PSNI budget, excluding Fresh Start security funding, exempt from budget reduction): this scenario would seriously undermine PSNI's ability to deliver an effective policing service focussed on keeping people safe. For example, PSNI would have less capacity to address serious and organised crime, to provide local Neighbourhood Policing or to respond to the growth in Child Sexual Exploitation and Cyber Crime.

NI Prison Service: this scenario would have a significant impact on the existing operational prison regime including considering closing major elements of accommodation and altering visitor services.

NI Courts and Tribunals Service: this scenario would directly impact the Service's ability to discharge its statutory functions in administering

courts and tribunals, delivering enforcement services and adequately supporting the judiciary. Significant reductions are likely to create delay.

Forensic Science NI: Sections of Forensic Science would have to close to release staff and non-staff costs, reducing capacity and weakening initiatives to reduce offending and having a knock on effect on policing and the wider justice system.

Probation Board NI: this scenario would require a strategic review of the Probation Board, including its statutory functions and frontline delivery of its services. The Board would have a significantly reduced capacity to provide its services.

Police Ombudsman: this scenario would result in the inevitable delay of investigations, impacting public confidence and increasing the risk of legal proceedings.

Youth Justice Agency: this scenario would have a significant impact on the Agency's ability to meet its statutory obligations of providing safe care for young people and preventing re-offending. It would require the Agency to revisit its Estates Strategy which would impact young people and their ability to engage with and access YJA services.

Legal Services Agency: this scenario would significantly reduce the Agency's ability to react to demand, reducing access to justice for individuals and reducing capacity to fulfil its statutory function.

Other policing bodies: this scenario would negatively impact the services that can be provided by the Department's smaller policing related bodies – RUC George Cross Foundation, Police Rehabilitation and Retraining trust (PRRT) and the NI Police Fund.

Core Department: this scenario would result in reduced capacity to deliver priority policies including domestic violence, reduce funding to the Voluntary and Community Sector and would potentially impact payments by Compensation Services.

It is clear from the impacts set out above that the Department would have to take significant steps that would have a major impact on the justice system, in order to deliver the proposed reductions in 2018-19.

In 2019-20, the level of proposed reductions are not considered achievable at this stage given the critical impact on public safety. More work is needed to consider the impacts of this scenario for 2019-20.

## **Scenario Two**

The baseline cuts imposed under this scenario mirror those in scenario one. However, the key difference is the additional funding, compared to scenario one. In line with the previous Minister's priorities, the Department would seek to use this additional funding to protect frontline services as far as possible. This may be through varying degrees of protection from baseline cuts or by seeking to minimise the impact of specific pressures by allocating additional funding to spending areas.

In 2018-19, even after seeking to protect baseline cuts and allocating additional funding, significant pressures would still remain. Under this scenario the Department would seek to monitor and manage the financial position and ensure funding is allocated in the most appropriate way across the justice system. Any pressures which could not be managed would be highlighted to the Department of Finance as part of the in-year monitoring round process.

In 2019-20, the level of proposed reductions are not considered deliverable at this stage given the critical impact on public safety. More work is needed to consider the impacts of this scenario for 2019-20.

## **Scenario Three**

The baseline cuts under this scenario increase from those outlined in scenarios one and two. In 2018-19 cuts at this level could not be delivered without the provision of the proposed additional funding. As with scenario two, in line with the previous Minister's priorities, the Department would seek to use the additional funding provided to protect frontline services as far as possible. Again, this may be through varying degrees of protection from baseline cuts or by seeking to minimise the impact of specific pressures by allocating additional funding to spending areas.

In 2018-19, even after seeking to protect baseline cuts and allocating additional funding, significant pressures would still remain. As with scenario two the Department would seek to monitor and manage the financial position and ensure funding is allocated in the most appropriate way across the justice system. Any pressures which could not be managed would be highlighted to the Department of Finance as part of the in-year monitoring round process but it is likely further funding would have to be sought in-year.

In 2019-20, the level of proposed reductions are not considered deliverable at this stage given the critical impact on public safety. More work is needed to consider the impacts of this scenario for 2019-20.

### **Legacy**

In the absence of an agreed position on the past, pressures facing the justice system in relation to legacy issues continue to increase. Reductions to budgets would impact significantly on the work and speed of legacy investigations in PSNI and the Police Ombudsman's historic investigations and legacy investigations in the Coroners Service.

## The Executive Office

### *Aim*

TEO's vision is to build a peaceful and prosperous society with respect for the rule of law, where everyone can enjoy a better quality of life now and in years to come.

Underpinning this vision, the overall aim of TEO is to contribute to and oversee the co-ordination of the Programme for Government and, in particular, Executive policies and programmes to deliver a peaceful, fair, equal and prosperous society.

### *Executive Central Funds for Delivering Social Change and Shared Future*

TEO plays a lead role in co-ordinating the Executive's cross-Departmental programme of Delivering Social Change, which includes the Social Investment Fund and programmes co-funded with Atlantic Philanthropies. This programme is designed to pilot new approaches to key societal issues through cross-Departmental programme delivery and is funded through the provision of Executive Central Funds. These Executive Central Funds would be provided separately to TEO in addition to the amounts considered in the scenarios below.

TEO is also responsible for leading the delivery of the Executive's Good Relations strategy: *Together: Building a United Community*, which is resourced centrally by HM Treasury through Shared Future funding provided as part of the Fresh Start Agreement. Funding has been agreed at £60 million over five years and will be provided separately to TEO in addition to the amounts considered in the three scenarios below. In addition, TEO is leading on implementation of the Transitioning Communities Strategy as part of the Executive Action Plan on paramilitary activity, criminality and organised crime (in conjunction with the Department of Justice). This is also funded centrally through resources provided via the Fresh Start Agreement.

### *Historical Institutional Abuse Inquiry*

The Historical Institutional Abuse Inquiry (HIAI) Report and findings published in January 2017 remains a high priority for TEO. Since publication officials have been undertaking the necessary preparatory

and planning work for presentation of advice to Ministers for decision. In the current absence of political direction from Ministers, this work is premised on full implementation of the Hart recommendations, including preparation of the necessary underpinning legislation to establish a Redress Board and the Commissioner for Survivors of Institutional Childhood Abuse (COSICA).

Political agreement is required on the identification of funding to establish the requisite structures and to take forward a financial redress scheme. This funding is therefore not included as part of the scenarios below.

## Implications of Budget Scenarios

**Figure 6.9: TEO Scenarios**

Scenario	2017-18	2018-19	2019-20	2018-19	2019-20
	£m	£m	£m	%	%
<b>1</b>	58.4	58.0	56.0	-0.8%	-4.2%
<b>2</b>	58.4	57.5	56.0	-1.6%	-4.2%
<b>3</b>	58.4	56.0	54.0	-4.2%	-7.6%

All scenarios include £2.8 million in 2018-19 and £3.2 million in 2019-20 in relation to TEO's matched-contribution to the PEACE IV Programme. This is ring-fenced and cannot be subject to budget cuts.

### **Scenario One**

Excluding PEACE IV funding, TEO's budget would be cut by £2.4 million (4.1%) in 2018-19 and £4.8 million (8.3%) in 2019-20.

The Department would also be required to manage inescapable costs in relation to pay and price inflation in this scenario. When these costs are included, TEO would have to manage a funding gap of £3.3 million (5.7%) in 2018-19 and £6.3 million (10.9%) in 2019-20.

## *Key Impacts*

Under this budget scenario, TEO would seek to sustain activities that are critical to the effective functioning of government in Northern Ireland, including:

- Leading and driving the development of the Programme for Government across the NICS;
- Ensuring that Ministers are positioned to secure the best possible outcome for Northern Ireland in the Brexit negotiations;
- Delivering high quality and timely support to TEO Ministers and the institutions of government;
- Providing high quality legislation to implement PfG and Ministers' policies;
- Delivering high quality and effective external communications to NI Executive ministers;
- Building the capacity of our people to deliver the PfG through the NICS of the Future enabling agenda; and
- Developing and supporting staff to improve the delivery of our business.

TEO would also take forward key policy areas, including:

- Implementing the Executive's Good Relations strategy **Together: Building a United Community**, which includes the Urban Villages programme and the T:BUC Camps programme;
- Implementing the **Transitioning Communities Strategy** as part of the Executive Action Plan on paramilitary activity, criminality and organised crime;
- Implementing the **Racial Equality Strategy** and related actions, including launch of a Refugee Integration Strategy;
- Ensuring the continued delivery of effective **victim-centred services**;



- Taking forward preparatory work to implement (subject to political agreement) the recommendations of the **Historical Institutional Abuse Inquiry Report**;
- Managing and delivering the **Social Investment Fund**;
- Ensuring delivery of key actions in the Executive's **Investment Strategy, Asset Management Strategy** and **Buy Social Strategy** through the sponsorship of the Strategic Investment Board;
- Continuing the regeneration of **Ebrington** and preparations for transfer of the site to Derry City and Strabane District Council;
- Leading the delivery of projects within three thematic objectives of the **PEACE IV Programme**, including the Local Authority action plans within the Children and Young People and Shared Spaces and Services objectives, the regional element of Building Positive Relations and the provision of services for victims and survivors; and
- Taking forward the Executive's **International Relations Strategy** and developing **international relations** through our offices in Washington, Beijing and Brussels.

### *Key Challenges*

The key challenge under this scenario would be to maintain existing service delivery within a significantly constrained financial allocation. Cuts of the magnitude proposed in this scenario would require reductions in Departmental staffing, Arm's Length Bodies (ALBs) budgets and Departmental Programme budgets:

- Cuts of 4.1% in 2018-19 and 8.3% in 2019-20 would require a reduction in the number of posts in the Department at a time when demand for TEO services is increasing. For example, the Department's role in providing advice and support on EU Exit/EU Future Relations will significantly expand as Brexit negotiations continue over the budget period. In addition, TEO has the lead role in the development and implementation of the Programme for Government and NICS of the Future programme, both of which will need to be progressed over the budget period. In such a

context, staff reductions are likely to impact on the Department's ability to fully respond to these key issues or require diversion of staff from other activities with a consequential impact on delivery.

- Cuts of 4.1% in 2018-19 and 8.3% in 2019-20 applied to all the Department's ALBs would impact on services to Victims and Survivors; support to the Community Relations Council and its funded groups; and advice and support services on equality issues from ECNI. SIB's capacity to support departments on major infrastructure projects and deliver the Investment Strategy would be curtailed or require additional hard charging. The services provided by other TEO ALBs would also be reduced. Alternatively, if the budget for victims and survivors is protected, as it has been for the past four years, this would mean cuts of 7.4% in 2018-19 and 14.9% in 2019-20 to the Department's other ALBs. Cuts of this magnitude would have a severe impact on the capacity of ALBs to continue to maintain service delivery and could potentially impact their ability to deliver their statutory functions
- Cuts of 4.1% and 8.3% in 2018-19 and 2019-20 on the Department's programme budgets would result in an equivalent reduction in the level of support for a range of Good Relations programmes in communities across Northern Ireland.

### **Scenario Two**

Excluding Peace IV, TEO's budget would be cut by £2.9 million (5.0%) in 2018-19 and £4.8 million (8.3%) in 2019-20.

The Department is also required to manage inescapable costs in relation to pay and price inflation within this scenario. When these costs are included, TEO is required to manage a funding gap of £3.8 million (6.6%) in 2018-19 and £6.3 million (10.9%) in 2019-20.

#### *Key Impacts*

Under this budget scenario, TEO would seek to sustain activities that are critical to the effective functioning of government in Northern Ireland and would take forward key policy areas referred to under Scenario One above.

### *Key Challenges*

As for Scenario One, the key challenge under this scenario would be to maintain service delivery within a significantly constrained budget. Cuts of the magnitude proposed in this scenario would require reductions in Departmental staffing, ALB budgets and Departmental Programme budgets.

### **Scenario Three**

Excluding Peace IV, TEO's budget would be cut by £4.4 million (7.6%) in 2018-19 and £6.8 million (11.8%) in 2019-20.

The Department is also required to manage inescapable costs in relation to pay and price inflation in this scenario. When these costs are included, TEO is required to manage a funding gap of £5.3 million (9.2%) in 2018-19 and £8.3 million (14.4%) in 2019-20.

### *Key Impacts*

Under this budget scenario, TEO would seek to sustain activities that are critical to the effective functioning of government in Northern Ireland and would take forward key policy areas referred to under Scenarios One and Two above.

### *Key Challenges*

In addition to the challenges outlined under Scenarios One and Two, the cuts under this scenario would require further reductions resulting in a significant and visible impact on the current structures and operations of the Department, including its staffing levels, programme budgets and ALBs. Cuts of this magnitude would require a realignment of resources to top Ministerial priorities, as it would not be possible for TEO to continue to deliver services at the same level as in previous years.

# The Public Prosecution Service

## Aims

**The aim of the PPS:** is to provide the people of Northern Ireland with an independent, fair and effective prosecution service.

The Service's corporate planning is based around four strategic priorities. Within each priority area a number of objectives have been set out as the focus of the PPS's work programme. The PPS's strategic priorities and objectives for 2017-18 are as follows:

Strategic Priority 1: Providing a high quality prosecution service

Strategic Priority 2: Building the trust of victims, witnesses and the community we serve

Strategic Priority 3: Strengthening our capability to deliver

Strategic Priority 4: Building the capability of our people

## Implications of budget scenarios

Figure 6.10: PPS Scenarios

Scenario	2017-18	2018-19	2019-20	2018-19	2019-20
	£m	£m	£m	%	%
<b>1</b>	32.5	31.2	29.9	-4.0%	-8.0%
<b>2</b>	32.5	32.5	30.9	0.0%	-4.9%
<b>3</b>	32.5	32.2	28.6	-0.8%	-12.0%

## Key Impacts & Challenges

The scenarios presented do not reflect the additional £600k allocated in July 2017 to meet payroll costs for the restructured and reduced PPS capacity model.

The PPS has undergone a comprehensive internal transformation programme, which has resulted in the organisation delivering major cost savings. On the basis of 2011-12 projections, had the PPS continued under the operational model at that point in time the budget necessary

for 2017-18 would have been £42 million; the 2017-18 outturn is now anticipated at £33 million.

As a result of the transformation programme the PPS estate has reduced from 8 to 4 locations and to half of the original office space. Staffing also reduced by 20% over the last 5 years but continues to represent approximately 60% of our reduced expenditure, as a front line service. The costs of engagement of Counsel remain controlled by a fee scheme aligned to the defence.

As a direct consequence of these changes, while the organisation is leaner it is now less resilient to deal with potential work peaks. The PPS has limited opportunities to make any further material staff reductions and these could only be generated from natural wastage or a centrally funded compulsory redundancy programme.

Further operational savings can only be delivered from revisions to the criminal justice system, which require the co-operation of all parties. While work is on-going to deliver cross-sector changes there are no material savings achievable in the next 2 year horizon.

Scenario two would provide PPS with the most favourable outcome but none of the scenarios would present a sustainable position for 2019-20. The PPS considers that any further budget reductions would seriously limit the ability of PPS to fully deliver its statutory function at the current service levels. The inevitable outcome of such change would be increased delay in the time taken to make prosecution decisions and conduct cases, so leading to higher risks of prosecutions falling outside statutory time limits and becoming statute barred.

## OTHER NON-MINISTERIAL DEPARTMENTS

Figure 6.11:

Non Ring Fenced Resource DEL	2018-19	2019-20
Food Standards Agency	8.1	8.1
NI Audit Office	7.0	7.0
NI Authority for Utility Regulation	0.2	0.2
Northern Ireland Public Services Ombudsman	2.7	2.7
Northern Ireland Assembly	38.4	38.4

**Northern Ireland Assembly Commission (NIA)** – The Northern Ireland Assembly Commission is the body corporate for the Northern Ireland Assembly. Established in 1998, the Assembly holds Ministers and their departments to account in carrying out assembly functions. Within the Assembly, the Assembly Commission, whose role is defined by the Northern Ireland Act 1998, ensures the Assembly is provided with the property, staff and services required for the Assembly to carry out its work and engage with the public. The NIA is not represented by a Minister.

**Northern Ireland Public Sector Ombudsman (NIPSO)** – the Ombudsman provides for the independent investigation of complaints by people who claim to have suffered injustice through maladministration by Northern Ireland government departments, their agencies and public bodies. Also included are complaints about judicial appointments under the separate designated Office of Northern Ireland Judicial Appointments Ombudsman (NIJAO). In the Ombudsman’s role as Local Government Commissioner for Standards, the Office also provides an independent investigative and adjudication resource for ethical standards complaints against local councillors in Northern Ireland.

**Food Standards Agency (FSA)** – the FSA aims to protect public health from risks arising in connection with the consumption of food and interests of consumers in relation to food.

**Northern Ireland Audit Office (NIAO)** – seeks to hold public bodies to account for the way they use public money. It also seeks to promote accountability, aims to provide objective information, advice and assurance on how public funds have been used and to encourage high standards in financial management, good governance and propriety in the conduct of public business.

**Northern Ireland Authority for Utility Regulation (NIAUR)** - the Utility Regulator is an independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers. It is governed by a Board of Directors and is accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

# Chapter Seven: Capital DEL Approach

## Terminology

The NI Capital Budget is made up of two key elements, conventional Capital and Financial Transactions Capital (FTC). Conventional Capital DEL reflects normal investment in assets which will provide or underpin services in the longer term (for example hospitals, schools, roads etc.).

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

## Approach

The nature of Capital expenditure means that Budgets are rarely uniform across years. For example, a department may require Capital funding for a building in one year, but not require further significant Capital funding until the building is due to be replaced.

In this regard, when considering Capital budgets, a zero-based approach is taken. This means that no Capital funding is assumed for departments and Capital projects will be funded on a priority basis with existing contractual, health and safety and Executive commitments being funded first.

This approach has resulted in a single Capital DEL Budget scenario which is set out below. However an incoming Executive may decide to take an alternative approach.

The current Budget scenario does not take into account potential borrowing under the Reinvestment and Reform Initiative until 2020-21.



## **Investment Strategy**

The Programme for Government will be supported by an Investment Strategy that will set out the forward programme for investment in public infrastructure, identifying priority areas for investment in order to help government and the private sector partners plan ahead.

## **RRI Borrowing**

The Reinvestment and Reform Initiative, announced in May 2002, included a new borrowing power intended to support a substantial infrastructure investment programme in Northern Ireland. It provided access to borrowing from the National Loans Fund of £125 million in 2003-04 and, from 2004-05, a longer term borrowing facility initially capped at £200 million per annum. Although used to fund Capital DEL expenditure the borrowing itself counts as AME and therefore provides funding over and above the Northern Ireland Executive's DEL.

The formal RRI borrowing limit is agreed by HM Treasury as part of the Spending Review process. In Spending Review 2015 it was maintained at £200 million. In addition, under Together: Building a United Community (T:BUC), announced in 2013, the Executive was able to access an additional £100 million to use on shared education or housing projects.

The Stormont House Agreement provided the Executive with the flexibility to use £700 million of capital borrowing to fund a Voluntary Exit Scheme over a period of four years, with £200 million in 2015-16, £200 million in 2016-17, £200 million in 2017-18 and £100 million in 2018-19.

To address concerns that this approach would limit access to borrowing for important capital projects, the Stormont House Agreement also provided for up to £350 million of additional borrowing to support important capital investment projects. The spending profile is across four years with a limit of £100 million in 2015-16, £100 million in 2016-17, £100 million in 2017-18 and £50 million in 2018-19.

Figure 7.1 sets out actual and planned borrowing from the introduction of the RRI borrowing facility to the end of the 2017-18 period.

**Figure 7.1: Actual and Planned Use of RRI Borrowing Facility**

<b>£million</b>	<b>NLF Borrowing</b>	<b>On-Balance Sheet PFI</b>	<b>Total Use of RRI Borrowing Facility <sup>3</sup></b>
2003-04	79.4	-	79.4
2004-05	168.7	-	168.7
2005-06	162.9	-	162.9
2006-07	214.6	-	214.6
2007-08	97.6	-	97.6
2008-09	16.6	243.4	260.0
2009-10	113.1	132.9	246.0
2010-11	<sup>1</sup> 36.9	200.0	236.9
2011-12	<sup>2</sup> 375.0	-	375.0
2012-13	150.9	-	150.9
2013-14	195.9	-	195.9
2014-15	259.2	-	259.2
2015-16	296.5	-	296.5
2016-17	357.8	-	357.8
2017-18 ( <i>plans</i> )	51.1	-	51.1
<b>TOTAL</b>	<b>2,430.1</b>	<b>576.3</b>	<b>3,006.4</b>

<sup>1</sup> 2010-11 includes borrowing to fund NICS Equal Pay claim – funded from previously undrawn borrowing

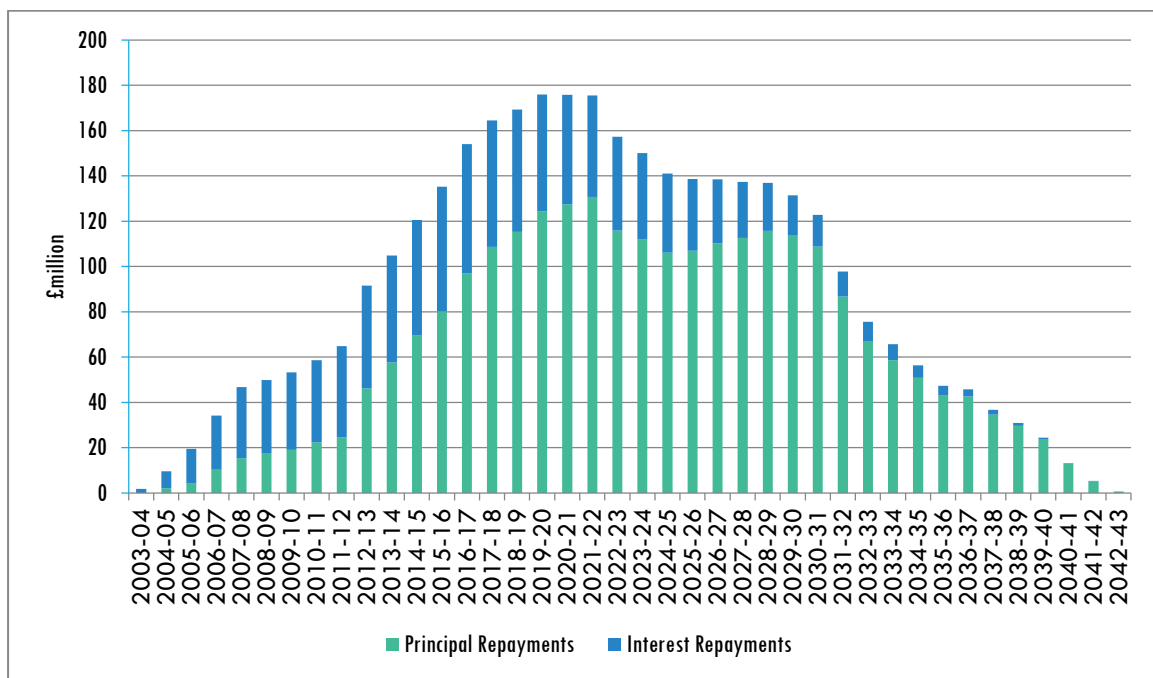
<sup>2</sup> 2011-12 includes £175 million additional borrowing power iro Presbyterian Mutual Society rescue package

<sup>3</sup> In any other year total use of borrowing in excess of £200 million is due to HM Treasury approved access to previously undrawn borrowing, or new borrowing under T:BUC or the Stormont House Agreement

Based on the outturn and plans shown in Table 4.3, £55.2 million has been set aside to cover the forecast annual interest repayment on RRI loans for 2018-19.

The level of outstanding debt (i.e. loans drawn less principal repaid) in respect of these RRI loans will be an estimated £1,840 million at the end of 2018-19.

**Figure 7.2: Estimated Annual Costs of Borrowing**



### Principal

Repayment of RRI principal is a first call on the Regional Rate income. This has the effect of reducing the amount of funding that can be directed towards other public services.

## Interest

For 2018-19, the £55.2 million budget for interest payments in respect of RRI borrowing equates to 0.5 per cent of the Executive's overall non ring-fenced Resource DEL Spending Review outcome of £10 billion.

Although interest repayments reduce over the term of the loan, the annual interest repayment based on the loans planned to the end of 2018-19 will still be approximately £21.1 million in 2028-29. These forecasts are based on interest rates remaining at around the current level until the end of 2018-19. Should interest rates rise significantly before the end of 2018-19 then the forecast interest repayments will also rise.

**In that regard, an incoming Executive might need to consider whether to borrow additional amounts for Capital Investment under the RRI scheme, with the associated indebtedness and repayment costs.** If so, this would increase the funds available for investment which are outlined below.

## Proposed Conventional Capital Outcome

The table below sets out the level of capital budget which is available for reallocation in 2018-19, 2019-20 and 2020-21, which is mainly financed through the Northern Ireland Block Grant.

**Figure 7.3: Capital Funding Sources**

<b>Capital Funding Sources</b>	<b>£million</b>		
	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
HMT Capital DEL Block Grant	1,185.3	1,288.4	1,350.2
RRI Borrowing*	0.0	0.0	76.8
ROI Funding	25.0	25.0	25.0
UKG Confidence and Supply Financial Annex	200.0	275.0	75.0
<b>Total</b>	<b>1,410.3</b>	<b>1,588.4</b>	<b>1,527.1</b>

\*Subject to Ministerial agreement

## Fresh Start

In addition to the amounts in the table above, there is a further £50 million available in each of the three years for drawdown for shared and integrated education and shared housing. Projects and final profiling of this funding will be a matter for agreement with NIO and HMT.

## Financial Annex to Confidence and Supply Agreement

The departmental Capital DEL scenarios have assumed £200 million will be drawn down in 2018-19 and 2019-20 of the infrastructure funding arising from the financial annex to the Confidence and Supply agreement. The specific projects to be funded through these resources are yet to be determined. Also £75 million is assumed within 2019-20 and 2020-21 for investment in broadband by the Department for the Economy. Whilst this is a working assumption for the purposes of this consultation, the funding and profile require agreement with HM Treasury and an incoming Executive and need the approval of both Parliament and the Assembly.

## Proposed Scenario of Funding to Departments

Following the approach that capital projects will be funded on a priority basis with existing contractual, health and safety and Executive commitments being funded first, a proposed scenario for a capital budget to departments is set out below. Information about what this potential funding would mean to each department's capital programme is set out later in this chapter.

**Figure 7.4: Capital Scenario**

£million	2018-19	2019-20	2020-21
DAERA	77.6	79.8	80.4
DfC	184.2	203.8	182.3
DfE	81.3	148.9	144.7
DE	164.6	166.7	167.3
DoF	27.3	59.7	69.5
DoH	260.9	284.6	300.1
DfI	500.8	530.1	471.8
DoJ	87.1	84.4	73.4
TEO	24.5	28.2	35.2
FSA	0.2	0.2	0.2
NIA	0.8	1.2	1.5
NIAO	0.0	0.0	0.0
NIAUR	0.0	0.0	0.0
NIPSO	0.1	0.0	0.0
PPS	0.9	0.8	0.7
<b>Total Departments</b>	<b>1,410.3</b>	<b>1,588.4</b>	<b>1,527.1</b>

## Flagships

The previous Executive set out a number of key Capital ‘Flagship’ projects that it wished to see delivered. These flagship projects are set out in the table below along with an updated spending profile. These spending profiles are included in the proposed capital scenario above.

**Figure 7.5: Flagship Profiles**

**£million**

<b>Departmental Flagship Projects</b>			
	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
A5 Road	17.5	63.0	61.0
A6 Road	103.0	100.5	100.1
Belfast Rapid Transport	17.1	0.3	-
Belfast Transport Hub	19.8	66.8	60.1
Mother and Children's Hospital	35.0	50.0	100.0
Desertcreat	5.7	18.8	17.7
Regional and Sub-Regional Stadia	24.7	35.0	29.1
<b>Total</b>	<b>222.8</b>	<b>334.4</b>	<b>368.0</b>

## Financial Transactions Capital

In 2012-13 the UK Government introduced Financial Transactions Capital in order to boost investment. Northern Ireland has benefited from this additional funding through allocations in the Chancellor’s UK Budgets and Autumn Statements. Most recently, in the Chancellor’s Autumn Budget on 22 November 2017 a significant increase to the FTC Budgets was announced.

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

The following table sets out the proposed FTC scenario.

**Figure 7.6: FTC Table**

<b>£million</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
DAERA	-	50.5	-
DfC	16.2	36.4	36.6
DfE	40.4	33.5	48.6
TEO	30.0	-	30.0
Unallocated	95.5	71.8	72.7
<b>Total</b>	<b>182.1</b>	<b>192.3</b>	<b>188.0</b>

### ***Northern Ireland Investment Fund***

On 15 November 2017, the Department of Finance announced a new £100 million Investment Fund aimed at promoting investment, jobs and growth in Northern Ireland.

The Fund will be managed by CBRE and the main areas targeted for investment through this initiative are mixed use site development; offices; industrial, warehousing and distribution facilities; research and development facilities; site remediation and access; other physical development that supports economic growth; energy efficiency, energy storage; and energy generation from solar, wind, hydro and waste to energy projects.

The Fund will provide loans or equity to local project promoters on commercial terms. Project promoters can apply for funding directly with CBRE, who will take all of the investment decisions.

The £100 million will be provided to CBRE via the Executive Office in three tranches, with the initial £40 million tranche of funding expected to be disbursed in January 2018. Further tranches will then depend on CBRE meeting certain commitment and disbursement targets. It is expected that the £100 million is recycled by CBRE to deliver more than one investment cycle over the life of the Fund. Furthermore, CBRE is also obliged to deliver at least an equivalent level of private sector



leverage. One investment cycle alone, therefore, will support at least £200 million of investment in the local economy.

## Department of Agriculture, Environment and Rural Affairs

Figure 7.7

	£million		
<b>DAERA</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Receipts	-26.9	-32.1	-30.0
Contractual	85.7	76.4	59.8
Executive	0.3	-	-
High Priority	8.6	25.6	40.6
Transformation	10.0	10.0	10.0
<b>DAERA Total</b>	<b>77.6</b>	<b>79.8</b>	<b>80.4</b>

### Key Deliverables

The **Programme capital** includes:

- Completing the relocation to Ballykelly on time and within budget;
- Extending the Tackling Rural Poverty and Social Isolation (TRPSI) programme;
- Implementing *Going for Growth* schemes such as the FBIS and the Food Processing Grant scheme;
- Progressing other RDP schemes such as LEADER, Environmental Farming Scheme, Rural Tourism and Forestry;
- Taking forward the Waste Recycling scheme with councils;
- Progressing the Sustainable Agricultural Land Management Strategy actions;
- Continuing to promote the fisheries industry under the European Maritime and Fisheries Fund programme;
- Providing the Loughs Agency of the Foyle, Carlingford and Irish Lights Commission (FCILC) to take forward its capital programmes; and
- Assisting the Livestock and Meat Commission to progress its capital programmes.

The **IT Systems capital** includes:

- Progressing the Digital Transformation Programme which is essential to support DAERA's service delivery and PfG 11 indicator – *usage of online channels to access public services*; and
- Replacing the existing APHIS system by the ICT element of the NI Food Animal Information System (NIFAIS) Programme.

The **R&D capital** includes:

- Supporting the R&D work that AFBI proposes to undertake; and
- Funding a range of other R&D work across DAERA.

In addition, an initial £50.5 million Financial Transactions Capital has been allocated in 2019-20 to assist arc21 deliver its proposed waste treatment infrastructure. Further work is required with the Strategic Investment Board to firm up the profile of this expenditure.

## **Key Challenges**

There is an urgent need to invest in DAERA's programmes, ICT systems, R&D and ageing estate. Whilst there have been comparatively low levels of capital investment in the past, these increases are welcomed. Although the Department is currently planning to take forward all of these programmes, the capacity to deliver will be determined by the Resource DEL position and staffing levels.

## Department for Communities

Figure 7.8

DfC	2018-19	2019-20	£million 2020-21
Receipts	-87.4	-80.8	-75.7
Flagship	24.7	35.0	29.1
Contractual	89.2	82.9	80.1
Executive	102.2	84.1	76.2
High Priority	55.6	82.6	72.6
<b>DfC Total</b>	<b>184.2</b>	<b>203.8</b>	<b>182.3</b>

### Key Deliverables

This would enable the Department to deliver all of its contractual and executive commitments. This includes:

- completing Coleraine Library refurbishment;
- maintaining the ALBs' property estates;
- completing Enniskillen's Public Realm scheme;
- provision of discretionary support loans;
- meeting current contractual commitments in relation to the New Build programme and renovation grants;
- complete renovations to Downpatrick's Jobs and Benefits Office;
- complete Portrush Public Realm work ahead of it hosting 2019's British Open golf championship; and
- progress Casement Park project and the sub regional programme for soccer.

The remaining capital budget available would deliver a limited proportion of the Department's proposed high priority projects subject to decisions of an incoming Minister.

### Key Challenges

The capital budget set out here falls significantly short of the funding requested. The limited budget available for High Priority expenditure would significantly limit the Department's ability to deliver projects across its wide remit.

The challenges for the Department, within a constrained budget, include being able to continue to;

- provide access to decent, affordable, sustainable homes and housing support services;
- improve the physical, cultural, economic, community and social environment of neighbourhoods, towns and cities; and
- protect, conserve and enhance our diverse built heritage and support principles of sustainable development, so that it can be enjoyed by future generations.

## Department for the Economy

### Capital DEL Scenario

Figure 7.9

DfE	£million		
	2018-19	2019-20	2020-21
Receipts	-27.8	-14.8	-14.8
Contractual	54.9	47.0	24.3
Executive	28.0	1.5	-
High Priority	26.2	40.2	60.2
Confidence and Supply Annex		75.0	75.0
<b>DfE Total</b>	<b>81.3</b>	<b>148.9</b>	<b>144.7</b>

### Key Deliverables

The Capital DEL scenario would support the Department's activities and projects across a number of investment measures. It would provide funding for:

- Invest NI's existing capital commitments and the provision of Selective Financial Assistance (SFA) support to new projects on an ongoing basis;
- Tourism NI capital investment;
- Continued work on a telecoms superfast broadband extension programme; and
- Continual investment in Higher and Further Education.

### Key Challenges

- The key challenge for the Department would be the ability to progress a range of new projects in 2018-19 which require conventional capital as currently the Department has contractual commitments of approximately £55.0 million in 2018-19.

### Financial Transactions Capital

FTC would be used by Invest NI and Higher Education to support a range of projects.

**Figure 7.10: FTC Budget**

<b>£million</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
<b>DfE Total</b>	<b>40.4</b>	<b>33.5</b>	<b>48.6</b>

### **Funding in Financial Annex to Confidence and Supply**

**Figure 7.11: Confidence and Supply Funding**

<b>Ring-fenced Conventional Capital (£m)</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Confidence and Supply Financial Annex – Broadband Funding	-	75.0	75.0
<b>Total</b>	<b>-</b>	<b>75.0</b>	<b>75.0</b>

## Department of Education

Figure 7.12

	£million		
DE	2018-19	2019-20	2020-21
Contractual	95.8	56.8	53.3
High Priority	68.7	109.9	114.0
<b>DE Total</b>	<b>164.6</b>	<b>166.7</b>	<b>167.3</b>

### Key Deliverables

DE invests in a range of Capital programmes:

- Shared Education Campus Projects (under the Executive's Together: Building a United Community strategy headline action funded through Fresh Start capital) – projects of various sizes involving schools from different sectors where facilities are used or campuses created on a cross-sectoral basis;
- Major Works – typically school new builds;
- School Enhancement Programme (SEP) – capital projects up to £4 million which are typically extensions or refurbishments of existing school buildings;
- Minor Works – smaller capital works up to £0.5 million;
- Youth Capital – investment in capital projects in the youth sector; and
- Other Capital – typically IT, Transport and other non-construction projects.

The Capital DEL outlined here would enable DE to meet existing contractual commitments and progress a range of other projects. However it would not be sufficient to meet demand across all of the DE Capital programmes.

The key impacts based on the proposed scenario are as follows:

- Major works programmes would be protected where possible to avoid delays to these projects;
- Minor works would be maintained at the minimum budget deemed viable for the education estate;
- Construction of the second tranche of SEP projects would be delayed into 2021-22; and



- Major IT and transport investments would be delayed beyond the three year review period.

### **Key challenges**

The Strule Programme is a strategically and educationally significant shared education project which was previously funded separately at Government level. This arrangement has now expired.

There is a significant affordability risk regarding delivery of the totality of the DE Capital programme without additional Capital budget to cover Strule. The above outcomes are based on the assumption that the Strule Shared Education Campus Programme project may be eligible for funding under Fresh Start Agreement (FSA) Capital. Engagement will continue between the NICS officials and the UK Government about the availability of FSA funding for this project.

## Department of Finance

Figure 7.13

DoF	£million		
	2018-19	2019-20	2020-21
Receipts	-1.5		
Contractual	2.4	1.8	1.7
High Priority	19.4	17.9	17.9
Transformation	7.0	40.0	50.0
<b>DoF Total</b>	<b>27.3</b>	<b>59.7</b>	<b>69.5</b>

### Key Deliverables

The capital DEL outlined here would allow the Department to meet its ongoing 'business as usual' capital commitments. This would ensure IT systems are up to date on cyber security measures, continue with provision of new and re-freshed IT equipment to all NICS staff and provide for systems updates required to implement legislative change. It would also allow for essential capital maintenance work to continue on the office estate.

The contractual requirements cover bids for firm legal or contractual obligations for costs which if not met may lead to proceedings being taken against the Department.

The high priority requirements cover those bids in areas which are deemed to be important in either delivering the key areas covered in the Programme for Government or dealing with other emerging issues of comparable importance.

In order for the Department to deliver its three transformation programmes (LPS Nova, the Public Sector Shared Services Programme and Reform of Property Management) it requires significant capital investment. The transformation capital budget would not be sufficient to deliver all three programmes in full.

A priority for the Department is the need to continue to maximise the collection of rates. In this regard, priority would be given to ensuring that appropriate IT infrastructure is procured to replace the current commercial provision arrangements that are nearing an end.

The Department is undertaking a prioritisation exercise to inform any future Ministerial decisions in terms of prioritising delivery of the wider transformation programmes.

### **Key Challenges**

As the lead Department for delivering Executive commitments in relation to the Asset Management Strategy and the expansion of shared services across the public sector, the key challenge is to ensure that the available capital budget for Northern Ireland is prioritised to those areas that will generate the maximum financial savings for Northern Ireland as a whole.

## Department of Health

Figure 7.14

DoH	£million		
	2018-19	2019-20	2020-21
Receipts	-1.9	-2.3	-0.5
Flagship	40.7	68.7	117.6
Contractual	172.6	135.0	102.8
High Priority	25.8	36.2	8.8
Transformation	23.6	46.9	71.5
<b>DoH Total</b>	<b>260.9</b>	<b>284.6</b>	<b>300.1</b>

### Key Deliverables

The Capital DEL outlined above would allow the Department to continue with important infrastructure schemes like the redevelopment of the Ulster Hospital and Altnagelvin Area Hospital, Belfast City Hospital Mental Health Inpatient Unit as well as a new aseptic suite and additional MRI scanner on the Craigavon hospital site. It would provide funding for a significant investment in a new digital platform to support the transformation through development of an integrated electronic health care record. The available budget would also finance important investments in research and development, ICT, medical equipment and in the fleet and estate of the Ambulance Service.

In addition, the Department would be able to continue with the development of a logistics support centre which adapts a 'One Stop Shop' concept within the Stores Department and Transport and Engineering Services of the Fire and Rescue Service. The available budget would also finance important investments in Fire and Rescue Service fleet and estate.

### Flagship Projects

The Department would take forward the delivery of its two Executive flagship projects:

- Regional Mother and Children's Hospital – comprising a new Regional Children's Hospital & new Royal Victoria Hospital Maternity Hospital; and
- Community Safety College at Desertcreat.

## **Investment**

Major projects would be managed within the available budget and would include:

- Ulster Hospital Phase B Acute Service Block;
- Craigavon Area Hospital and Antrim Area Hospital Redevelopments;
- Altnagelvin Hospital – ongoing redevelopment;
- New acute mental health facilities;
- Investment in additional Primary and Community Care hubs;
- Investment in Primary care facilities province wide;
- Theatre and Diagnostic Equipment modernisation;
- NIFRS Logistics Support Centre; and
- Further development and/or replacement of a number of Fire Stations.

## **Key Challenges**

The capital resources provided represent a step change in the Department's capital development programme to be delivered during the next 5-10 years. There is some indication that the NI construction market for supply of such specialist facilities may be at or near capacity and this budget growth is likely to be offset by higher construction inflation which is currently running in excess of general RPI inflation.

In addition, a number of HSC bodies are considering quite sizeable long term redevelopment and obtaining and retaining specialist project management and delivery expertise for the scale of these investments whilst managing an existing capital programme may be challenging.

## Department for Infrastructure

Figure 7.15

Dfi	£million		
	2018-19	2019-20	2020-21
Receipts	-0.8	-0.6	-0.5
Flagship	157.4	230.6	221.2
Contractual	38.6	28.8	6.9
Executive	176.8	180.8	185.8
High Priority	124.8	86.5	54.4
Transformation	4.0	4.0	4.0
<b>Dfi Total</b>	<b>500.8</b>	<b>530.1</b>	<b>471.8</b>

### Key Deliverables

The following provides the key actions for the Department:

- Progression of Flagship projects – A5 and A6 roads schemes, Belfast Rapid Transit and Belfast Transport Hub, together with the York Street Interchange project;
- Deliver enhancement projects to replace and renovate water and waste water and investment in water and sewerage services to maintain existing assets and improve services to customers;
- Construction and maintenance of roads, bridges, walking and cycling infrastructure, footpaths, street lighting and car parks;
- Progress the development of flood alleviation systems and drainage infrastructure;
- Undertake safety critical projects to ensure safe operations on the bus and rail networks;
- Develop a new IT system to support the planning system across Northern Ireland.

## Flagships

The capital DEL outlined above would allow progress on key Executive flagship projects: the A5 and A6 to construction stage; Belfast Transport Hub and the Belfast Rapid Transit Scheme; and develop a new integrated Transport Ticketing System. Further details of the scheme are as follows:

- Subject to the successful completion of statutory procedures, construction of the first phase of the A5 Western Transport Corridor project, between Newbuildings and Strabane, would commence in early 2018 with an estimated completion date by the end of 2020.
- The Department is currently progressing two separate elements on the A6 Flagship project to improve connectivity between Londonderry and Belfast; the Randalstown to Castledawson and Londonderry to Dungiven dualling schemes. Total cost of the schemes is estimated at around £450 million.
- The Department for Infrastructure is fully committed to the delivery of Belfast Rapid Transit, a transformational public transport project for Belfast and a Flagship Project for the Northern Ireland Executive. Work on the implementation of the first phase of the Belfast Rapid Transit system is well underway and is scheduled to become operational in September 2018.
- The Belfast Transport Hub is a transport-led regeneration project that aims to provide a state of the art, multi-modal transport interchange at the Great Victoria Street site. The Hub is to be the main public transport gateway for Belfast, with rail and bus connections to all parts of Northern Ireland, as well as being the main rail and coach link to Dublin. It would also provide connections to major airports. It is envisaged that the project would complete by 2022 and cost around £200 million.

## **Key Challenges**

Over the three years flagship commitments now consume 40% of DfI's total capital funding and when NI Water's PC 15 commitments are met, this rises to some 77%.

This severely restricts the amount available for essential safety related roads and public transport maintenance, greenway and cycling provision, together with the purchase of new buses and trains.

After including the funding of York Street Interchange, contractual and Transformation projects, there remains on average across the three years, some £50 million to fund all remaining maintenance programmes, including roads structural maintenance, and other capital projects. Our estimated requirements are in excess of £150 million.

This budget scenario prioritises investment in flagship projects. It would be desirable to spend more on maintenance and the Department would seek opportunities to address this in year.

### **Transformation - LED Retrofitting**

The project aims to convert street lighting in Northern Ireland to high quality LED fittings that have low energy use and a long service life. The project could reduce the cost of operating and maintaining street lighting by up to 50%, and if fully implemented across Northern Ireland would generate revenue savings of approximately £7.5 million per year. This initial funding of £4 million per year would generate £1.2 million in resource savings by 2020-21, based on current energy prices. The estimated total cost for the full programme is approximately £50 million. Upon completion of the full investment, based on a ten year rollout payback is estimated to be achieved within 6 years.



## Department of Justice

Figure 7.16

DoJ	£million		
	2018-19	2019-20	2020-21
Contractual	26.4	2.9	0.4
Executive	25.3	19.1	14.6
High Priority	30.4	52.4	53.4
Transformation	5.0	10.0	5.0
<b>DoJ Total</b>	<b>87.1</b>	<b>84.4</b>	<b>73.4</b>

### Key Deliverables

The draft Capital DEL outcome would allow the Department to progress the key capital projects set out below. However, decisions would be taken in conjunction with consideration of the available Resource DEL funding. This is to ensure, for example, that the Department had sufficient Resource DEL to run and maintain its capital estate. Key projects that would be delivered are as follows:

#### Access to Justice Directorate

- Legal Services Agency NI Digitisation

#### Safer Communities Directorate

- IT changes to support Committal Reform

#### Reducing Offending Directorate

- Key components of the modernisation of the Prison Estate including the Maghaberry 360 accommodation block, commencing the reconfiguration of Magilligan prison including the upgrade of the Magilligan energy supply and the provision of a new facility for women; and
- Crucial infrastructure and health and safety works across three establishments.

#### Police Service NI

- Key infrastructure and health and safety works across the PSNI estate;
- Investment in vehicles;
- Investment in Security;

- IT upgrades and modernisation particularly focussing on digitisation; and
- Investment in custody provision to enable fit for purpose facilities for vulnerable detained persons.

## **Key Challenges**

The draft Capital DEL scenario is significantly less than the total capital requirements in each of the three years 2018-19 to 2020-21. As a result, prioritisation would be required taking into account factors such as contractual commitments and risks such as security and health and safety. In addition, a number of projects planned for this three year period would have to be rescheduled or postponed.

Other challenges presented by the draft capital DEL settlement include the limited capacity to react to emerging needs and there would be little capacity to invest and transform. This, for example, could result in mounting repairs and maintenance costs which would place further pressure on the limited Resource DEL budget.

## The Executive Office

Figure 7.17

	£million		
TEO	2018-19	2019-20	2020-21
Receipts	-0.6	-0.6	-0.6
Contractual	1.4	-	-
Executive	22.8	27.8	34.8
High Priority	1.0	1.0	1.0
<b>TEO Total</b>	<b>24.5</b>	<b>28.2</b>	<b>35.2</b>

### Key Deliverables

The proposed Capital DEL scenario provides TEO with funding to take forward a number of key Executive commitments, including:

- A significant investment of £45 million in relation to the **Urban Villages** (UV) programme. UV is a Headline Action within the T:BUC Strategy and is designed to improve good relations outcomes and develop thriving places where there has been a history of deprivation and community tension. The Department is working closely with community and other stakeholders to develop and design a wide range of capital projects which improve the physical environment; build community capacity and foster positive community identities.
- The Department is managing and progressing the development of the **Ebrington** site and is working towards the transfer of the site to Derry City and Strabane District Council. Significant progress has been made to date including bringing utilities to the site; completing works in relation to seven buildings; and marketing of the site which has produced expressions of interest for all available buildings and land. The Capital DEL outlined here would allow the Department to complete the construction of the main entrance and exit road to the site from the Limavady Road and to complete essential maintenance, infrastructure and enabling works. The Department is also progressing the development of significant Grade A Office accommodation on the site.

- The proposed Capital DEL scenario would support the continued development of approximately 50 capital projects within the **Social Investment Fund**. These projects include refurbishments to existing properties and new builds, involving over 100 premises, with the aim of addressing dereliction and increasing services in the community.
- The proposed scenario provides for essential health and safety work within the **Maze Long Kesh** site.

### **Key Challenges**

The Capital DEL scenario provides TEO with resources to take forward a number of significant Executive programmes and commitments. The Department is making the necessary preparations to ensure the successful delivery and implementation of these projects.

## NON-MINISTERIAL DEPARTMENTS

Figure 7.18

<b>Conventional Capital</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Food Standards Agency	0.2	0.2	0.2
NI Audit Office	0.0	0.0	0.0
NI Authority for Utility Regulation	0.0	0.0	0.0
Northern Ireland Public Services Ombudsman	0.1	0.0	0.0
Northern Ireland Assembly	0.8	1.2	1.5
Public Prosecution Service	0.6	0.8	0.7

## CAPITAL DEL TRANSFORMATION

Figure 7.19

£million

Department/Priority	2018-19	2019-20	2020-21
<b>DAERA</b>			
Digitisation	10.0	10.0	10.0
<b>Dfi</b>			
LED street Lighting	4.0	4.0	4.0
<b>DoF</b>			
Shared Services, Digitisation	7.0	40.0	50.0
<b>DoH</b>			
Health and Wellbeing – Delivering Together	23.6	46.9	71.5
<b>DoJ</b>			
Access to Justice/NI Courts & Tribunal Service/Reducing Offending/PSNI	5.0	10.0	5.0
<b>Grand Total</b>	<b>49.6</b>	<b>110.9</b>	<b>140.5</b>

# Chapter Eight: Equality Impact

## Background

In line with Equality Commission guidance that equality considerations should be mainstreamed into the policy decision process, departments need to ensure that the equality and sustainable development impacts of options are appropriately considered.

## Statutory Equality Obligations

Section 75 and Schedule 9 to the Northern Ireland Act 1998 came into force on 1 January 2000. They place a statutory obligation on public authorities to ensure that they carry out their various functions with due regard to the need to promote equality of opportunity between:

- Persons of different religious belief;
- Persons of different political opinion;
- Persons of different racial group;
- Persons of different age;
- Persons of different marital status;
- Persons of different sexual orientation;
- Men and women generally;
- Persons with a disability and persons without; and
- Persons with dependants and persons without.

In addition, public authorities are also required to have regard to the desirability of promoting good relations between persons of different religious belief, political opinion, and racial group.

From January 2007 public authorities are also required to have due regard to the need to promote positive attitudes towards people with a disability and to encourage participation in public life by people with a disability.

## **Equality Assessments**

A cumulative impact assessment will be prepared, based on information from departments and any other feedback, to allow an incoming Executive to take fully informed budgetary decisions.

Once Ministers have made decisions, those decisions will continue to be subject to specific equality screening and, where appropriate, full Equality Impact Assessments (EQIAs) by departments, their agencies and relevant statutory authorities, as part of their respective equality schemes and in accordance with the criteria set out in the guidance produced by the Equality Commission for Northern Ireland.

In that context the NICS Board, alongside any incoming Executive, will ensure that departments, government agencies and relevant statutory authorities continue to meet their obligations under Section 75 and Schedule 9.

Details of departmental Equality Screening and EQIAs on relevant programmes and projects will be available on individual departmental websites at the appropriate stage.



# Chapter Nine: Feedback

You may have feedback on this briefing document which could help inform future decisions on the budget by an incoming Executive.

Any feedback is welcome. In providing feedback, you may wish to refer to the questions set out below.

## **Centrally Held Budgets**

1. Are there centrally held items that should be stopped, reduced or increased?

## **Income Generation/Review of Policies**

1. What are your views on household charges and whether they should be higher in order to provide more funding for public services such as health?
2. Given current pressures, are there services which are currently being provided for free or subsidised that should attract a charge?
3. Do you believe we should be charged the same for services as in other parts of the UK?
4. What existing policies do you think should be reviewed in order to provide more funding for public services such as health?

## **Resource Scenarios**

1. Do you agree with the proposed basis for protection of some departmental budgets or do you have an alternative suggestion?
2. Do you have a preference for a particular scenario?
3. What are the merits of each scenario?
4. What are the disadvantages of each scenario?

## **Capital**

1. Do you support the proposed capital scenario?
2. Do you have alternative proposals for the allocation of capital – if so, what are they and how would they be financed (e.g. reducing the capital available to a department or accessing RRI funds)?
3. What would be the best use of the currently unallocated FTC funding?

Details of how to provide feedback can be found on the Department of Finance website:

<https://www.finance-ni.gov.uk/articles/briefing-northern-ireland-budgetary-outlook-2018-20>

Alternatively you may provide input via the following methods:

Email: [budgetbriefing2018@finance-ni.gov.uk](mailto:budgetbriefing2018@finance-ni.gov.uk)

Postal Address:

Budgetary Outlook 2018-20  
Room S1  
Rathgael House  
Balloo Road  
Bangor  
BT19 7NA

**Your views are requested by 26 January 2018.**

## **Economic Context**

We face a difficult economic context. Figure 1 sets out the latest economic growth forecasts globally and for the Euro area, the Republic of Ireland (RoI) and the UK.

According to the International Monetary Fund (IMF), the global upswing in economic activity is strengthening, with **world growth** expected to rise from 3.2 per cent in 2016 to 3.6 per cent in 2017 and 3.7 per cent in 2018.

*Figure 1 – Global, Euro area, RoI and UK growth forecasts*

	2017	2018	2019
<b>Global<sup>5</sup></b>	3.6%	3.7%	3.7% <sup>6</sup>
<b>Euro area<sup>7</sup></b>	2.2%	2.1%	1.9%
<b>RoI<sup>8</sup></b>	4.3%	3.5%	-
<b>UK<sup>9</sup></b>	1.5%	1.4%	1.3%

In its latest forecasts, the EU Commission predicts the fastest rate of **euro area GDP growth** in a decade in 2017, at 2.2 per cent. Growth is expected to continue into 2018 and 2019 but at a marginally slower pace.

In Budget 2018, the Irish Government expects the **RoI economy** to slow this year but remain strong, with growth of 4.3 per cent in 2017 and 3.5 per cent in 2018 - compared to 5.1 per cent in 2016. While the overall Irish outlook remains positive, uncertainty persists in the external environment, particularly in relation to the potential implications of ongoing negotiations on the UK's departure from the EU.

At the **UK level**, OBR Autumn Budget forecasts substantially revised downwards their previous 2017 growth forecast, to 1.5 per cent (from 2.0 per cent). UK economic growth is predicted to fall back further in 2018 and 2019. Households' real incomes and spending have been

<sup>5</sup> International Monetary Fund World Economic Outlook, October 2017

<sup>6</sup> 2019-22 average.

<sup>7</sup> EU Commission, Autumn 2017 Economic Forecast

<sup>8</sup> RoI Budget 2018, October 2017

<sup>9</sup> OBR, Economic and Fiscal Outlook, November 2017

impacted by higher inflation and while employment growth has been strong, weak productivity growth remains a key concern.

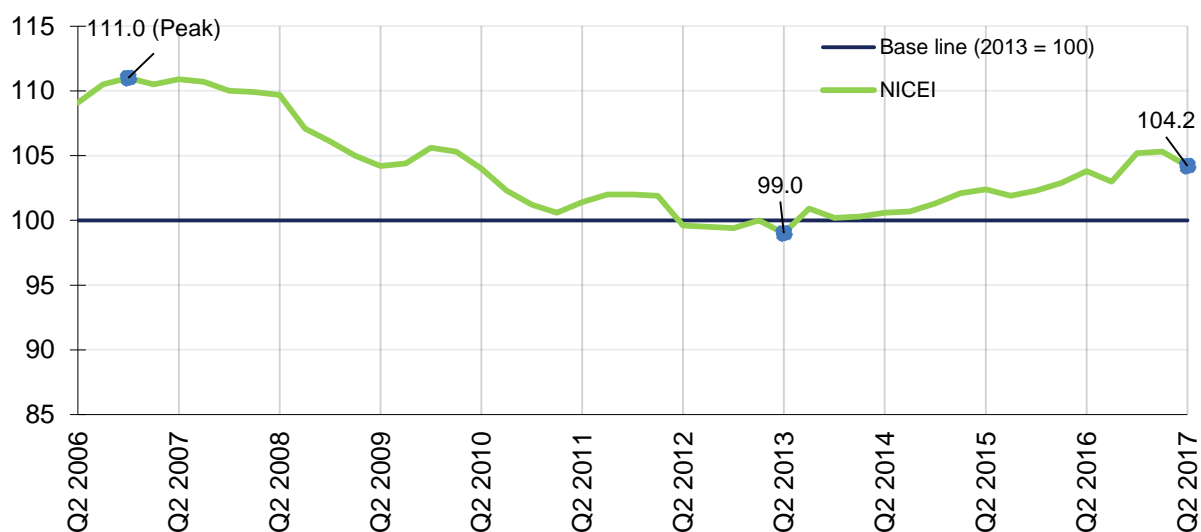
## Recent NI Economic Performance

### **Economic Output, Living Standards and Productivity**

The NI Composite Economic Index<sup>10</sup> (NICEI), provides a proxy measure of NI's economic output. In the four quarters ending Q2 2017, NI economic output increased by 1.7 per cent on average (compared to the previous four quarters), similar to the rate of GDP growth in the UK. Private sector (and particularly service sector) growth has been the main contributory factor to NI's economic growth over the last number of years, in contrast to the contraction experienced in the public sector.

Figure 2 illustrates that although economic output in NI has been growing in recent years, it remains around 6.8 points below its peak in Quarter 4 2006.

**Figure 2 – NI Composite Economic Index**



While NI experienced six consecutive years of economic growth (in Gross Value Added (GVA)) since 2009, it has remained towards the

<sup>10</sup> NISRA, NI Composite Economic Index, Q2 2017

bottom of the UK regional rankings on the GVA and GVA per head growth measures<sup>11</sup>.

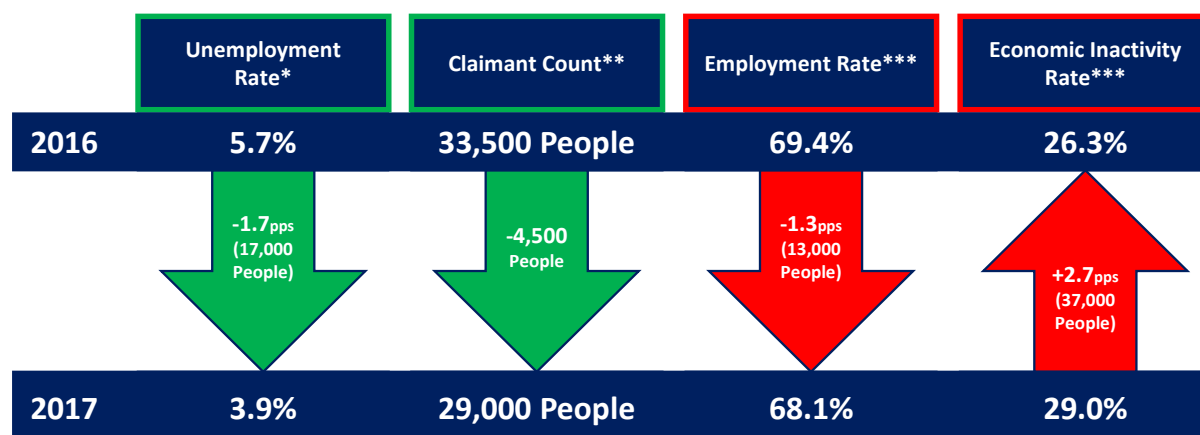
NI productivity growth also continues to lag significantly behind the UK average. According to the latest data, in terms of the GVA per hour worked<sup>12</sup> productivity measure, NI fell to 19 points below the UK average in 2015 - the lowest in the UK regional rankings.

## Labour Market

NI has experienced a mostly job-driven recovery. Employment growth and improving unemployment figures have provided the key highlights for the labour market in recent years, with long term unemployment and economic inactivity however still posing significant structural challenges.

Figure 3 illustrates some of the headline labour market indicators for NI from the latest Labour Force Survey.

Figure 3: NI Headline labour market indicators<sup>13</sup>



Note: Some figures may not sum due to rounding

\* People aged 16 and over. Unemployment rate = total unemployed as a proportion of the economically active (Aug-Oct '16 – Aug-Oct '17)

\*\* Claimant count yearly data from Nov '16 – Nov '17

\*\*\* Rates based working age (16-64), no. of persons based on 16 and over. (Aug-Oct '16 – Aug-Oct '17)

The NI **unemployment** rate dropped significantly during 2017, falling from 5.7 per cent in August-October 2016, to 3.9 per cent a year later, a decline of 17,000 persons. This represents a continuation in the recent trend of falling unemployment and saw the NI unemployment rate dipping below the UK average rate for the first time in four years.

<sup>11</sup> ONS, Regional GVA (income approach), December 2016 - latest regional GVA data is available up to 2015. Data for 2016 is scheduled for release on 20<sup>th</sup> December 2017.

<sup>12</sup> ONS, Labour Productivity, October 2017

<sup>13</sup> NISRA, Labour Force Survey, December 2017

## ANNEX A

However, long term unemployment remains a persistent structural problem for the NI economy, at 48.0 per cent in August-October 2017, substantially higher than the UK average rate of 26.3 per cent.

In November 2017, the number of people claiming unemployment related benefits (**claimant count**) decreased to 29,000. Over the year, the claimant count level declined by 13.4 per cent. The NI claimant count figure has either decreased or remained stable in each of the last 58 months (almost 5 years). However, the annual rate of decrease has been slowing since 2014.

While NI has seen a generally increasing trend in the **employment** rate in the post-recession era (peaking at 70 per cent in June - August 2016), on a comparative UK basis, NI has the lowest employment rate of all 12 UK regions. The NI working age employment rate declined to 68.1 per cent in August-October 2017, 1.3 percentage points lower than the previous year. Much of the increase in the NI working age employment rate in the last ten years has been driven by a rise in part-time employment. The number of part time workers in NI has increased by around 21 per cent since 2007, compared with a minimal increase of 0.6 per cent for full time workers.

In contrast and although NI has taken some positive steps in dealing with **economic inactivity**, the NI economic inactivity rate (at 29.0 per cent) remains stubbornly high and well above the UK average (21.5 per cent) - and is the highest of all UK regions.

## ANNEX B

### CENTRALLY-HELD ITEMS

Budget items which are currently held centrally include the following:

- ***Delivering Social Change*** – In recognition of the Executive's Delivering Social Change agenda, funding is proposed to be provided for the continuation of existing programmes and projects. This amounts to £19.2 million in 2018-19 and £3.6 million in 2019-20.
- ***SBRI & Collaborative Procurement*** – Funding for the Small Business Research Initiative and collaborative procurement projects is proposed to be maintained at the 2017-18 Budget levels for both 2018-19 and 2019-20 of £2.6 million.
- ***RRI Interest Repayments*** – The forecast interest repayments related to RRI Borrowing equate to £55.2 million in 2018-19 and £55.7 million in 2019-20. These amounts are held centrally for repayment to the National Loans Fund.
- ***Air Passenger Duty*** – The cost of the removal of the long-haul Air Passenger Duty (APD) is forecast to cost £2.3 million in both 2018-19 and 2019-20. HM Treasury will deduct this amount from the Resource DEL during those years. These amounts are therefore held centrally to cover this cost.
- ***RHI Inquiry*** – £4.3 million is held centrally for the cost of the RHI Inquiry in 2018-19.
- ***Paramilitary Strategy Match Funding*** – £5 million is being held centrally in 2018-19, with £7.5 million in 2019-20 to address the issue of paramilitary activity. Under the Fresh Start agreement, this funding will be matched by HM Treasury.

Funds available for drawdown from HM Treasury are:

- ***Shared Future Funding*** – As part of the Fresh Start package £12 million per annum was agreed for shared future programmes and projects. This funding will be drawn down in 2018-19 and 2019-20 in agreement with HM Treasury and the Northern Ireland Office.

## ANNEX B

- **Paramilitary Strategy Treasury Funding** – As part of the Fresh Start package HM Treasury agreed to provide match funding in relation to a strategy for tackling the issue paramilitary activity. Funding of £5 million and £7.5 million has been set aside in 2018-19 and 2019-20 and the match funding will be drawn down in 2018-19 and 2019-20 in agreement with HM Treasury and the Northern Ireland Office.
- **Confidence and Supply Annex Funding – Tackling Severe Deprivation** Resource DEL funding of £20 million in 2018-19 and 2019-20 is proposed to be allocated to target pockets of severe deprivation (based on anticipated spend profiles in those years). TEO and the Department for the Communities have developed a proposed programme to target pockets of severe deprivation for consideration by Ministers. It embodies a cross-cutting approach that is aligned to the Programme for Government outcomes and will deliver short term and long term benefits for deprived communities. The proposed programme supports a dual delivery model, encompassing known person and family based interventions, complemented by an area based approach. This will ensure deprivation is targeted at a person, family and community level. Currently funding will be held centrally so that it can be considered by an incoming Executive. Whilst this is a working assumption for the purposes of this document, the funding and profile require agreement with HM Treasury and an incoming Executive and need the approval of both Parliament and the Assembly.