

Shared Solutions:

**Proposals for the
Northern Ireland Budget, 2011-2015**

Alliance Party

November 2010

Ten Key Points

Alliance maintains that there are significant savings to be found through addressing the costs and distortions from managing a divided society and building a shared future. The development of shared education offers the greatest opportunities in this regard.

Alliance argues that, independent of political consideration, the opportunities for shared services on a north-south basis should be fully explored in order to realise economies of scale and more efficient service delivery.

Alliance advocates an increased emphasis by departments on prevention and early intervention. This work can often address financial cost pressures faced by government. The voluntary and community sector are often best placed to achieve such outcomes.

Alliance has consistently supported the reform of Northern Ireland's political institutions for democratic and governance reasons. There are also clear savings to be found from cutting Departments to 8 and the number of MLAs to 75.

Alliance recognises that costs related to public sector pay will have to be addressed within any forthcoming budget. All options must be on the table, but the preference must be to maximise the retention of jobs and to give most protection to lower paid staff. Decisions are best influenced through discussions and consensus between the Executive and public sector trade unions.

Alliance recognises that considerable protection should be given to the health budget, but cautions against full protection given the consequences for other Departments and economic drivers, and also the continued potential for efficiencies in the health sector that could otherwise go untapped.

Alliance is prepared to support the introduction of Water Charges. Continued deferral costs the Block Grant around £200m every year. Water Charges must be linked to ability to pay, and would therefore be progressive. This would avoid even deeper cuts in public services, helping the most vulnerable that disproportionately depend upon them. Alliance also accepts the need for an inflation rise in the level of the domestic regional rate and the removal of rates-capping.

Alliance argues that the Executive should continue to invest in economic recovery and transformation, and highlights the Green New Deal as an immediate and labour intensive opportunity, that also helps address energy efficiency and climate change.

Alliance stresses the importance of the Northern Ireland Assembly obtaining the ability to lower the rate of corporation tax. This could best facilitate a step change in the Northern Ireland economy. We acknowledge that the cost of lost revenue in the short-term, an estimated £200m, may have to be found during the course of the 2011-2015 Budget.

Alliance advocates that there is a significant transfer from current expenditure to the capital budget, in response to the considerable shortfall in the latter respect. This is important in order to continue investment in the infrastructure of the future, and to assist private sector employment particularly in the construction sector. This transfer could amount to well in excess of £100m per annum.

Introduction

Alliance accepts the need to address the national deficit, but we have concerns at the pace adopted by the Coalition Government, with steeper falls in public spending than were arguably necessary. Indeed, the matter of the pace of reduction in the deficit is contested among professional economists.

We have particular concern at the differential impact upon Northern Ireland, due to our overly large dependency on the public sector and continued struggle to rebalance our economy in the aftermath of violence and continued reality of division. Public expenditure accounts for two-thirds of output (GVA – Gross Value Added) in Northern Ireland.

Alliance acknowledges that cuts in public spending will cause considerable problems and distress for many people, including those who work in the public sector, those in the private sector depending upon public sector contracts or the spending power of workers paid by the public sector, and those depending upon public services.

Some of these concerns apply to some of the other less affluent regions of the UK in addition to Northern Ireland, such as the dependency on the public sector.

There is a need for a more active regional policy by the Government to promote a more even distribution of economic activity across the UK. Only 3 of the 12 regions in the UK are net contributors to the Treasury. It is not sufficient to concentrate wealth creation in the South East England and for the Treasury to then redistribute the proceeds.

Challenges for the Northern Ireland Executive

With the announcement by the UK Government of the Comprehensive Spending Review (CSR), the level of funding for the Northern Ireland Executive, with respect to DEL (Departmental Expenditure Limits) has become clear.

Reductions in real terms (adjusted for anticipated inflation), over the four-year period through to the 2014-15 Financial Year, amount to 8% in current expenditure and 40% in capital expenditure. The cuts to revenue were not quite as steep as anticipated. However, the capital budget suffered much more than expected. Commitments made in relation to a ten-year £18bn funding for capital investment have not been honoured by the British Government.

While the overall level of reductions is clearly problematic and objectionable, nevertheless they are a reality. It is incumbent upon the Executive and Assembly to act in a responsible manner.

The Executive has several options in relation to how it sets budgets within the four-year funding envelope provided by the UK Treasury. It could set a single budget for 2011-2015.

However, such a four-year budget poses two fundamental problems. First, there is a lack of flexibility. The last three-year budget covering 2008-2011 was created in a completely different economic environment and became unfit for the evolving financial circumstances.

Second, there is a democratic issue. Is it right that in the dying months of this Assembly, decisions are made covering almost the full term of the new Assembly to be elected next May?

By contrast, setting four separate one-year budgets or two two-year budgets, runs the danger that political parties would play politics and to push the difficult decisions further down the pipe, entailing even greater pain the future.

Ultimately, early decisions are required in order to properly plan for the challenges ahead, to give some long-term clarity on financing to Departments, other public bodies, and publically funded aspects of civil society, and to capture the full benefits from efficiencies, collaboration and shared services.

Any budget should at least be accompanied by a Programme for Government, and even better preceded by it. Financial decisions should follow revised policy priorities rather than vice versa.

The budget-setting process should be about more than just addressing cuts arising from the CSR. Rather it should be about setting spending priorities for next four years in line with a Programme for Government. It is not about simply reducing existing spending to manage in a new context. The Executive should consider additional and alternative spending commitments while reviewing existing policies and programmes to ensure that resources are used most efficiently and effectively. Opportunities under the 'invest to save' approach should be fully explored.

Key Priorities

For Alliance, public expenditure must be maximised to meet a number of core objectives:

1. Rebalancing and restructuring the Northern Ireland economy;
2. Modernising public services;
3. Maximising employment across the public and private sectors;
4. Protecting the most vulnerable in our society.

Rebalancing the Economy

Growing the private sector and creating private sector employment is a core principal of our response to the comprehensive spending review.

At the same time of improving the productivity of the public sector, there is a need for private sector job creation and growth. In Northern Ireland we have the resources and skills to create a dynamic and competitive private sector with our large pool of highly qualified young people, our low cost base, our strong manufacturing base, the current slack within the labour market, our entrepreneurial culture, our research and innovation attributes and our world class telecommunication and IT networks.

In addition to making the case for a reduction in corporation tax we need to ensure continued investment across policy areas that have a strong impact on economic growth e.g., capital investment, energy infrastructure, education and skills and research and development. It is vital that all these policy levers are fit for purpose and can be shown to produce the desired outcomes.

Funding allocated toward business development and growth must be targeted, effective and cutting edge, support should be given to high growth innovative businesses. Risk and entrepreneurship should be encouraged. There are also a number of relatively cost neutral steps that can support business growth e.g., a reduction in bureaucracy, speedier planning decisions, targeted public sector procurement etc. Our call for institutional reform (detailed later in our paper) is essential to achieving this aim. Currently funding that is designed to support and grow the private sector is spread across a range number of Departments and agencies e.g., DEL, DETI, and InvestNI..

Streamlining delivery would allow resources to be pooled; reducing the level of funding spent on administration and provide an easier landscape for businesses to navigate.

The growth of the green economy through the implementation of the Green New Deal is a major opportunity for our society particularly at this time of economic and financial pressure. The green economy can bring a range of benefits to Northern Ireland. There is environmental advantage from reducing the use of carbon. There are financial savings to be made from increased energy efficiency in homes, businesses and the public sector estate. Crucially investment can also result in employment opportunities ranging from high tech manufacturing jobs, to maintenance jobs at wind power plants or in sustaining and growing employment in the agricultural sector producing biomass. Targeted investment and growth of the renewable sector could potentially create up to 30,000 jobs.

In the short-term the retrofitting of our existing housing stock, through the implementation of cost effective energy efficient measures, would create and sustain jobs within the construction sector.

A recent report issued by the Green New Deal Group estimates that two thirds of the funding can come from non-governmental sources leaving a commitment of only £70m to be found from the block grant. The release of a small investment today will deliver significant savings within a very short timeframe. Benefits could include:

- a minimum of 2,300 jobs over three years
- significant funding and investment leveraged off the back of government resources
- household savings of £320 per annum
- 50,000 homes lifted out of fuel poverty

Modernising Public Services

Alliance maintains a strong commitment to quality public services. The primary purpose of public services is to provide public goods and outcomes beneficial for individual citizens and society as a whole. Alliance does not adopt an agenda of freezing the status quo. Rather budgetary decisions should be used to fund continuous improvement in the methods of service delivery and the end products.

Maximising Employment across the Public and Private Sectors

While the primary indicators of economic development in Northern Ireland must be linked to increased wealth and productivity, government must also have a responsibility to maximise the level of employment. This aim should be achieved with a perspective that covers both the public and private sectors. Consideration needs to be given to the inadvertent consequences that choices in the public sector may have on the private sector, and also the potential for the private sector to sustain jobs and develop new job opportunities if sufficient investment is made in the main economic drivers.

Protecting the Most Vulnerable in Society.

Alliance is very mindful that it is the most vulnerable in our society who depend more on public services. Similarly, the raising of revenue can and should be on a progressive basis. There are unfair subsidies in our society that exist at the opportunity cost of better public services and further investment in economic transformation.

Missed Opportunities

The current fiscal challenges facing Northern Ireland compound the distortions from existing inefficiencies within public expenditure which have not been addressed, including populist giveaways not justified in terms of the prevailing economic and financial circumstances, and a failure to invest in new opportunities.

Alliance would highlight in turn matters such as the failure to address the costs of a divided society and the opportunities from a shared future; freezes in the regional rate; and a lack of investment in the Green New Deal.

The Executive has failed to address long-term issues facing our society, instead opting for the use of short-term 'blunt' measures to address problems e.g., the winter fuel payment – which although welcome does nothing to address the long-term threats facing the elderly through inefficient heating systems and poorly insulated homes. Failure to agree to the introduction of water charges is adding £213m per annum in costs. Failure of many departments to engage with the Performance and Efficiency Delivery Unit (PEDU) is also preventing even basic improvements in efficiency.

Furthermore, political wrangling within the Executive and the resultant deadlock on key decisions has also wasted resources. Just three examples include the following.

- Over £8.5m has been spent by DE on the establishment of the proposed Education and Skills Authority. It is reported that would ESA would save £21m in the first two years
- The DoE has spent £9.5m to date on the local government reform under stalled Review of Public Administration process.
- £1.8m was spent on consultancy support for the development of the proposed shared sports stadium, with a further £12.5 was spent on the potential re-development of the Maze site.

General Principles

Strategic Approach

Alliance is concerned at the approach to efficiency savings and improving the productivity of the public sector, where there is a lack of strategic approach. This is often an across the board exercise rather than a weighing up different priorities and reconsideration of old policies and practices, resulting in cuts in front-line services. Efficiency savings in their purest sense should refer to productivity gain.

Currently levels of productivity within our public sector (both departments and non-departmental public bodies) are low. There is an opportunity to 'do more with less' - every penny must secure value. Through effective planning, cutting spending does not necessarily have to mean cutting services. Research has shown that despite unprecedented spending, productivity in the public sector has not improved in line with the private sector and in many cases productivity has been declining – improvements in productivity can reduce spending and support the retention of services. In the light of CSR the following questions should be asked:

- Is this something the Government needs to continue?
- Does it contribute to the core priorities of Government?
- Is this something that could be done more efficiently?
- Are the services having an impact, can they be targeted more effectively?
- Can the service/activity be provided at lower cost?

Benchmarking

Decisions on public expenditure in Northern Ireland can be informed by the nature of decisions taken in other, particularly neighbouring, jurisdictions. While there are particular circumstances to the local expenditure environment and organisational differences, considerable lessons can be drawn from driving to benchmark expenditure.

This can extend to both the balance of spending between Departments or spending areas and also the balance of spending within Departments or spending areas. The use of the annual Public Expenditure Statistical Analyses from HM Treasury is informative at a high level.

There will be areas in which spending in Northern Ireland is greater on a per capita basis than in other jurisdictions, even taking into account increased need, and other areas where spending is much less.

The key question is whether or not these distortions can be justified in light of Northern Ireland's particular circumstances or whether they point to underlying inefficiencies. For example our prisons are approximately 50% more expensive than other prisons throughout the UK; significant savings can therefore be made through modernisation and implementation of best practice.

Evidence to date from Departments is that benchmarking is at best patchy, piecemeal and small

scale. Indeed, some Departments even deny the value of benchmarking at all.

Nevertheless, some important action is being conducted in this regard. Initial work in this area completed by the Department of Justice has resulted in savings in the Northern Ireland legal aid bill of £30m per annum while still protecting the most vulnerable in society.

Market-Testing

Alliance does not address the issue of market-testing from any ideological perspective. Instead, our motivation is to find solutions that are cost-effective while preserving service outcomes.

The cost and quality of services delivered should be market tested where appropriate to ensure that they are delivering value for money. Greater competition can often improve cost effectiveness whilst improving or maintaining quality. It is suggested that competitive tendering can result in cost savings of between 10% and 30%. We are not advocating that services should be outsourced, but rather all services should be examined to ensure that they are being delivered in the most cost effective manner – this may involve re-engineering. Partnership with the voluntary, community and the private sector is required.

Focus on early intervention and preventive measures

Such a focus can avoid greater cost pressures after problems develop. The funding of the former tends to be optional while the funding of the latter tends to be statutory. There is a tendency to view early intervention measures as optional extra. But there is a case for shifting the balance of funding, and this means also following through with projected savings with back-end funding. This is not quite a leap of faith as there is already considerable empirical evidence from other jurisdictions of this approach being successful. A focus on preventative measures can ensure savings across a range of public spending areas including health, justice and social care.

Examples include, reducing re-offending rates, improving education and employment outcomes for all. Specific examples include:

- The cost of a child in care of the state costs approximately £100,000 per annum, funding provided to family support programmes such as Home Start and Sure Start cost less than £2,000 per intervention.
- Investment in interventions to reduce the number of young people not in education employment or training can save on average £81,000 over the lifetime of a young person. Investment in interventions such as the Prince's Trust Team programme can progress 80% of young people into employment, education or training

Working in partnership with the voluntary, community and private sector

Smarter and more cost effective solutions can be achieved by working in partnership and drawing on the expertise that exists both within and outside the public sector in Northern Ireland. In a parallel to the opportunities from market-testing, the voluntary and community sector often has the capacity to deliver services more efficiently than the public sector. This often matches a greater emphasis on prevention and early intervention as outlined above.

In many cases working in partnership with the community, voluntary and private sector can tackle

the problems that are causing the public services bill to soar e.g., community food initiatives and sports activities can fight obesity; advocacy projects improve the mental health of isolated people; and training and employment services impact on unemployment and welfare bills

Voluntary and community organisations can often provide targeted solutions to local issues more effectively than statutory interventions. People in disadvantaged and marginalised communities are more likely to engage with a voluntary or community organisation.

While it is unrealistic to assume that the reduction in expenditure will not affect the voluntary and community sector it is vital that each Department does not see the services provided by this sector as an easy target for reducing spending. The Executive must think strategically, plan effectively and target resources toward areas of greatest need and into initiatives that are shown to achieve the best outcomes. It is therefore important that the Executive as a whole consider the impact of individual Departmental cuts on the sector. It is vital that the expertise that lies within this sector is not lost. Ongoing partnership with the voluntary, community and private sector is vital to developing efficient and sustainable public services.

Sources of Savings

Costs of Division/Investing in a Shared Future

The greatest distortions in our local Budget relate to the costs of managing a divided society. Alliance estimates that this amounts to £1bn every year. This is unjustifiable at the best of times, but becomes an even greater drag at times of financial difficulties. By contrast, there are significant savings to be found through investing to save from the creation of a cohesive, shared and integrated society.

While this may take many years to conduct, there is an urgency to start now. Specifically there are considerable benefits to be achieved through the development of shared education. This has been recently highlighted by the Oxford Economics paper on Shared Education commissioned by the Integrated Education Fund. Not only are there clear benefits to society and young people but there is also the potential to use resources more efficiently and effectively. It is estimated that the benefits of shared education could amount to £300m in the longer term.

These issues are set out in much greater detail in annexes to this document.

North-South Shared Services

There is untapped potential for shared service savings being found on a cross-border or all-island basis.

Such co-operation could happen independent of political considerations and would respect the underlying constitutional agreement that entrenches the Principle of Consent. It could also develop without adding further institutional structures.

Any fiscal or monetary harmonisation on all-island basis is not realistic; this would mean moving out of the UK arrangements which would not make any financial or economic sense at present. While the large scale of the UK Treasury subvention to Northern Ireland is unsustainable and must be challenged, at present Northern Ireland remains massively dependent on a considerable financial transfer. We also recognise that there will be continued economic competition between the two jurisdictions on the island, especially over investment.

The scope for economic and other co-operation, mutual development and harmonisation, includes the addressing of:

- Standardisation of regulations;
- All-island marketing, e.g. tourism, green economy;
- Addressing segmentation in markets;
- Infrastructure – energy, transport, telecommunications;
- Culture;
- Environmental protection;
- Barriers to labour market mobility;

With respect to financial savings, work completed within the health arena by Co-operation and Working Together (CAWT) demonstrates the opportunities that can arise from shared service delivery in the health arena. Cross border working has occurred in a range of areas including cross border GP out of hours services. The work has shown that cross border collaboration can result in better planning of services for patients and the ability to sustain high quality provision on both sides of the border.

As well as improvements in service delivery cross border collaboration has also resulted in:

- efficiency savings through the sharing of resources and expertise; and
- a critical mass of population and user group required to justify the concentration of services, leading to economies of scale.

There are other examples of good practice on financial shared services on a North-South basis including the continued commitments of the Irish Government to part funding infrastructure improvements within Northern Ireland.

This initial work can and should be significantly extended both with respect to healthcare issues and other matters. It is important that the Northern Ireland Executive and the Irish Government map out all of these opportunities and then follow through.

Institutional Reform

Alliance has long championed reform of the political institutions, primarily from democratic considerations. We support both a reduction in the number of MLAs and a reduction in the number of Departments:

- A reduction in the number of MLAs from 108 to 75 would result in direct cost savings of £3.8m per annum with additional indirect savings made through a reduction in other expenses such as travel, committee expenses and Assembly running costs.
- It is estimated that saving of around £10m - £20m per annum are achievable through a reduction in Government departments. Even without a reduction in the overall number of Departments, Ministers should commit to a reduction in back office savings, demonstrating that this has occurred before seeking to cut vital services.

While we support such changes, we are realistic on the level of financial savings that can be found in this regard. Institutional reform can support difficult decisions taken in other respects but in isolation it is not sufficient to address the current financial challenge. There are of course economic benefits from better joined-up government.

Complementing institution reform should be a review of the advocacy and delivery landscape in Northern Ireland. Across the majority of policy areas there is a myriad of organisations (statutory, voluntary and community) that manage, direct and deliver public services. A large proportion of government spending is directed through arms lengths bodies. Tying in with the need for the

Executive to take a strategic approach to address the cuts, it is vital that excessive layers of bureaucracy and administration are reduced across all levels. Each Department should assess clearly the value for money, fit with strategic priorities and impact of all funded non-departmental public bodies.

Health Protection

While there is ongoing under-funding compared to other jurisdictions, full protection of the health budget means almost doubling the cuts in every other Department, and also will mean that the inefficiencies that do exist in health will go unaddressed. However, health could be asked to find a lower level of savings than other Departments in recognition of its critical importance. Accordingly, health could receive a considerable degree of protection.

Efficiencies should nevertheless be pursued. Examples of how different approaches to delivery can lead to savings within the health sector include:

- Reducing reliance on accident and emergency services – redesign is required as too many people use A&E as an alternative to visiting their GP, or using an out-of-hours doctor or a minor injuries unit.
- Emphasis on prevention and early intervention, and use of the community and voluntary sector as outlined above.
- Focus on improving public health (quality of diet, exercise, smoking etc) could reduce hospital admissions.
- Better use of technology, e.g. to support people in their homes, monitor and manage prescriptions and remote care.

There are also areas within the health sector where increased spending is required, notably mental health. Some of the proceeds of efficiencies should be redirected accordingly.

Public Sector Pay

With public sector wages and salaries amounting to around half of overall NI expenditure, actions in this area cannot be avoided. Every 1% increase in NI public sector pay equates to £50m in additional expenditure. It is important to remember that the wages and salaries of people in the public sector will have multiplier effect on the private sector.

With the UK Government already deciding to freeze salaries above £21,000, the consequences of this feed through to NI through the Barnett Formula creating a further cost pressure.

There are options in terms of pay freezes, cuts or recruitment freeze/natural wastage, and public sector pensions. The Executive does not necessarily have to follow the same threshold of £21,000. The starting level could be set higher with perhaps steeper reductions with respect to senior salaries across the public sector to compensate. In any event, the distribution of the burden should not be uniform, and should be proportionally more for the higher paid, giving better protection to the low paid.

The ultimate decisions on the approach to be taken to addressing this aspect of the financial challenge should be agreed between the Executive and the public sector trade unions. Both sides should be committed to pragmatism and finding the best outcome for the interests of employees and the wider economy, a partnership approach can help to safeguard jobs while at the same time ensuring that the modernisation of the public sector take place with support and buy-in from staff. It is to be hoped that any redundancies would be voluntary, but it is equally honest and realistic to stress that some compulsory redundancies may occur. This is particularly so when the potential removal or abolition of some business areas within Departments or indeed full Non-Departmental Public Bodies are taken forward.

A renewed focus on addressing sick leave is also required, while levels of absence have been reduced, it is still twice private sector levels and around 30% higher than in the GB civil service. Potentially, £45m per annum could be saved by reducing the cost of public sector absence through sick leave.

Raising of Additional Revenue

No government in the world would seek to address such a financial gap through spending cuts alone. Therefore, the raising of additional revenue must be part of a package of measures considered by the Executive. Where additional revenue raising measures are introduced these must be progressive i.e., ability to pay must be paramount, with the most vulnerable in society protected.

Regional Rate

The regional rate is at present the main source of revenue for the NI Executive outside the Block Grant. It delivers an income of approximately £1bn every year to the Executive. After a number of hikes under Direct Rule, the NI Executive has frozen the rate in actual terms for three years running. This freeze in real terms amounted to a cut. This was not justified in the prevailing economic and financial circumstances of the day. A real terms freeze/rises in line with inflation would have generated around £10m in income each year. Cumulatively, the Executive would be over £30m better off today if this limited action had been taken. We therefore call for the Executive to consider at least an inflationary rise in the regional rate, raising an additional £10/£15m per annum for the Executive.

Remove Rate-Capping

Alliance opposed the introduction of the rates cap at household values of £500K and the subsequent reduction to £400K. The overall effect of the rates cap financially amounts to approximately £5m in lost revenue.

The rates cap is a blanket subsidy that assists a wide range of people, including those who can quite readily pay their fair share to society. In economic terms, there is a considerable deadweight to what is being proposed. Although a retired couple, who are pensioners, may benefit a little from what is being suggested, the millionaire who lives in the mansion will benefit, I would argue, considerably more than those whom we are trying to assist.

The people in the middle, those who are paying rates on middle-value properties, will have to fund the subsidy. It is worth pointing out that the average capital valuation — going back to the January 2005 figures — is in the region of £150,000.

There is a problem for the asset rich and income poor in society, who have problems when faced with steep rates bills. However, there are other ways in which those people can find some degree of relief; for example, through extending the current scheme to take into account widows, widowers, or double pensioners. Ultimately, a local income tax would be the fairest and best measure of ability to pay.

Consider Water Charges

So far, Alliance is the only party that is prepared to be frank with the people of Northern Ireland over water charges. There is an urgent requirement for our political leaders to show leadership on this matter.

While we do already pay for some of the cost of water and sewerage services as part of the regional rate, alongside all other aspects of local expenditure, these contributions do not cover the full cost of running the service (the link between the cost of delivery and charging was broken in 1999). The level of payment is considerably below the level paid by others elsewhere in the United Kingdom and fails to cover the cost of service delivery, resulting in an annual cost of £200m every year. This deferral is not funded through the block grant. Therefore, the subsidy for water means that money has to be directed from public services or investment in our economy to cover this.

This is also an issue of social justice. Any water charge must be fair, and linked to ability to pay. Therefore the less affluent households would pay less, while the more affluent would pay more. Also, it is the less well-off and the vulnerable which depend more on public services. Avoiding water charges means deeper cuts in those public services. Alliance believes that the introduction of water charges is consistent with a progressive approach to revenue-raising and a concern for the most vulnerable for society. By contrast, continued prevarication of this issue is regressive in its effects.

Notably, Alliance did not rule out the introduction of a progressive water charge within our 2007 Assembly Manifesto. Rather, we recognised that they may be required either due to European rules or due to financial pressures. We said that any water charge had to be linked to ability pay and relative usage, and also that the regional rate should be reduced by the assessed amount that is already paid by households through that system.

Other Revenue Generating Measures

There is a range of options open to the Executive that could offset the impact of the cuts on front-line services, raise revenue to support the reform of the public sector and allow for investment initiatives to grow the economy and create jobs e.g., the Green New Deal, corporation tax etc. Options include:

- The sale of assets e.g., no longer used police stations, assets released through the rationalisation of the school estate and government departments etc
- Consider mutualisation of selected organisations including Northern Ireland Water and part of the Northern Ireland Housing Executive;
- Consideration of congestion charges and car-parking charges / residential zone parking etc would generate funding for investment in infrastructure, with the resultant resources reinvested in the transport sector and a consequent shift from private to public transport

While the abolition of prescription charges and free travel for the elderly have been mooted as potential areas for revenue savings, these areas would release relatively small levels of funding (£3m in the case of free transport). If replaced by a system of means tested allocation the savings would be reduced even further. Alliance does not believe that it is appropriate to pursue these at this stage

Alternative Sources of Debt Financing and Capital

Using public sector funding to leverage private sector investment is crucial, untapped opportunities

include the European Investment Bank, (which forms a central part of the Green New Deal proposals), JEREMIE (Joint Resources for Micro to Medium Enterprises), this is particularly important given the current state of the baking sector and the lack of private sector investment market for innovative high risk ventures in Northern Ireland. The Executive should investigate opportunities to fully leverage existing funding, and implement cross departmental and area based strategies to maximise the potential of these funds.

Rebalancing the Economy

Reallocation of Monies from Current Expenditure to Capital Expenditure

The continued investment in Northern Ireland's infrastructure is critical to the future development of the economy. There is also a considerable spin-off in terms of work for the construction sector. This is a major element of the Northern Ireland economy and has suffered most from the recent recession.

Concern has been expressed at the steep reduction in the level of capital funding, while the settlement with respect to current expenditure settlement was better than expected. Northern Ireland Departments had been asked to prepare on basis of 10% reductions in current expenditure. The reductions amount to 8% on the basis of DFP figures.

Alliance proposes that Departments continue to work on the basis of an average of 10% reductions. (The Executive has the ability to prioritise the distribution of the burden across Departments). The resultant balance could be transferred to the Capital Budget. This would generate well over £100m each year. This could mitigate to an extent the otherwise steep reductions in capital. Other capital receipts could be added to the mix.

In turn, careful decisions would need to be taken regarding the prioritisation of future capital investment to ensure best value for money and strategic investment in the future growth of the economy. Any reallocation of resources should be conducted across the Executive rather than just within individual Departments in order to facilitate this strategic approach.

Funding Corporation Tax

Alliance supports the call for a differential rate of Corporation Tax for Northern Ireland, ideally at 12.5%. This campaign is currently led by the Economic Reform Group. Economists argue that lowering the current rate of 28% for large companies and 21% for small companies would best and most quickly facilitate a step change in the local economy. Through attracting and incentivising local high value added companies to Northern Ireland, the productivity gap with the rest of the UK would be closed and there would be an increase in export-orientated growth. A particular argument for a lower rate of Corporation Tax in Northern Ireland is the distortions to competition for investment on the island of Ireland, given the 12.5% rate in the Republic of Ireland. The Irish Government sought to protect this despite having to take other tough measures to fix their public finances. Alliance accepts that lost revenue in the short term from a lower rate of taxation would have to be met from the Northern Ireland Block Grant under the terms of the Azores ruling of the European Court of Justice. This is estimated at around £200m.

In the event that the UK Government does give the NI Executive the power to vary corporation tax levels during the course of the 2011-2015 period, the lost income (in the short-term until investment levels pick up) will have to be found within the context of the current budgetary framework.

Resources could be redirected across the board. However, it would be reasonable to expect that resources could be reprioritised from less efficient means of economic support towards the more efficient and effective means that is a reduced rate of corporation tax. While both industrial de-

rating and selective financial assistance can be justified in isolation, they fall into the context set out above.

Revenue neutral drivers

The Government also has at its disposal a number of revenue neutral drivers that could encourage private sector investment and support the creation of jobs, these are:

- The planning service: the planning service must be more responsive with faster processing times. This is one area in particular that would benefit from benchmarking

- Government procurement: public procurement is worth approximately £2.2bn per year. It is vital that an intelligent approach to procurement is used that allows access for local companies and supports the creation of local jobs through the implementation of social contracts (i.e., employment and apprenticeship quotas for large scale capital and investment contracts)

Annex 1: Alliance Proposals for Addressing the Cost of Division

Building a Shared and Prosperous Northern Ireland Through Tackling the Cost of Division

Modified Paper from June 2009

The Financial Costs of Division

Alliance has regularly talked about the financial costs of division being in the region of £1bn each year. This figure has been substantially validated by the Deloitte Report (2007) which placed an upper estimate of this at potentially £1.5bn per annum.

The costs of a divided society are apparent in four respects.

First, there are the direct costs of policing riots, other civil disturbances and parades, the distortions to policing that arise from the security threat, and the costs to a wide range of agencies in repairing damaged buildings and facilities.

Second, there are the indirect costs of providing duplicate goods, facilities and services for separate sections of the community, either implicitly or explicitly. This includes: schools, GP surgeries, job centres, community centres, leisure centres, and even bus stops. These costs are borne not just by the public sector, but by the private sector too.

Third, related to the second aspect, there are hidden factors, linked to divisions, which impact upon the cost environment that Departments and agencies have to respond to.

Fourth, there are the opportunity costs of lost inward investment and tourism. While the Northern Ireland economy has performed better in recent years, it is still performing well below its potential capacity.

The theme of the cost of division is not something that the Alliance Party has made up. It is a major structural problem that has been recognised by academics and other commentators. Furthermore, it has been formally recognised within Government circles.

The theme was arguably first explored by Jeremy Harbison in the background paper provided to OFMDFM in January 2002 which was intended to be the precursor for a new policy on community relations – what eventually became ‘A Shared Future’.

When ‘A Shared Future’ was finally published in March 2005, under Direct Rule, it recognised that there was a strong financial and economic imperative to build a shared future. Indeed, it declared that the concept of separate but equal was unsustainable.

‘A Shared Future’ argued that:

- Separate but equal is not an option
- Parallel living and the provision of parallel services are unsustainable, morally and economically
- Policy that simply adapts to segregation, rather than challenging it, results in inefficient resource allocations

Within the first triennial Shared Future Action Plan, launched in April 2006, OFMDFM was committed to commissioning some detailed research into the cost of the divide. This led to the Deloitte Report which was finalised in April 2007, just before the restoration of devolution. Its terms of reference were to:

- Identify and quantify the broad range of costs arising from/attributionable to the divisions in NI
- Examine the pattern and scale of public expenditure in NI in response to this division
- Assess the efficiency or otherwise of the current system of service delivery

Despite indicating some potentially significant savings, the Deloitte report was effectively suppressed by OFMDFM after devolution, and it was stressed that it would not form a basis for policy. The report only became public as a result of a Freedom of Information request. Currently, addressing the costs of division is not an aspect of either the current Programme for Government or the current Budget. Furthermore, it is not a feature of any of the Departmental Efficiency Delivery Plans.

Indeed, in response to ministerial questions, most ministers do not seem to acknowledge either the potential for savings within their respective portfolios or their responsibility to search for them.

At best, there was a commitment from the then Finance Minister, Peter Robinson, that the new Performance and Efficiency Delivery Unit (PEDU) would examine the issue.

The Way Forward: Alliance Recommendations

Financial costs and distortions are in many respects a symptom of a divided society. In the longer-term, they can be addressed through tackling the underlying causes of divisions. However, there is also a financial imperative to addressing the symptoms of a divided society directly, and furthermore ensuring that the provision of goods, facilities and services at least reflects the changing attitudes to and preferences for sharing and integration.

It is difficult to give precise figures of savings at this stage. This document points to the opportunities for efficiencies to be made, identifies the cross-Departmental nature of those savings, and indicates whether further work is required.

Recommendation 1

The NI Executive and Assembly should acknowledge the financial and other cost implications of divisions in Northern Ireland, and commit themselves to addressing such matters within both a revised Programme for Government and Budget and in particular subsequent successor policy and spending frameworks.

Recommendation 2

The CSR announced on 20th October has resulted in a 8% cut in expenditure by 2014/15 and a 40% cut in capital expenditure over the four year period. It is vital that the necessity of addressing the costs of division is recognised, and a start is made.

Recommendation 3

There should be accompanied a commitment by the NI Executive and Assembly to an overarching meaningful regional good relations strategy. This could either be ‘A Shared Future’ or a successor document, such as a revised ‘Programme for Cohesion, Sharing and Integration’. The key requirements include an acknowledgement of the need for a Northern Ireland-wide strategy, and an action plan covering all Government Departments, Agencies and Public Bodies, including targets, timetables and resourcing.

Recommendation 4

The Executive should begin to act upon the conclusions of the Deloitte Report ‘Research into the financial cost of the Northern Ireland divide’. This report should inform the initial steps to tackle the cost of division.

Recommendation 5

Given the limited scope of the Deloitte Report, OFMDFM and/or DFP should commission further research in this area. The Executive should ensure that there is cross-Departmental audit of patterns of use based on communal background of goods, facilities and services provided through public money.

Recommendation 6

All Departments should have an obligation to actively encourage de-segregation and to promote cohesion, sharing and integration, within their policies and spending plans. Proposals which are communally confined should undergo a cost benefit analysis alongside an integrated alternative. A new form of policy proofing, called Policy Appraisal for Sharing over Separation (PASS) should be introduced. This would ensure that the impact of any new policy upon community divisions would be assessed and taken into account. This could be a ready extension of the current requirement for Equality Impact Assessments.

Recommendation 7

There should be an acceptance across Government that there may need to be further investments in resources to support sharing, either through the provision of shared goods, facilities and services to meet demand or provide support and security for those making the choice to mix, share or integrate.

Recommendation 8

PEDU could play a central role in encouraging Departments to assess the costs related to managing a divided society and to identify the opportunities to be found for savings from investing in a shared future.

Recommendation 9

The Executive should ensure that public sector agencies build new leisure, educational, health, social and community facilities with an explicit objective to encourage mixing. Best practice should also be developed, regarding the design of the urban environment, in order to maximise cross-community integration.

Recommendation 10

The Office of First Minister and Deputy First Minister should ensure the production of an overarching regional community relations policy for Northern Ireland, and monitor the delivery of commitments from other Departments and agencies as part of an action plan. Within specific Departmental responsibilities, it should fully integrate good relations considerations into anti-poverty strategies.

Recommendation 11

The Department of Agriculture and Rural Development should fully research the extent and consequences for service provision of segregation and isolation within the countryside.

Recommendation 12

The Department of Culture, Arts and Leisure should explore the costs involved in providing elements of its services on a differentiated basis to different sections of the community, and explore the potential for promoting greater sharing in culture.

Recommendation 13

The Department of Employment and Learning should launch a comprehensive study into the effects of segregation on the structure and mobility of the labour market.

Furthermore, the Department should audit the use of its job centres for different relative uses by different sections of the community, and explore the options for increased sharing.

Also, the Department should examine the potential for greater rationalisation within teacher training. An integrated approach to teacher training would be more in keeping with the demands of a diverse society.

Recommendation 14

The Department of Education should more aggressively pursue its policies on area planning and sustainable schools. These two aspects of policy should be better linked. Inevitably, there will be a greater level of rationalisation within the school estate.

Recommendation 15

While it should be accepted that different sectors will continue for the foreseeable future, opportunities for sharing and collaboration between and within schools should be progressively pursued. Integrated education should be actively promoted as the most sustainable form socially, educationally and financially. It should be regarded as at the top of a pyramid of options for sharing.

The development of integrated schools, usually by transformation, should not be regarded as a further fragmentation of an already fragmented education system but a solution. Particularly when two schools, from different sectors, in a particular locality are under threat, a movement to an integrated school or an alternative form of sharing may provide the most sustainable and most local solution.

In particular, the Department should (a.) set targets for the development of integrated education; (b.) replicate the existing duty on the Department to promote and facilitate integrated schools under the Education and Skills Authority; (c.) run community audits to explore prospects for new integrated schools; and (d.) relax the current viability criteria for the creation and the maintenance of integrated schools.

Recommendation 16

The Department of Enterprise, Trade and Investment should ensure that the effect of division upon tourism, investment and labour mobility is fully factored into the current review of economic development policy.

Recommendation 17

The Department of the Environment should ensure that the scope for shared space is fully reflected within its planning policy statements.

It also has an incentive to ensure that any aspect of segregation that contributes to Northern Ireland's carbon footprint is addressed as part of efforts to meet carbon reduction targets.

Recommendation 18

The Department of Finance and Personnel should use its overall responsibility for co-ordinating public expenditure to drive the agenda of achieving efficiency savings in relation to addressing the costs of delivery. PEDU (Performance and Efficiency Delivery Unit) should be made available to Departments in this regard.

Recommendation 19

The Department of Health, Social Services, and Public Safety should audit the use of its health and social services facilities for different relative uses by different sections of the community, and explore the options for increased sharing.

Recommendation 20

The Department for Regional Development should further explore the costs involved in providing public transport within the context of residential segregation. It also has responsibilities through its strategic planning function to ensure that opportunities for sharing are fully realised in regional planning documents, including the current revision of the Regional Development Strategy.

Recommendation 21

The Department of Social Development should more aggressively promote and develop mixed housing. Indeed, it should be viewed as the default model for the provision of social housing. People should have a real choice over where to live, irrespective of their religious, political or racial background. Social Development also has an important role in promoting, in developing and in maintaining shared space as part of its urban regeneration responsibilities. Shared space provides an environment for maximising positive interactions and also minimises the opportunity costs from blighted or segregated land.

Furthermore, the Department should audit the use of its social security offices for different relative uses by different sections of the community, and explore the options for increased sharing.

Recommendation 22

The Department of Justice should ensure that shared future considerations are fully taken into account within community safety strategies, offender management programmes, and community engagement structures, in addition to future hi-level policing plans. Justice has an important role in ensuring that opportunities to create and maintain shared space are properly supported and protected through the upholding of the rule of law.

Recommendation 23

While this paper focuses largely on actions to be taken by the public sector, ultimately building good relations in this society cannot just be a matter for Government, it is a responsibility for civil society and indeed every person in society. This wider theme should be addressed by an overarching community relations policy for Northern Ireland.

Implementation of the above recommendations would significantly address the cost pressures faced by government.

Annex 2: Shared Education

Inefficiencies in the system could amount to around £300m per annum. In the immediate term, the potential for collaboration between schools and across sectors could realise between £16m and £80m.

Across the education sector, there is a slow awakening of the problems of over provision of facilities and massive surplus of school places, especially with falling rolls. Current issues include:

- There are currently almost 70,000 empty school places.
- Falling school enrolment, notwithstanding the short term demographic blip.
- Inefficiencies in school estate leading to excessive maintenance and running costs.
- Inefficiencies in school support services e.g., school transport, catering and cleaning.

As a result of these problems and a failure to move toward a shared system, Northern Ireland has the highest level of spending on education per capita of any part of the UK. However, less is actually spent per pupil than anywhere else. Too much money is being eaten up through over-administration, and the over provision of partially empty buildings. Budgets are becoming skewed, and with too much money locked up in capital, the pressure for cuts falls on teachers, pupils, transport, support and special needs.

There needs to be a very clear commitment to shared education. The opportunity to move in this direction is provided by the emerging policy framework around Area Planning and Sustainable Schools.

For the foreseeable future, there will remain a number of different education sectors. Alliance is not proposing that these are abolished.

Rather, Alliance sees a menu of options for developing shared education. Integrated Education in the pure sense is only one aspect of a range of options including shared schools and shared campuses.

The benefits of shared education are twofold; it can deliver both economic/financial benefits and social/moral benefits.

Financial/economic benefits include:

- Addressing the cost of maintaining around 70,000 empty school places.
- Enables funding to be directed toward pupils rather than sustaining a divided estate.
- Makes schools more sustainable and makes it easier to justify capital in

modernising the school estate.

- Savings from the mainstreaming of community relations work in schools.
- In the medium to long term reduces the wider costs of division and managing a divided society.
- Creates a modern education system fit for the 21st century.
- An Education and Skills Authority would be part of shared education. This creates substantial savings in term of administration and management.

Social/moral benefits include:

- Better opportunities for local interaction with the community and business.
- Reflects our society:
 - more and more people are defining themselves differently
 - growing number of ethnic minority families in Northern Ireland
 - growing number of mixed marriages and mixed relationships and children thereof
 - strong evidence of support for change/mixed education from opinion surveys – both parents and young people
- Allows for children and young people to experience a wider mix of relationships and friendships to develop both inside and outside school that benefits society as a whole.
- Allows children to develop their own identity as opposed to developing an identity as a result of their schooling.
- Wider benefits to society, through maximising contact between children from different backgrounds. This helps to address the wider pressures of a divided society e.g., rioting.
- Makes it easier to standardise the quality of education and therefore to address inequalities.
- Would create an incentive to consolidate teaching training and make teacher training shared.

Shared education would also result in a modern education system fit for the 21st century. Benefits to education include:

- Protects local provision, especially where separate schools are under pressure.
- Allows for stabilisation of enrolment numbers.
- Makes it easier for a wider choice of subjects to be sustained / makes it easier for the delivery of the entitlement framework.
- Wider choice for pupils in terms of leisure, cultural and sporting activities.

With reference to integrated education, Alliance is concerned that the Department of Education treats integrated education as part of the problem rather than part of the solution. Rather integrated schools can be considered as the most sustainable form of education, economically, financially,

socially and in terms of education.

Feeling the pressure to draw in the wagons to protect schools with falling enrolments, the introduction of integrated schools is seen as a further threat or at best a distraction.

Every year, many children are turned away from over subscribed integrated schools and forced to attend segregated schools.

The provision of integrated education is linked to efforts to develop and maintain shared space. The building of new integrated schools to service new housing developments can help to anchor a mixed local population.

Alliance would recommend the adoption of the following plan to expand the provision of integrated education in Northern Ireland, in line with demand:

- 1. Government should continue to support the creation and maintenance of new-build integrated schools.**
- 2. Government should set a minimum target of 20% of children being educated in integrated schools by 2020.**
- 3. The duty on the DENI to encourage, not merely to facilitate, the development of integrated education should be extended to Education and Library Boards (and eventually the Education and Skills Authority).**
- 4. Where new schools are being built in Northern Ireland, for example to service new housing developments, the Department should survey local residents regarding a presumption that they will be integrated or inter-church; as far as possible, new schools should be sited to service mixed catchment areas.**
- 5. Government should encourage the transformation of existing schools to integrated status and review the current procedures to make this easier.**
- 6. Government must reform and relax the criteria for the creation and maintenance of integrated schools, giving recognition to those children of mixed, other or no religious background.**
- 7. Government should give formal recognition to the contribution being made to the process of reconciliation by 'mixed' schools, those with a mixed enrolment but no formal integrated status.**
- 8. Government should advocate the de-segregation of teacher training courses and facilities, and the familiarisation of integrated education policies and practices in such institutions.**