



Northern Ireland
Assembly

Research and Library Service Briefing Note

Paper 11/11

17th January 2010

NIAR 27-11

Des McKibbin

Draft Budget 2010: DRD Spending Proposals

1 Background

The Department for Regional Development (DRD) is the largest capital based department and therefore the prospect of the capital investment allocation declining by some 40 per cent over the next spending review period provides a massive challenge.¹ The scale of this challenge becomes all the more lucid when consideration is given to Departments remit of securing transport and water infrastructure; the areas so badly affected by the recent extreme weather conditions.

The general consensus is that, as bad as the weather was, it has only served to highlight years of under investment in key infrastructure. The Draft Budget presented to the Committee on 12th January can have done little to alleviate any kind of trepidation over the challenges ahead and as members noted on the day, it appears to be a backward step on many of the departments policies over the past mandate, particularly sustainable transport, public transport reform and rural/community transport.

In addition to the wider policy implications of the draft spending plans there are a number of issues which have the potential to affect the general well-being of the population, not least through cost cutting measures which may impact road safety, but

¹ Finance Minister's Draft Budget Statement - Draft Budget 2011-15 [online] available from: <http://nia1.me/3o>

also in terms of increased social exclusion due to reduction in essential public transport services.

The aim of this paper therefore is to outline the key points from the budget and the department's proposed spending and saving delivery plans. Consideration will be given to the impact these proposals will have, particularly on vulnerable groups and any differential impacts will be highlighted for your consideration.

2.0 Budget Allocations²

The latest Comprehensive Spending Review, published in October 2010, has brought about an end to what has been a prolonged period of public expenditure growth. Northern Ireland's block grant, which was in the region of £9.3 billion for 2010, is £9.4 billion in 2011-2012 and will only increase to £9.5 billion at the end of the four year period which represents an accumulative fall of 6.9 per cent in real growth. The capital budget will be reduced from £1.2 billion in 2010 to £0.8 billion by 2014-2015 which represents a cut in real terms of 37 per cent.³ Tables one and two show the current and capital expenditure by Department over the current CSR period.

Table 1: Draft Budget 2011-15 Current Expenditure by Department

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Agriculture and Rural Development	224.9	224.9 0.0%	236.0 4.9%	222.6 -5.7%	219.0 -1.6%
Culture, Arts and Leisure	113.3	112.5 -0.7%	113.2 0.6%	110.0 -2.9%	103.0 -6.3%
Education	1,914.8	1,852.2 -3.3%	1,857.3 0.3%	1,861.6 0.2%	1,847.7 -0.7%
Employment and Learning	798.9	775.4 -2.9%	767.4 -1.0%	785.6 2.4%	813.8 3.6%
Enterprise, Trade and Investment	199.5	204.9 2.7%	211.6 3.2%	203.5 -3.8%	205.5 1.0%
Finance and Personnel	182.9	190.5 4.2%	187.1 -1.8%	179.9 -3.9%	180.9 0.5%
Health, Social Services and Public Safety	4,302.9	4,348.1 1.0%	4,427.7 1.8%	4,543.2 2.6%	4,629.2 1.9%
Environment	129.6	121.8 -6.0%	123.6 1.4%	121.0 -2.1%	121.5 0.4%
Justice	1,223.7	1,213.1 -0.9%	1,189.0 -2.0%	1,166.7 -1.9%	1,176.4 0.8%
Regional Development	517.3	500.3 -3.3%	487.2 -2.6%	459.6 -5.7%	454.0 -1.2%
Social Development	521.1	516.7 -0.8%	532.0 3.0%	543.0 2.1%	523.4 -3.6%
Office of the First Minister and Deputy First Minister	80.2	79.0 -1.4%	80.2 1.6%	77.0 -4.1%	73.7 -4.3%

² Unless otherwise stated, information in this document taken from DRD Draft Budget 2011-15 available from: <http://nia1.me/3z>

³ Northern Bank (2010) Comprehensive Spending Review Analysis [online] available from: <http://nia1.me/3v>

Table 2: Draft Budget 2011-15 Capital Expenditure by Department

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Agriculture and Rural Development	-173.5	16.4	13.9	20.0	29.3
Culture, Arts and Leisure	59.9	11.8	21.9	22.2	85.8
Education	169.3	127.4	100.4	101.5	139.4
Employment and Learning	37.6	41.2	41.2	32.3	18.5
Enterprise Trade and Investment	73.5	71.7	44.9	16.0	28.8
Finance and Personnel	15.2	16.5	12.1	10.6	28.4
Health, Social Services and Public Safety	201.7	214.8	278.8	184.9	163.3
Environment	182.4	6.1	5.9	4.0	7.6
Justice	80.0	78.3	64.5	51.8	82.0
Regional Development	556.2	438.3	425.3	540.9	558.8
Social Development	269.6	150.3	120.6	99.0	190.3
Office of the First Minister and Deputy First Minister	12.0	9.1	3.8	8.8	25.6

3.0 Comparisons with previous budget

Table two shows that the DRD's capital spend will increase by £120.5 million (20%) over the budget period. This is just slightly higher than expenditure for 2010/11 although not a fair comparison as it does allow for inflation, et cetera. When the proposed spending for the draft budget period is adjusted to 2010/11 prices it allows for a reasonable comparison to be made between the two periods. Table three shows that overall the capital spend in this budget period will be 27.5 per cent below that of the previous budget period while in terms of individual Departments, the DRDs capital budget is 9.5 per cent lower than it was for the previous period (table four).

Table 3: Total planned expenditure for the previous budget period compared with the draft budget period but adjusted to 2010/11 prices

£m	07/08 to 10/11	11/12 to 14/15	Difference	%
Capital	5797.7	4206.1	-1591.6	-27.5
Current	35090.7	34088.4	-1002.3	-2.9
Total planned expenditure	40888.5	38294.5	-2593.9	-6.3

Table 4: year-on-year real terms changes to budget allocations for each Department

Change by Dept £m	Capital			
	07/08 to 10/11	11/12 to 14/15	Difference	%
DARD	33.43	74.4	40.97	122.5
DCAL	250.22	130.7	-119.52	-47.8
DED	956.77	440.6	-516.17	-53.9
DEL	209.10	113.8	-95.30	-45.6
DETI	287.76	153.8	-133.96	-46.6
DFP	-57.11	63.2	120.31	N/A
DHSSPS	825.04	795.4	-29.64	-3.6
DOE	216.04	22.2	-193.84	-89.7
DRD	2034.62	1842.1	-192.52	-9.5
DSD	980.34	526	-454.34	-46.3
OFMDFM	61.52	43.9	-17.62	-28.6
TOTAL Current	5797.74	4206.1	-1591.64	-27.5

4.0 DRD Expenditure

Broadly speaking the DRD has responsibility for transport and water infrastructure as well as for producing the Regional Development Strategy (RDS). These are separated into two objectives, A and B:

- Objective A is to support the economy by planning, developing and maintaining safe and sustainable transportation networks; promoting airport and harbour services; addressing regional imbalance in infrastructure; and shaping the long-term future of the region; and
- Objective B is to contribute to the health and well-being of the community and the protection of the environment by maintaining and developing the policy and regulatory environment which provides sustainable, high quality water and sewerage service

As the brief discussion of the budget allocations has shown the Department must now attempt to realise these objectives, with significantly less funds than it has done in the past, a considerable task given they are highly dependent on capital investment which has been severely cut. Although table 4 shows a real term reduction in capital expenditure of 9.5% it must be remembered that a significant amount, some £790 million of the current allocation has been ring fenced by the executive to progress with the A5 and A8 road schemes over the duration of this spending period. This greatly distorts the capital budget allocation⁴ given that 70 per cent of the allocation for roads is used up with these two projects, while it represents over 40 per cent of the total proposed capital expenditure for the period. Tabled five and six (below) show the proposed current and capital expenditure for the DRD over the draft budget period 2011-2015.

⁴ Official Report (Hansard) for the Committee for Regional Development, 12th January 2011. available from: <http://nia1.me/40>

Table 5: Department for Regional Development – Current Expenditure

	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m	Total over period £m
Objective A					
Roads	209.5	200.8	194.9	188.7	793.9
Transport	90.5	92.8	71.1	71.7	326.1
Total objective A	300.0	293.6	266.0	260.4	1,120
Objective B					
Water and Sewerage	200.3	193.6	193.6	193.6	781.1
Total Objective B	200.3	193.6	193.6	193.6	781.1
Total	500.3	487.2	459.6	454.0	1,901.1

Table 6: Department for Regional Development – Capital Expenditure

	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m	Total over period £m
Objective A					
Roads	144.9	254.5	387.4	324.7	1,111.5
					-790m A5/A8 = 321.5
Transport	90.7	25.7	13.3	53.9	183.6
EU Structural Funds	0.2	0.1	0.2	0.2	0.7
Total objective A	235.8	280.3	400.9	378.8	1,295
Objective B					
Water and Sewerage	202.5	145.0	140.0	180.0	667.5
Total Objective B	202.5	145.0	140.0	180.0	667.5
Total	438.3	425.3	540.9	558.8	1,962.5

4.1 Roads

The allocations for the A5 and A8 combined with the cuts mean that inevitably, many proposed major road schemes will not move forward in this period and this will have an impact on the economy given the potential employment which may have been generated or indeed current positions which may have been safeguarded.

Paragraph sixteen of departments spending proposals state that:

“...there will be significant reductions in other capital programmes such as walking and cycling, traffic calming, collision remedial, traffic management measures, local safety improvements and bridge strengthening.”

There are a number of areas in this brief paragraph which are very distinct and which will resonate differently with different people. If we consider the departmental objective; *to maintain safe and sustainable transportation networks*, it is clear that their ability to satisfy this will be seriously undermined by this proposal. In terms of sustainability, improving walking and cycling were, based on all the rhetoric coming from the Department, significant priorities; however the recent reality has shown them to be the areas most vulnerable to cuts.

In safety terms reductions to traffic calming, collision remedial, traffic management measures, local safety improvements and bridge strengthening will all have an impact on the safety of pedestrians and cyclists but also on car users. Although the proposals suggest that the impact on these programmes will be most severe in the middle two years of the budget period, the level of detail provided is insufficient on which to make any kind of detailed response. The proposed cuts facing each of the programmes mentioned warrants further explanation, as well as a thorough risk assessment; neither is provided in the consultation document.

4.1.1 Structural Maintenance

The Draft Budget allocations in capital and current expenditure for roads structure maintenance are:

Table 7: level of structural maintenance funding 2011-15

2011-12	£94m
2012-12	£52m
2013-14	£56m
2014-15	£82m

Over the period of the budget this is some £200 million (70 per cent) short of levels recommended in the Structural Maintenance funding plan. And although DRD representative, Geoff Allister commented to the committee⁵ that the “£94 million that will go into structural maintenance in year one is as much investment as I can recall in my time” this will do little to alleviate the concerns of consultees who a) were unlikely to have heard that comment and b) who will have read that:

*“This level of investment, coupled with reductions in road maintenance activities, is predicted to lead to the network being less resilient to extreme weather events such as freeze/thaw cycles and flooding”.*⁶

The fact that the structural maintenance allocations drop off so dramatically in year two and three must be of some concern given the fact that the last three winters in the UK have gotten progressively worse and no one can really predict what will happen next year. Perhaps of even greater immediate concern, particularly to rural dwellers will be the criteria used to allocate the structural maintenance fund, although again, this information is not provided in the consultation.

Evidence given to the committee highlighted that safety was the number one priority when allocating these funds and then routes across the networks were prioritised. The potential therefore, which was readily accepted by the Department, was that lesser used rural roads will not be a high priority and will therefore be unlikely to be looked at in the current spending period. Again this information would have been useful in the budget as details of how funds are prioritised, will at least give consultees the information they need on which to formulate a reasonable response.

4.2 Transport

The spending proposals will allow the DRD to fund the development of its Rapid Transit system as well as allowing them to ‘plan to invest’ in a number of sustainable transport initiatives, including electric vehicle infrastructure. While these proposals are welcome, particularly in the case of the Rapid Transit system, consultees may ask why it is only now that a pilot is planned given the scheme was agreed in 2008.

While the funds allocated to support electrical vehicle infrastructure are, theoretically, in line with the Departments objective of a sustainable transport future, the question of how this is a higher priority than for example, cycling infrastructure may be one worth asking. It could be suggested that, at least in the short term, cutting spend on walking, cycling and public transport i.e. bus replacement and service provision will have a much greater negative impact on sustainability than the electric car infrastructure will have a positive one. However this debate only serves to demonstrate again, that the lack of this type of detail in the consultation makes any meaningful analysis impossible.

⁵ Official Report (Hansard) for the Committee for Regional Development, 12th January 2011. available from: <http://nia1.me/40>

⁶ DRD Draft Budget 2011-15 available from: <http://nia1.me/3z> Paragraph 22 (Page 9).

To date achieving modal shift has been a priority of the Department, however if underinvestment compromises on safety and as predicted by the Department, service levels decline and fares go up, the average consumer will feel they have no alternative but to use the car. The cumulative effect of these measures will hit the most vulnerable in society, as any attempt to reduce services on unprofitable routes could result in them being cut off. From an environmental and indeed economic point of view congestion will increase, as will emissions.

5.0 Water and Sewerage

NI Water's 2010-13 Business Plan (PC10) provides the company's assessment of the capital investment required in the PC10 period to maintain its assets, provide for new development and growth, enhance levels of service to consumers, improve the quality of water supplied and sewage discharged, and provide the general facilities required to support its business activities.

NI Water prepared its estimates based on current costs which were then adjusted to reflect the company's view on the efficiencies they believed could be achieved in PC10. The Northern Ireland Authority for Utility Regulation (NIAUR) and NI Water formally confirmed that the Price Control for 2010 – 2013 (PC10) had been accepted on December 23rd 2010. The price control is subject to public funding and is underpinned by a Memorandum of Understanding between the Department for Regional Development and the Utility Regulator; the figures are detailed in tables eight and nine.

Table 8: NI Water total operating expenditure (post-efficiency)

	£m 07/08 Prices	£m Nominal Prices
2010/11	2029.80	214.9
2011/12	189.074	204.9
2012/13	176.665	195.7
PC10 Total	568.719	615.4

Source: NIAUR (2010)⁷

Table 9: NI Water capital investment programme (post-efficiency)

	£m 07/08 Prices	£m Nominal Prices
2010/11	193.309	193.4
2011/12	183.732	188.0
2012/13	187.308	196.1
PC10 Total	564.349	577.5

Source: NIAUR (2010)⁸

⁷ Memorandum of understanding between the DRD and NIAUR: Written agreement [online] available from: <http://nia1.me/3w>

While this was signed off in December 2010, the proposed departmental spending plans show a shortfall in the agreed capital spend for water (see table ten). While at the most basic level this cut to funding will inhibit NI Water in delivering on its agreed performance levels it will no doubt only serve to aggravate an already aggrieved customer base who suffered through a Christmas period of unprecedented water shortages.

Table 10: (%) difference between agreed PC10 expenditure and budget allocation

	NI Water PC10	Proposed Allocation	(%)Difference
2010/11	214.9	201.9 ⁹	-6%
2011/12	204.9	202.5	-1.1%
2012/13	195.7	145.0	-26%
PC10 Total	615.4	549.4	11%

NIWater is already operating within the constraints of the legacy of under-investment in water and sewerage services. One good example is the rate of water mains replacement activity. Each year a proportion of the water main network must be replaced to protect continuity of service. In 2007-10, and despite increased investment, the NIWater rate still lagged 35% behind the replacement rates of the England and Wales water companies who have similar asset stocks to NIWater.

The proposed rate of replacement during PC10 will improve, but due to funding constraints it will only go part of the way toward closing this gap, with the rate still behind by 19%. If the pace of investment in the provision of water services in Northern Ireland is not addressed, there will be an even greater and more expensive catch-up required in the future.

5.1 Altering PC10 agreement - Memorandum of Understanding

The Regulator and Department recognise the constraints that the public expenditure system imposes upon them in respect of the Undertaker's funding. In particular:

- Lack of flexibility between funding years;
- The requirement for expenditure by the Undertaker to conform to available budget cover;
- The annual basis for funding control; and therefore
- The need to allow for funding alterations in-year.

Accordingly, the Regulator and Department agree that any request for alteration of funding by the Undertaker will be referred to them for joint review. Alterations to public expenditure will be subject to final Ministerial or Executive decision. Before agreeing

⁸ Memorandum of understating between the DRD and NIAUR: Written agreement [online] available from: <http://nia1.me/3w>

⁹ NI Executive (2010) Revised 2010-11 Spending Plans for NI Departments [online] available from: <http://nia1.me/3x>

material variations to the Capital Programme, the Regulator will consult the Environment Agency, the Drinking Water Inspectorate and the Consumer Council. Requests for alteration by the Undertaker must be above the materiality threshold. The Regulator and the Department shall agree written procedures for dealing with alterations to funding.¹⁰

6.0 Savings and revenue

According to the Draft Budget the Department are required to fund cumulative current expenditure reductions of £162.9 million over the four year spending period. This will be realised through a combination of sixteen measures which include increasing revenue, reducing funding and managing procurement. The total saving across the four years has been laid set as follows:

Table 11: Saving Delivery Plan (SDP) Targets

2011-12	£15.7m
2012-12	£28.8m
2013-14	£56.4m
2014-15	£62m

6.1 Approach to saving

The budget clearly states that:

*“The process of reviewing savings and income generation options has been led by the senior management within the Department and a series of workshops has been conducted with the Minister. Each option has been considered by the Minister and senior management **against an agreed list of priorities** in order to assess the relative impact of each option put forward.”* (Page 14)

As with other parts of the budget, the issues of priorities come up and questions over how these are set, immediately come to mind. Previously measures which would clearly meet the Departments objective A, in terms of sustainability and safety have been cut therefore the question is if issues identified as key objectives are not a priority, then what is?

¹⁰Memorandum of understating between the DRD and NIAUR: NOVEMBER 2010 [online] available from: <http://nia1.me/3y>

6.1.1 Public Transport

Public Transport, an area previously well supported has been earmarked for cuts in this budget. The areas which have been identified for reduced funding in the Draft Budget include:

- Rural Transport Fund (RTF);
- Transport Programme for People with Disabilities (TPPD);
- Public Transport Reform (PTR);
- Rathlin Ferry Subsidy (RFS); and
- NOLGOSC Subsidy, reimbursement rates and fuel duty rate

Table 12: Savings from Public Transport Funding

	Spending Area	2011-12 (£000's)	2012-13 (£000's)	2013-14 (£000's)	2014-15 (£000's)	Total (£000's)
RTF	Transport	-	300	600	800	1,700
TPPD	Transport	-	700	700	900	2,300
PTR	Transport	2,000	700	700	700	4,100
RFS	Transport	-	-	200	200	400
NILGOSC	Transport	-	860	5,800	2,800	9,460

An initial response to these proposed savings is that there is a disproportionate focus on rural areas and in particular on vulnerable groups. Research clearly shows that groups such as the elderly, disabled, single parents and young people are less likely to have access to a car and are therefore more susceptible to social exclusion. Many of these groups will rely on public transport and the Rural Transport Fund has made a significant contribution to the mobility of these groups. The RTF provided approximately 203,000 passenger trips on Ulsterbus services in 2007-08 and supported 18 Rural Community Transport Partnerships (CTP); the CTPs provided 630,000 passengers in the same year.¹¹ The draft budget proposes to:

- Reduce support to the Community Transport Association for advice and support;
- Reduce the services provided by Translink in rural areas;
- Reduce the number of Rural Community Transport Partnerships; and
- Withdraw group transports services.

Despite the fact the figures above are dated they demonstrate very clearly the potential number of people who will potentially affected by these cuts.

The Draft Budget does acknowledge the impact on vulnerable groups and suggests that it will make some effort to retain services where possible. One area of concern is

¹¹ DRD (2008) Rural Transport Fund [online] available from: <http://nia1.me/42>

the fact that it sees door-to-door services picking up the shortfall caused by the reduced Translink services. This proposal is clearly unsustainable for two reasons; firstly there is a disproportionate cost associated with providing door-to-door services and secondly, this funding is also planned to be reduced.

In terms of the Transport Programme for People with Disabilities (TPP) savings of £2.3 million have been identified over the spending period, this will be made up with a:

- Reduction in support for shop-mobility;
- Reduction in funding for door-to-door services;
- Reduction in Easibus services provided by Translink; and
- Cessation of group transport provided by Disability Action.

An assessment of these proposals has again identified vulnerable groups, including older people, people with disabilities and women as most likely to be affected. It is worth noting that these proposals go against the long term vision for transport in Northern Ireland, which is:

*“To have a modern, **sustainable, safe** transportation system which benefits society, the economy and the environment and which actively **contributes to social inclusion and everyone’s quality of life.**”¹²*

Within the proposed budget there are also a series of planned cuts to Translinks funding which will have an impact across the bus and rail network, leading to increased fares and reduced service levels. These proposals are likely to affect the wider network and have the potential again to not only isolate certain vulnerable groups, but also to reduce the attractiveness of public transport to the wider public.

This draft budget proposes to introduce a series of measures which go against established policy. This paper has already shown that it will inhibit the Departments ability to deliver on goals of having a sustainable and safe transportation system. Many of the cost saving measures would appear to expose vulnerable groups and rural areas which would suggest it has the potential to contribute to social exclusion rather than inclusion.

¹² DRD (2002) Regional Transportation Strategy [online] available from: <http://nia1.me/43>