

Draft Budget 2015-16

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FOREWORD BY THE MINISTER FOR FINANCE AND PERSONNEL

Constructing a Budget at any time is always a challenge. There is never enough money to spend on public services to meet all of the demands placed on government. Agreeing a Budget in the circumstances we find ourselves in here in Northern Ireland is even more difficult.

Our Budget has not been keeping pace with inflation with the Executive's Resource budget effectively reduced by 1.6 per cent. Add to that the well-publicised pressures in Health, Justice, Enterprise and other Departments, and a difficult job is made almost impossible.

Yet, in spite of these seemingly insurmountable challenges, the Executive has agreed this draft Budget for 2015-16. It is by no means an ideal Budget. The range of pressures we confronted required £872 million worth of reductions to our resource budget. Adjustments of that degree necessitate tough choices and difficult decisions. But the Executive has faced up to the harsh reality of our financial position and prioritised key public services like health, job creation, education and policing through £659 million of resource allocations.

On the capital side of our Budget, we will spend £1.2 billion next year. Importantly, I am able to announce the creation of a new Northern Ireland Investment Fund. This Fund will use Executive resources to leverage in outside investment from international investors, which in turn will be used to support infrastructure projects in social and affordable housing, energy production, energy efficiency, renewables and urban regeneration.

This draft Budget offers the best way through what was always going to be a difficult year and starts to prepare us for the testing times that lie ahead.

It deals with our difficult circumstances in a way that is right for Northern Ireland's economy, for our public services and for our infrastructure.

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This is not a draft Budget that is narrow or partisan or party political. It is about dealing competently with the circumstances we are in. When faced with tough choices, we have made the right choices and chosen the best interests of the people of Northern Ireland.

A handwritten signature in black ink that reads "Simon Hamilton". The signature is written in a cursive style with a large initial 'S'.

Minister for Finance and Personnel

3 November 2014

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CHAPTER ONE: INTRODUCTION

- 1.1 This draft Budget document sets out the Northern Ireland Executive's proposed spending plans for the period from April 2015 to March 2016.
- 1.2 The Executive had the difficult undertaking of constructing a draft Budget in a constrained public expenditure environment. The draft Budget has demanded tough choices and difficult decisions and the task of the Executive has not been one of making decisions on how to allocate surplus funding but rather one of prioritising funding which underpins key services. In this respect the draft Budget will not cover all that the Executive aspires to do, but rather has its focus on supporting critical public services.
- 1.3 The Executive's draft Budget proposals will now be subject to public consultation with views being sought from all interested parties. On receipt of those comments the Executive will review its proposals and a final Budget document will be published. Whilst the timeframe for public consultation is relatively short (eight weeks), this does not lessen the importance that will be afforded to consultation responses and each and every response received by the deadline will be considered.

Copies of the Document

- 1.4 This Budget document can be sent to you in electronic format or in hard copy, while the document can also be accessed on the Executive's Budget website www.northernireland.gov.uk/budget. However, if the draft Budget document is not in a format that suits your needs, please let us know. Contact details can be found below.

Consultation Arrangements

- 1.5 The Executive recognises that this Budget underpins the public services used by everyone. As such, it is imperative that everyone is afforded the opportunity to comment on the proposed allocation of available resources.
- 1.6 In preparation for this difficult Budget, DFP officials undertook a pre-consultation process in November 2013 with

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a series of meetings with key stakeholders to set out the anticipated public expenditure context. This pre-consultation was constructive in ensuring early engagement and allowing preliminary views to be expressed on the economic and social issues that need to be addressed in constructing the budget position. Some of these views are reflected in the way in which information is presented in the Economic and Social Context chapter.

- 1.7 At this stage of the budget process we would welcome the views of as wide a range of interests as possible, including business organisations, bodies representing the interests of employees, the voluntary and community sector, local government and the wider public.
- 1.8 We are interested in hearing views on any aspect of this document and the departmental spending allocations contained within it. We recognise that in a strategic document such as this, it is not possible to provide a disaggregated level of detail to allow views to be taken on individual departmental programmes or projects. Therefore, it will be the responsibility of individual departments to provide specific information in relation to their detailed spending plans. Further departmental details are provided in Chapter Five.
- 1.9 Should consultation responses express opinions on increasing expenditure to specific public services, it would be helpful if they also indicated the public services from which funding could be reduced to compensate.

Consultation Period

- 1.10 In such a constrained context it is important that departments have sufficient time to plan effectively. Therefore, in order to have an agreed Budget in place sufficiently before the start of the 2015-16 financial year, it has been necessary to restrict the consultation period to eight weeks.
- 1.11 We encourage all interested parties to respond as soon as possible before the consultation closing date of **29 December 2014**.

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Contact Details

- 1.12 Should you wish to make comments in relation to any of the strategic issues contained in this document, or more generally on the allocation of expenditure across departments as mentioned above, the address for consultation responses is as follows:

**Budget Consultation
S1, New Building
Rathgael House
Balloo Road
BANGOR
BT19 7NA**

Telephone: 028 91 858196

E-mail: budgetconsultation@dfpni.gov.uk

- 1.13 Comments should be sent to arrive no later than **29 December 2014**. More details, including the electronic version of this document, are available on the Executive's website: www.northernireland.gov.uk/budget.
- 1.14 In order to promote environmental sustainability respondents will not receive an acknowledgement letter. A list of all respondents will be placed on the website. If you do not wish your name to be published on the website please make this clear in your response to us.

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CHAPTER TWO: ECONOMIC AND SOCIAL CONTEXT

Introduction

- 2.1 A broad range of economic indicators reveal that the Northern Ireland economy is in recovery mode. Whilst the pace of the recovery to date appears to have been somewhat slower than that experienced across the UK as a whole, growth and confidence are returning, and unemployment continues to fall – all of which is clearly encouraging.
- 2.2 The Northern Ireland Centre for Economic Policy (NICEP) now expects the local economy to grow by 2.8 per cent in 2014 and by 2.9 per cent in 2015 in terms of Gross Value Added (GVA). NICEP forecast that economic growth will continue beyond 2015, albeit at a slower rate reflecting broader concerns about the global and UK outlook.
- 2.3 This chapter presents an overview of current local economic conditions and highlights some of the key challenges facing the Northern Ireland economy.

Global and National Economic Context

- 2.4 Figures reported by the International Monetary Fund (IMF)¹ indicate that the US economy grew by 2.2 per cent in 2013 with growth expected to continue through 2014. While the Eurozone area experienced negative growth in 2013, the IMF predicts a return to growth in 2014 with real Gross Domestic Product (GDP) expected to grow by 0.8 per cent in 2014 and 1.3 per cent in 2015. However, the outlook for the Eurozone is deteriorating. The UK economy in particular has been performing strongly in recent years and grew by 1.7 per cent in 2013.
- 2.5 This was higher than originally expected and looks set to continue with the IMF expecting UK GDP to grow by 3.2 per cent in 2014 slowing slightly in 2015 with growth of 2.7 per cent expected. Indeed, NICEP anticipates that UK growth (on a GVA basis) will be 3.3 per cent in both 2014 and 2015.

¹ World Economic Outlook (WEO) Projections, October 2014, http://www.imf.org/external/pubs/ft/weo/2014/02/images/Table1_1.jpg

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Looking forward however, concerns have been expressed regarding the impact a weakening global outlook might have on UK growth prospects

- 2.6 Furthermore, it is also important to recognise that many governments still remain focused on consolidating debt levels which will continue to impact on economic activity generated by public expenditure. The UK Government has continued with its planned fiscal consolidation to address the deficit and published its 2015-16 Spending Round on 26 June 2013. Northern Ireland's settlement resulted in a real terms reduction of 1.6 per cent in non ring-fenced Resource DEL and a real terms increase of 2.2 per cent in Capital DEL in 2015-16. The Chancellor has made it clear that the wider UK economy must control its debt and that any economic growth will be used to target the national deficit. This means the Northern Ireland public sector will continue to face a sustained period of budget constraint.
- 2.7 The performance of the Northern Ireland economy is also influenced by the Republic of Ireland (RoI), given that it is a major trade partner for NI. It is therefore encouraging to see that the RoI economy returned to growth in 2013 with the Central Bank predicting GDP growth of 4.5 per cent for 2014 and 3.4 per cent in 2015².

Economic Output and Living Standards

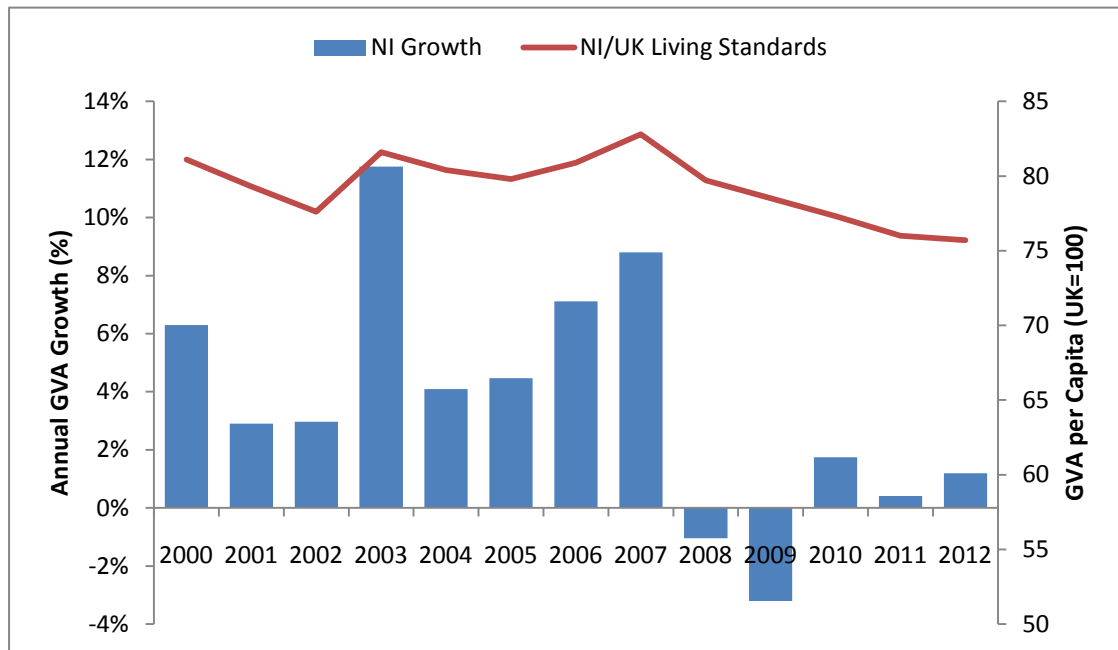
- 2.8 Regional GVA data indicates that the Northern Ireland economy grew by 1.2 per cent in 2012, below the UK average of 1.6 per cent (Chart 2.1). Furthermore, the Northern Ireland Composite Economic Index (NICEI) which provides a more up-to-date measure of performance of the Northern Ireland economy reveals that over the year to Quarter 2 2014 economic activity increased by 1.2 per cent in real terms (Chart 2.2).

² <http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankofIrelandQuarterlyBulletinQ42014.aspx>

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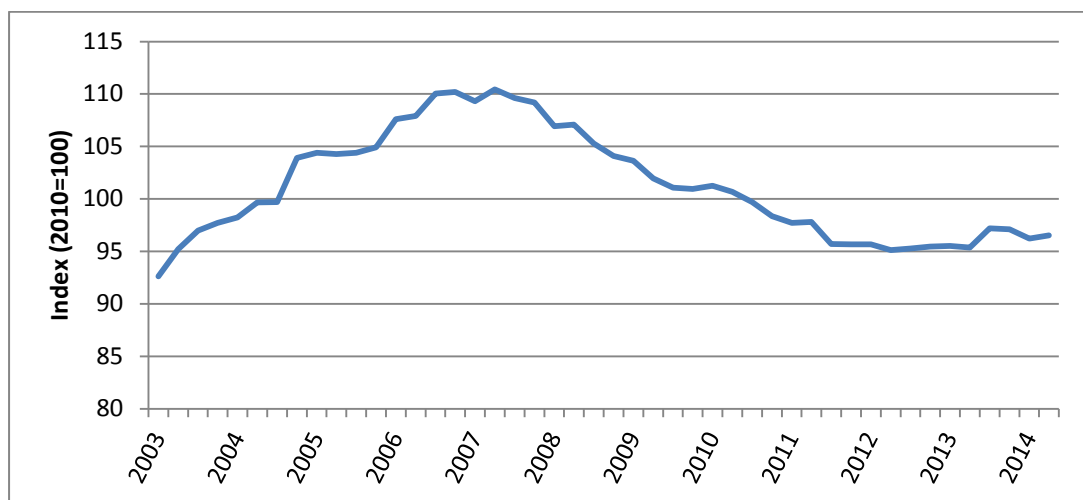
2.9 However while the economy is showing signs of growth, relative living standards – measured by GVA per capita – still remain stubbornly below the UK average (standing at around 75 per cent of the UK average in 2012). Indeed NI’s relative position has weakened in this regard as the region’s GVA performance in recent years has lagged the UK average (Chart 2.1).

Chart 2.1: GVA Growth and Living Standards, 2000 - 2012



Source: ONS Regional GVA, NUTS1 1997-2012

Chart 2.2: Northern Ireland Composite Economic Index, Quarter 1 2003 – Quarter 2 2014

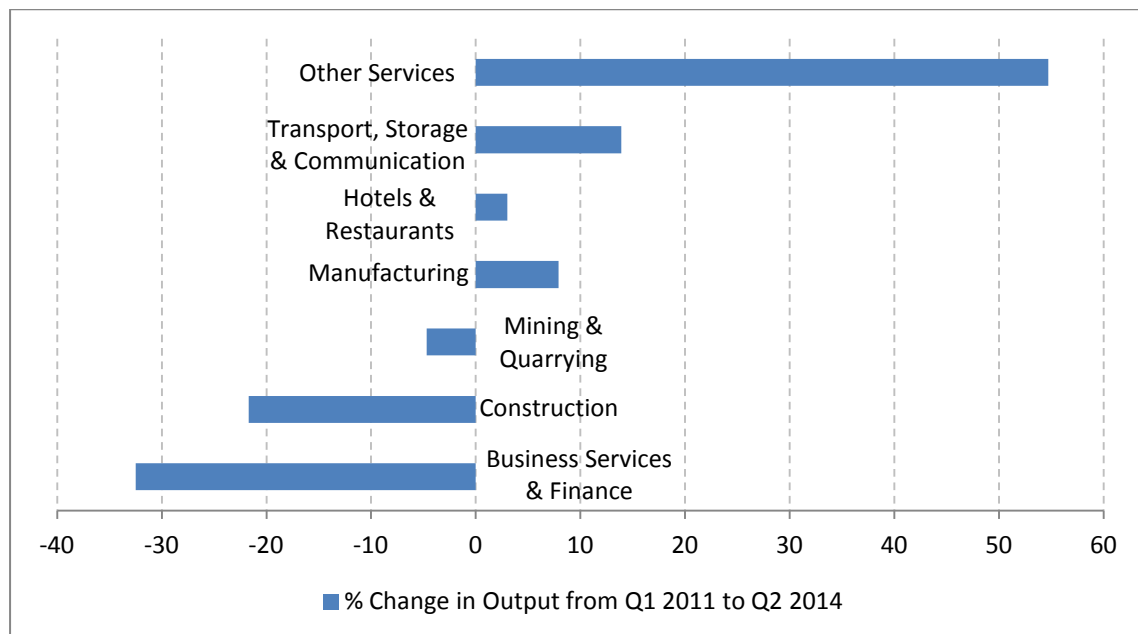


Source: DETI - NICEI

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2.10 The recent growth in output (Chart 2.3) is underpinned by increasingly positive growth across a range of individual sectors in the local economy. However, whilst a number of sectors are showing recent positive signs of recovery, it is clear that some sectors that were severely impacted by the recession have yet to see a material recovery in lost output. For example, since Quarter 1 2011 there has been a continuing decline in output in the Business Services & Finance (-32.5 per cent), Construction (-21.7 per cent) and Mining & Quarrying (-4.7 per cent) sectors.

Chart 2.3: Change in Sectoral Output – Quarter 1 2011 to Quarter 2 2014



Source: NISRA – Q2 2014 NI Construction Bulletin, DETI – Q2 2014 NI Index of Production, Q2 2014 Index of Services³

2.11 More recently however, the seasonally adjusted Index of Production (IOP) highlights an increase in local production output of 1.9 per cent in real terms over the second quarter of 2014. Output in the UK as a whole increased by 0.3 per cent over the same period. That said, the most recent Northern Ireland Construction Bulletin shows that the total volume of construction output in Northern Ireland decreased by 3.7 per cent in Quarter 2 2014.

³ Note: Index of Production / Services figures have been seasonally adjusted. NI Construction Bulletin Series is no longer considered to be a candidate for seasonal adjustment. See paragraph 9 of Q1 2014 NI Construction Bulletin.

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2.12 According to Ulster Bank's latest Purchasing Managers' Index (PMI), Northern Ireland's private sector as a whole recorded a further increase in business activity during September 2014 – this is the fifteenth consecutive month that this has been the case. The rate of expansion was sharp and was faster than that recorded in August. However, the increase in activity was slightly slower than the UK average.

Labour Market

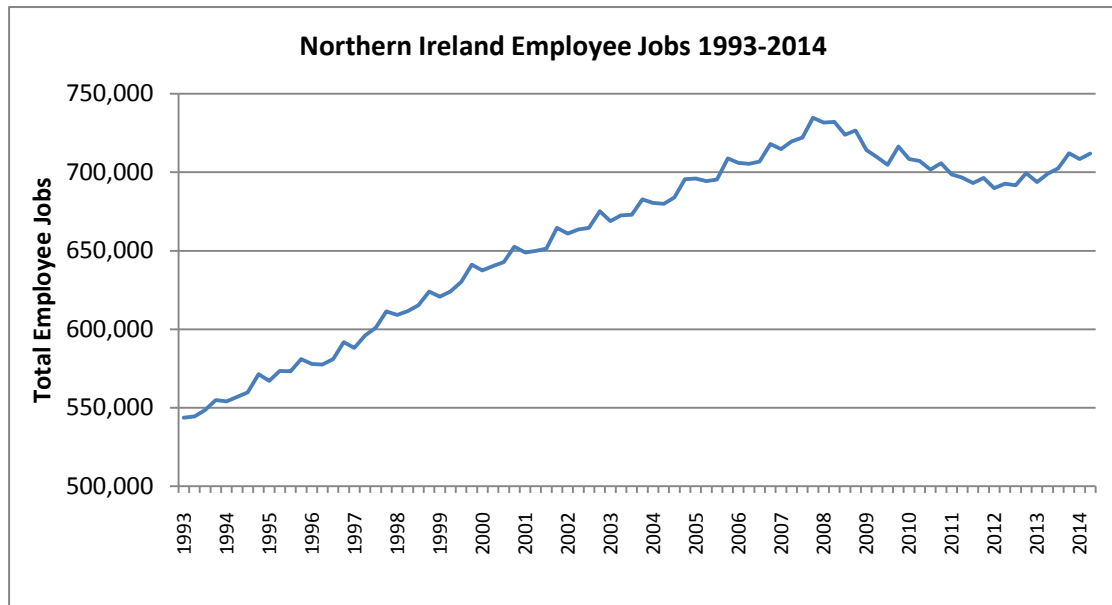
2.13 After a decade of jobs growth, the global financial crisis and the resultant economic downturn led to large scale job losses. Sectors most severely impacted included Construction (13,740 jobs losses), Manufacturing (8,170 job losses), Retail (6,390 job losses) and Business and Financial Services (3,960 job losses).⁴

2.14 Overall the number of employee jobs in Northern Ireland fell by around 70,000 from Quarter 1 2008 to Quarter 1 2012, taking the figure back to just below the level reported in Quarter 1 2005 (Chart 2.4). However, recent data shows that the number of employee jobs has begun to increase again, with almost 22,000 employee jobs created between Quarter 1 2012 and Quarter 2 2014. Over this period there were increases across the Services sector (18,990 jobs), the Manufacturing sector (3,190 jobs) and the 'Other Industries' sector (1,030 jobs). However, the number of employee jobs decreased in the Construction sector (1,220 job losses) mirroring the continued decline in output within this sector.

⁴ NISRA Quarterly Employment Survey 2007-2012

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Chart 2.4: Northern Ireland Employee Jobs 1993-2014



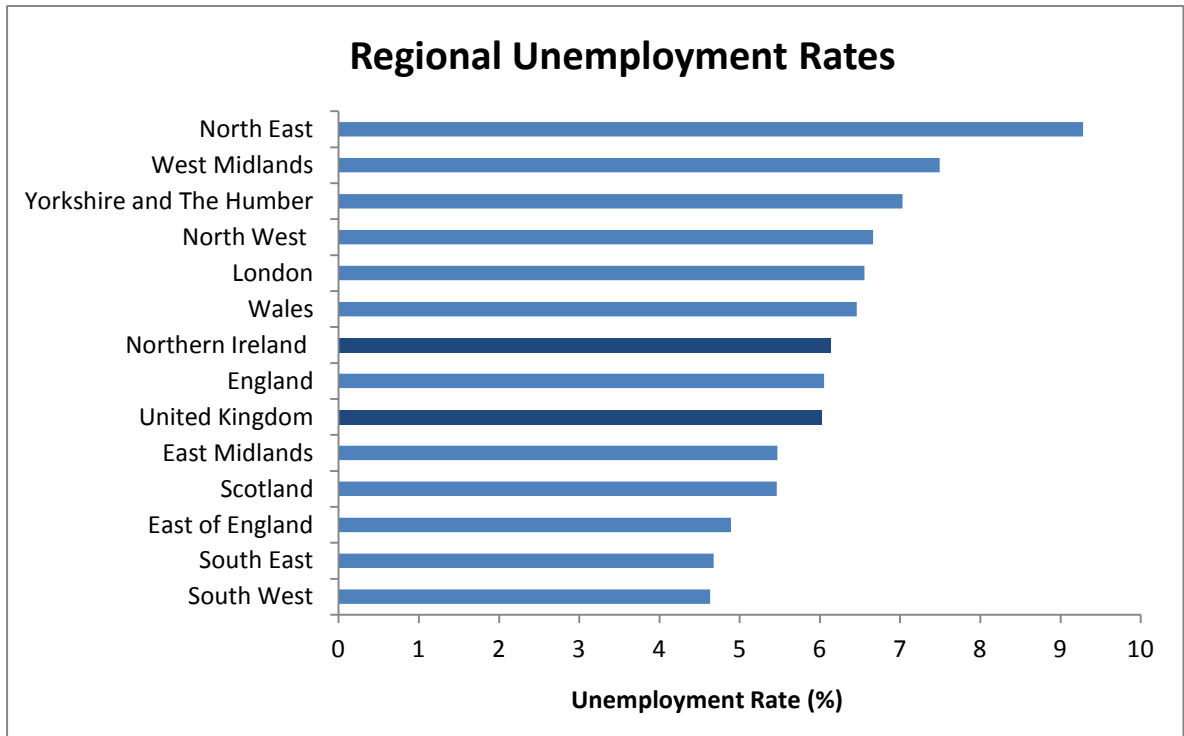
Source: DETI – Quarterly Employment Survey⁵

2.15 In addition to the recent increase in employee jobs, Chart 2.5 illustrates that the Northern Ireland unemployment rate is in line with the UK average. Northern Ireland's seasonally adjusted unemployment rate of 6.1 per cent (June – August 2014) is only slightly above the UK average rate (6.0 per cent). However, it is well below the comparable European Union and the Republic of Ireland respective average rates of 10.2 per cent and 11.5 per cent for July 2014.

⁵ Data for 2014 is provisional.

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Chart 2.5: Regional Unemployment Rates - June 2014 to August 2014

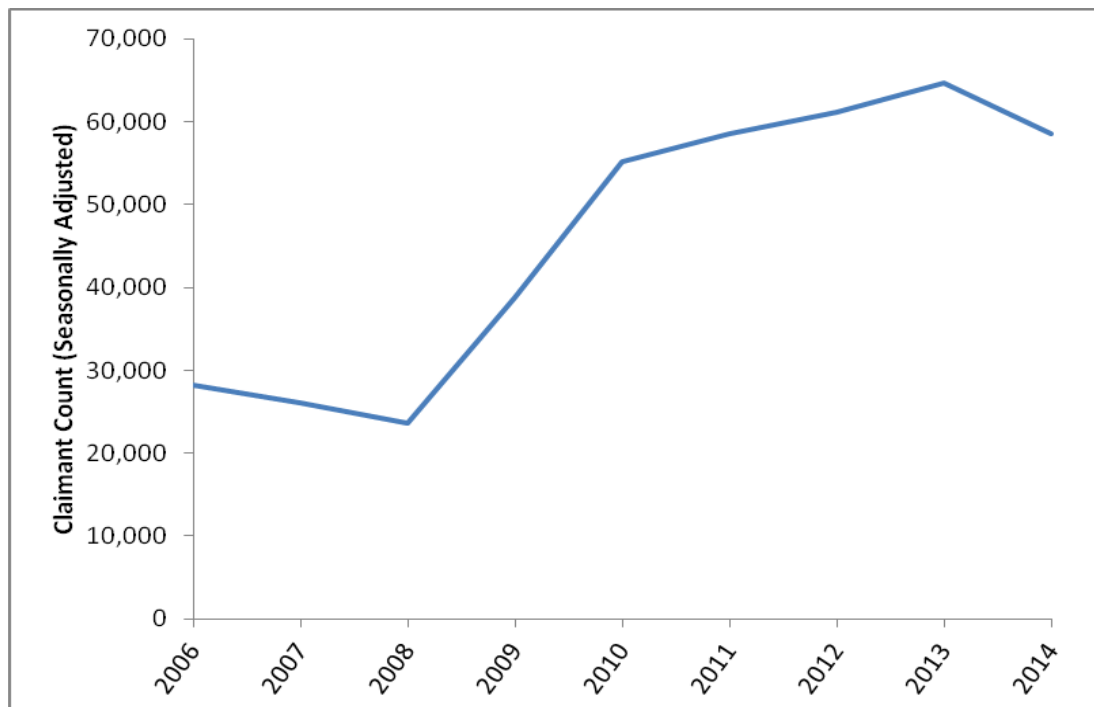


Source: ONS – Summary of National Labour Force Survey Data

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2.16 In terms of the local claimant count, the number of persons claiming unemployment benefits has fallen by 15.3 per cent (9,400) over the year and September 2014 saw the twenty-first consecutive month in which there has been a fall in this measure of unemployment (Chart 2.6). However, the seasonally adjusted Northern Ireland claimant count of 5.9 per cent of the workforce (September 2014) remains significantly above the UK average of 2.8 per cent.

Chart 2.6: Northern Ireland Claimant Count (2006-2014)

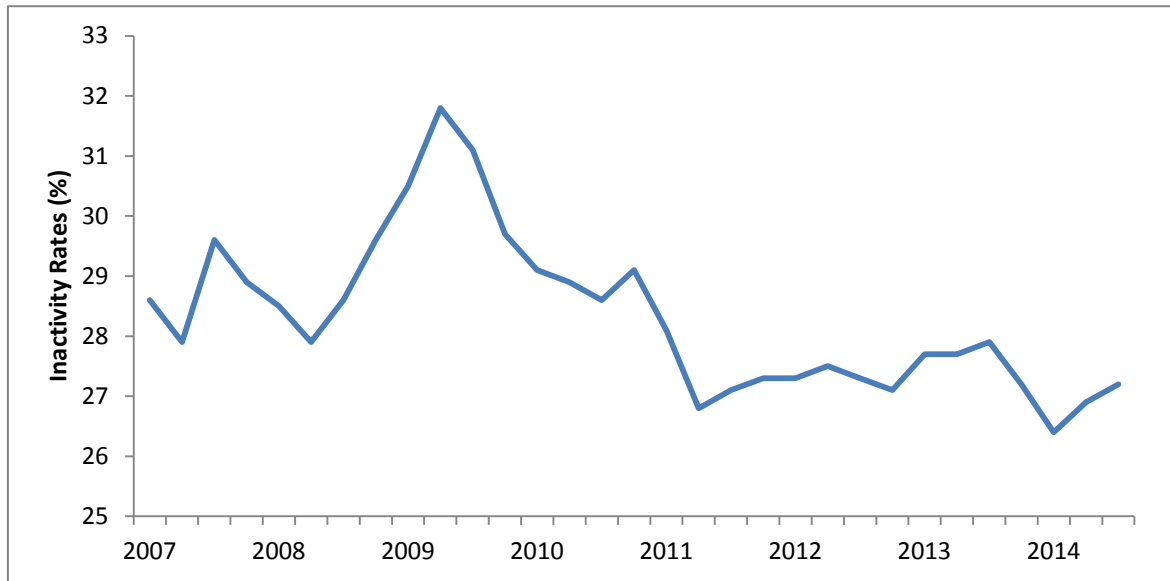


Source: ONS – NOMIS Claimant Count Data

2.17 Another longstanding challenge facing the Northern Ireland economy is its historically high rate of economic inactivity. However, over recent years this rate has been declining and currently there are 316,000 persons (27.2 per cent) aged 16-64 who are economically inactive in Northern Ireland (June – August 2014).

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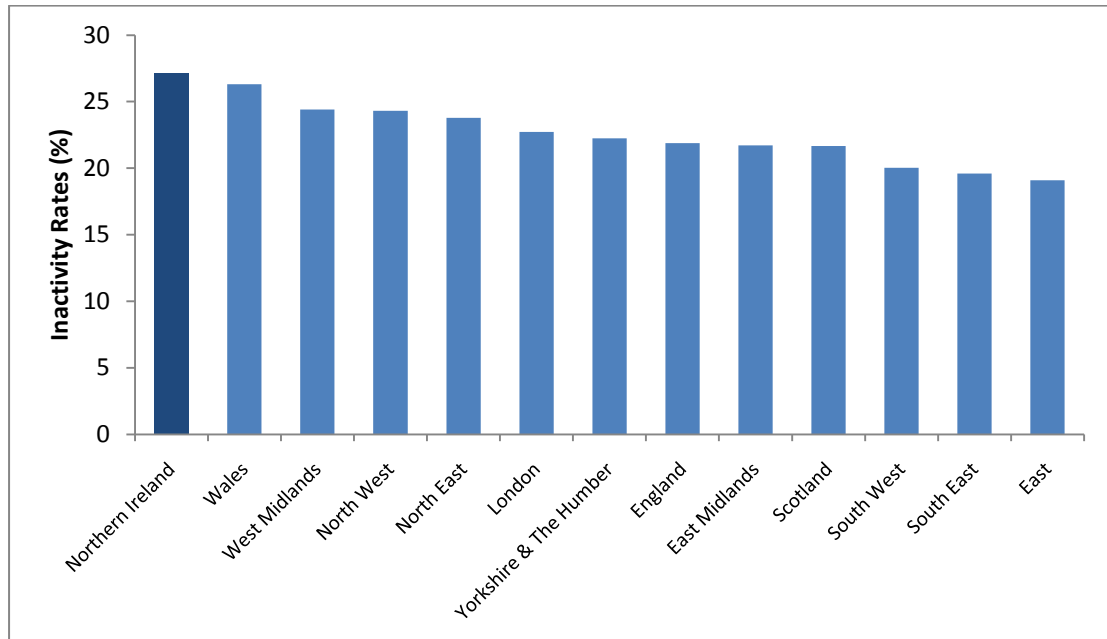
Chart 2.7: Northern Ireland Inactivity Rates (%)



Source: NOMIS

2.18 While Northern Ireland has made some positive steps in reducing inactivity rates, it continues to have the highest inactivity rate of all UK regions and is above the UK average of 22.2 per cent (Chart 2.8).

Chart 2.8: Regional Inactivity Rates June – August 2014 (%)



Source: NOMIS

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2.19 In Northern Ireland, it is estimated that 29 per cent of the economically inactive of working age (16-64) are sick/disabled; 27 per cent are students; 25 per cent are looking after the family/home; 12 per cent are retired and 7 per cent are inactive for 'other' reasons. This compares to the UK as a whole where approximately 24 per cent are economically inactive due to being sick; 26 per cent are students; 25 per cent are looking after the family/home; 15 per cent are retired; and 9 per cent gave other reasons for not looking for work.

Key Challenges Ahead

2.20 It is encouraging to see that the Northern Ireland economy has returned to growth, and it is hoped that this will continue to gain momentum over the coming months. There are a range of structural challenges that continue to hamper the region's economic performance. These issues are long standing and have been widely documented – in particular in the Northern Ireland Executive's Economic Strategy 'Priorities for Sustainable Growth and Prosperity'⁶ which summarises that:

- Northern Ireland living standards have persistently lagged behind GB, with the main factors being lower levels of employment and productivity;
- growth in output and jobs has tended to be in relatively low value added areas, which has resulted in average wages remaining significantly below the UK;
- the comparatively small private sector also contributes to a very large fiscal deficit. As a result the public expenditure reductions from the UK Spending Review will continue to have a negative impact on economic prospects going forward. In addition, the impact of these cuts will be felt more severely in Northern Ireland given our relatively higher dependence on the public sector;
- the economy has historically been under-represented in higher value added sectors such as finance and business services;
- a large proportion of the population is registered as economically inactive, with social exclusion levels well above other parts of the UK;

⁶ <http://www.northernireland.gov.uk/ni-economic-strategy-revised-130312.pdf>

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- almost half of the working age population in receipt of incapacity benefit have been diagnosed with mental and behavioural disorders; and
- a significant number of households have experienced intergenerational poverty or joblessness and are far removed from job readiness and the labour market.

2.21 Overall, the long standing issues of relatively low productivity and high economic inactivity need to be addressed if Northern Ireland living standards are to improve. Improving skills, promoting enterprise, innovation and Research & Development, and investing in economic infrastructure are all vitally important.

2.22 The Northern Ireland Economic Strategy sets out a number of priority areas and associated actions aimed at helping to address these issues including investment in skills and education, growing the private sector, strengthening our competitiveness through export led growth and targeting sectors that have the most potential for growth. These include Telecommunications and ICT; Life & Health Sciences; Agrifood; Advanced Materials; and Advanced Engineering.

2.23 The Northern Ireland Executive also continues to engage with the UK Government on a number of areas to help support economic growth in Northern Ireland. Recently these have included initiatives on access to finance for local businesses as well as looking at the potential to devolve additional fiscal powers to Northern Ireland, including Corporation Tax.

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CHAPTER THREE: FINANCING

Introduction

3.1 This section sets out the overall public expenditure context for Budget 2015-16, including the control framework within which public spending operates.

Public Expenditure Control Framework

3.2 An overview of the public expenditure control framework for both the UK and Northern Ireland is set out below. The most important point to note is that all allocations are made on the basis of a clear separation between **Resource DEL** and **Capital DEL**.

3.3 Within Resource DEL there is a further disaggregation between ring-fenced Resource and non ring-fenced Resource. Ring-fenced Resource is that which has been ring-fenced by HM Treasury to cover the non cash cost of depreciation and impairments. Non ring-fenced Resource, which is the larger element of the Resource DEL, reflects the ongoing cost of providing services (for example, pay, operating costs and grants to other bodies).

3.4 Capital DEL reflects investment in assets which will provide or underpin services in the longer term (for example, schools, hospitals, roads etc). Capital DEL is also disaggregated into conventional capital and Financial Transactions Capital (FTC).

3.5 In 2012-13 the UK Government introduced this additional type of capital funding – FTC in order to boost investment. Northern Ireland has benefited from this additional funding through allocations in the Chancellor's recent UK Budgets and Autumn Statements.

3.6 FTC can only be used to provide loans to, or equity investment in, the private sector and 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.

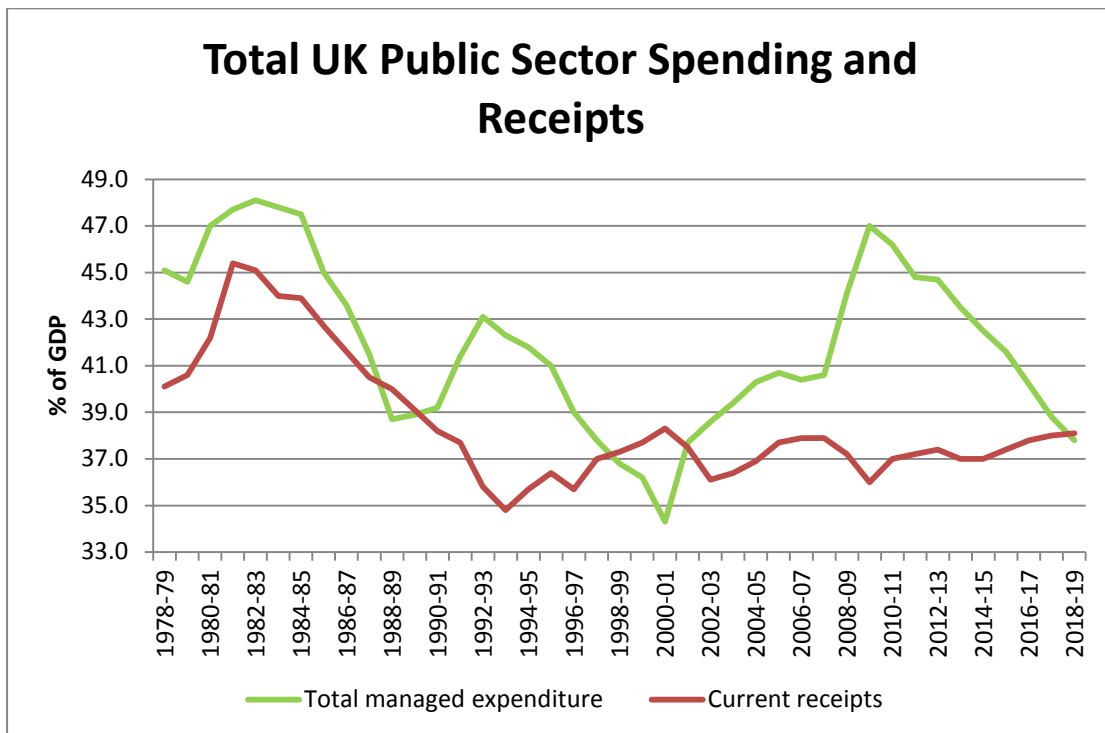
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3.7 It is anticipated that FTC will form an increasing proportion of the Executive's capital budget going forward.

UK Public Spending Context

3.8 The key factor setting the context for the 2015-16 period is the UK Government's continued emphasis on its deficit reduction plan.

Chart 3.1: UK Borrowing 1978-79 to 2018-19



3.9 The changing economic environment since 2008-09 has accelerated demands upon UK public expenditure, which was already increasing as a proportion of Gross Domestic Product (GDP) since the 2000-01 financial year. In the 20 years to 2006-07 public spending annually averaged around 40 per cent of GDP. It then increased to a historically high level of 47 per cent by 2009-10, mainly as a result of the impact of the global economic crisis. Government receipts by contrast did not exceed 40 per cent over the whole period, and fell to 36 per cent in 2009-10.

3.10 The UK public sector deficit in 2009-10 was the largest in its peacetime history at 11 per cent of GDP, and the

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Government was borrowing one pound for every four it spent.

- 3.11 The UK Government introduced significant curbs on public spending when it came to power in 2010. Their deficit reduction plan is based on a 'fiscal mandate' requirement to balance the Cyclically-Adjusted Current Budget (CACB) – the amount the Government has to borrow to finance non-investment spending, adjusted for the state of the economy – five years ahead.
- 3.12 In March 2014, the Office for Budget Responsibility (OBR) forecast that the CACB would be in surplus by 1.5 per cent of GDP in 2018-19.
- 3.13 The Government's supplementary target is for Public Sector Net Debt (PSND) to be falling as a share of GDP in 2015-16. OBR expect PSND to peak at 78.7 per cent of GDP in 2015-16, fall by a small margin in 2016-17 and then to fall more rapidly to 74.2 per cent of GDP by 2018-19.
- 3.14 The UK Government have made it clear that the improvements in the wider economy will not be reflected in increased public spending until the deficit has been brought within manageable levels.
- 3.15 Clearly these UK-wide policies will have significant implications on public spending budgets across both Whitehall and the Devolved Administrations.
- 3.16 The outworking of this policy has been to restrict the amount of funding available for public services at a UK level and this policy decision ultimately affects the Northern Ireland allocation from HM Treasury.
- 3.17 Looking at the longer term picture, the OBR has forecast UK public spending out to the end of the decade and their estimates are that Resource DEL spending at a UK level will continue to decline until at least the 2018-19 financial year. Capital spending, including FTC, at the UK level will fluctuate but will see an average growth of 2.1 per cent (0.6 per cent real terms) by 2018-19.

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Chart 3.2: UK Resource DEL Projections

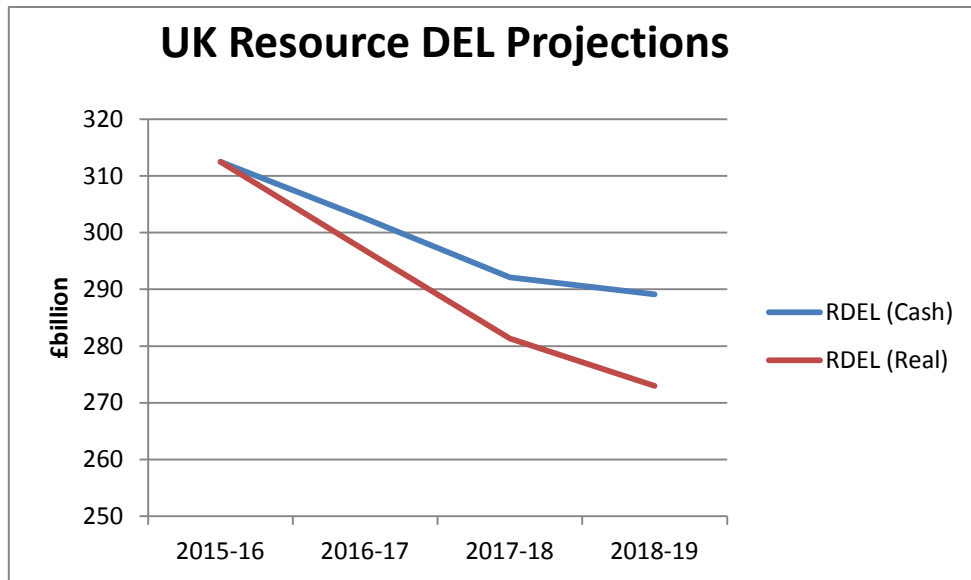
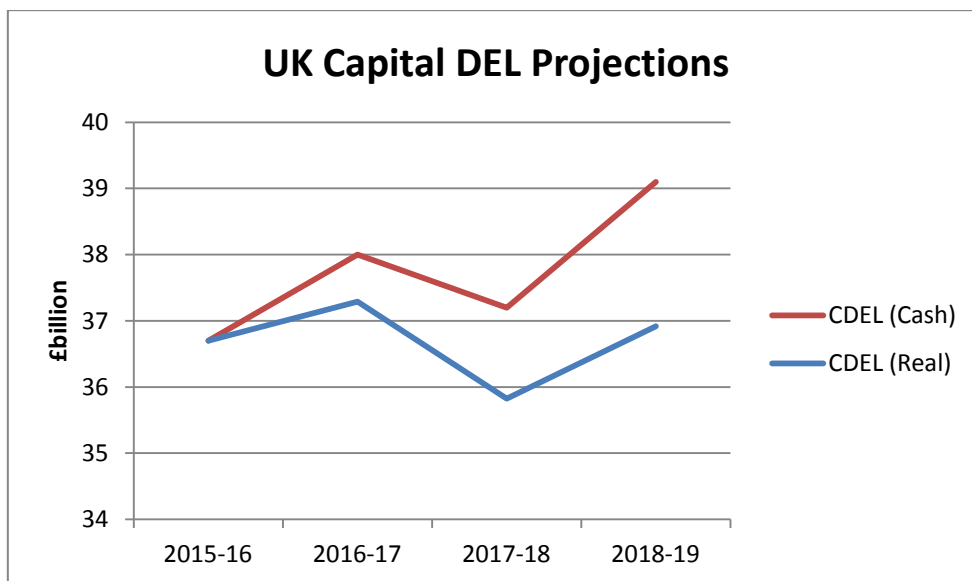


Chart 3.3: UK Capital DEL Projections



3.18 Clearly these estimates are based at a UK level, however it is expected that Northern Ireland Resource and Capital DEL will broadly mirror the UK position. This means that Northern Ireland resource budget funding levels will continue to see a real terms decline over the coming years, bringing increased challenges to Ministers as they seek to deliver services within restricted budget envelopes.

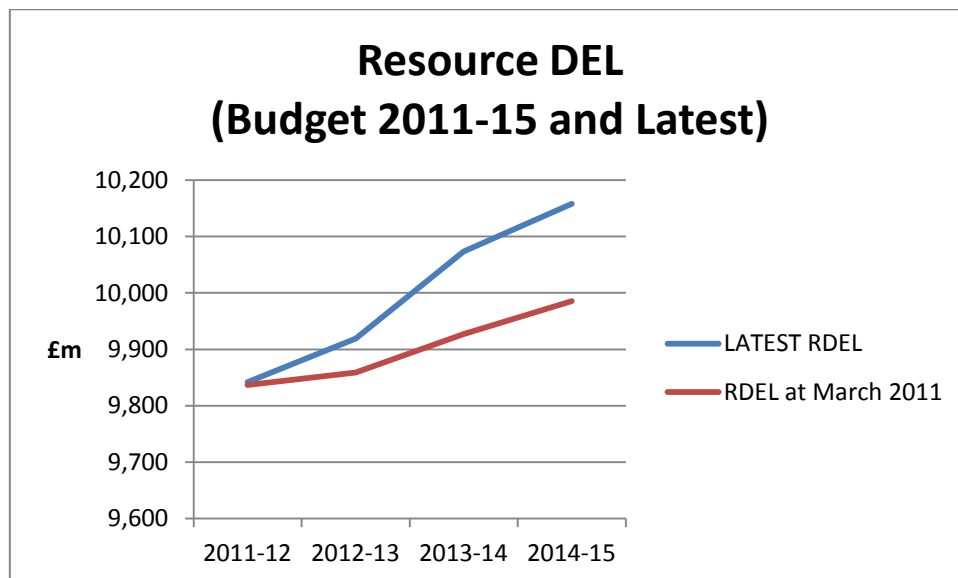
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Northern Ireland Public Spending Context

3.19 Looking at the 2015-16 Budget, it is important to remember that since the publication of the 2011-15 Budget, there have been a significant number of changes to the overall quantum of funding that the Executive has received from HM Treasury. This is in part due to the UK Government policy in recent years of growing the capital budget at the expense of the Resource DEL.

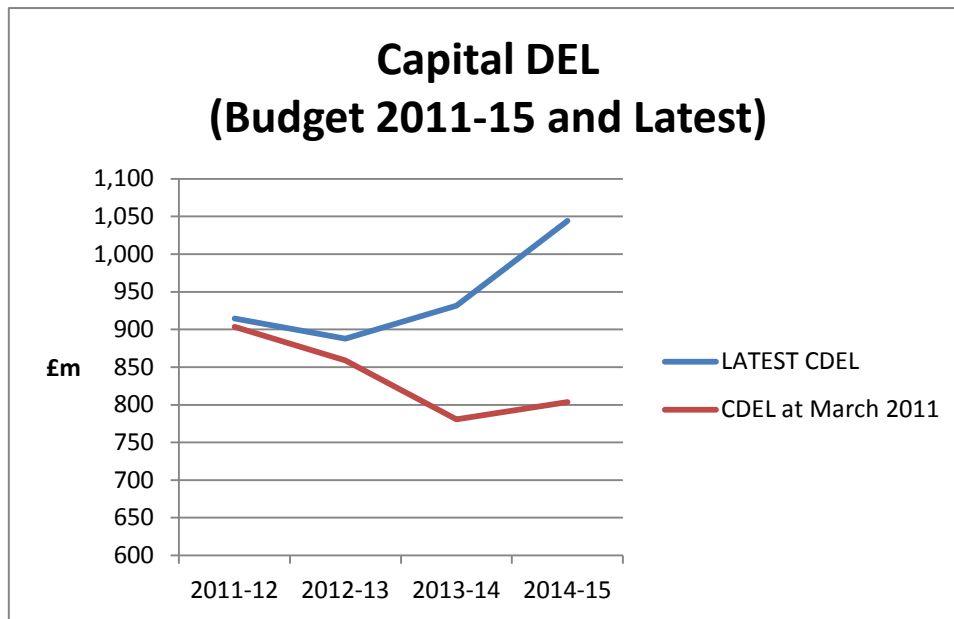
3.20 The following charts illustrate the differences in funding over the 2011-15 period since the publication of the Executive's 2011-15 Budget in March 2011.

Chart 3.4: Northern Ireland Total Resource DEL



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Chart 3.5: Northern Ireland Capital DEL



3.21 Whilst we see from Charts 3.4 and 3.5 that the 2014-15 position has increased in both Resource DEL and Capital DEL, it is important to bear in mind that over 90 per cent of the increases in Resource DEL have been as a result of changes to the way things are recorded in budgets and therefore do not represent additional spending power.

3.22 In contrast, the Capital DEL budget, including FTC, has increased by £247 million. Of that almost 85 per cent is a direct increase in our overall capital spending power.

3.23 In terms of presentation, some of the tables within this document compare the 2015-16 outcome to a 2015-16 baseline position. The 2015-16 baseline position is based on the 2014-15 Opening Monitoring position with adjustments made to remove certain time-bound allocations and EU Match Funding.

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Sources of Financing for Northern Ireland Public Expenditure

Allocations from HM Treasury

- 3.24 The main source of funding for public expenditure within Northern Ireland remains the Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME) from HM Treasury. AME is used to fund volatile items such as pensions and benefits. Both DEL and AME are ultimately funded through the proceeds of general taxation across the United Kingdom. The Executive does not have discretion over AME funding and the draft Budget is therefore concerned primarily with DEL allocations. However tables setting out AME spend are included in the Annex to this document.
- 3.25 Changes in the level of DEL funding for Northern Ireland are determined via the application of the Barnett Formula – in simple terms Northern Ireland receives a population-based share of changes in funding for comparative spending programmes in England. Material allocations, or reductions, from Whitehall are made to the Northern Ireland Executive as part of the national Spending Review process.
- 3.26 Allocations received through this mechanism are generally “unhypothecated” meaning that the Executive and Assembly can determine allocations for specific priorities and programmes regardless of the nature of the comparable spending in England that gave rise to the Barnett allocation.

2015-16 Spending Round Outcome for Northern Ireland

- 3.27 The Chancellor announced the UK Government’s Spending Round for 2015-16 back in June 2013 and that set the overall quantum of resources available to UK departments.
- 3.28 As changes to the level of funding for Northern Ireland are automatically determined by changes in funding for comparable spending programmes in Whitehall departments, the outworking of the UK Government’s deficit reduction plan has led to restricted levels of funding being made available to the Northern Ireland Executive.

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3.29 Table 3.1 below sets out the Resource and Capital DEL allocations received from HM Treasury for 2015-16 with the percentage real terms reductions from the 2014-15 position also highlighted.

Table 3.1: Northern Ireland 2015-16 Spending Round Outcome

| | £million | | |
|---|----------|---------|-------------------|
| | 2014-15 | 2015-16 | Real Terms Change |
| Non Ring-Fenced Resource DEL | 9,691.3 | 9,691.1 | -1.6% |
| Ring-Fenced Resource DEL | 479.4 | 550.4 | 13.0% |
| Capital DEL | 1,051.1 | 1,092.3 | 2.2% |
| <i>Of which Financial Transactions:</i> | 62.8 | 127.7 | |

3.30 Of course, the allocation from HM Treasury does not fully represent the spending power available to the Executive. There are currently two strategic ways in which the Executive can increase gross spending power above the allocations determined by HM Treasury. These are the Regional Rate and the borrowing power within the Reinvestment and Reform Initiative (RRI).

3.31 In addition, the Executive benefit from funding provided from the European Union. Income generated from receipts may also increase the Executive's spending power.

Regional Rate

3.32 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 those Councils. The Regional Rate, which is determined by the Executive, generates additional resources to support those central public services that are the responsibility of the Executive.

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- 3.33 Regional Rate revenue is also “unhypothecated” 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.
- 3.34 Aside from the UK Spending Round allocation for Northern Ireland, the most significant source of funding for the Executive is revenue generated locally through the Regional Rates.
- 3.35 In Budget 2011-15 the Executive agreed that both domestic and non-domestic Regional Rate should be uplifted in line with inflation. This was agreed because the Executive was mindful of not imposing undue additional burdens on households in the difficult economic climate that prevailed at the time.
- 3.36 In its approach to 2015-16 the Executive’s Budget is predicated on the continuation of this policy with overall revenues from both the normal domestic and non-domestic Regional Rates being held in line with inflation. It is also worth noting that for 2015-16 the actual non-domestic rate (as expressed in pence per pound of rateable value) will be ‘reset’ for a new Valuation List after a revaluation of the non-domestic sector and the large retail levy will no longer apply.
- 3.37 In addition, the revenue forecasts associated with the Regional Rate for the budget period assume that manufacturing rates will continue to apply at a level of 30 per cent liability until 31 March 2016. This will require the necessary legislation to be approved by the Northern Ireland Assembly in advance of the 2015-16 financial year. Given that economic development is a top priority of the Executive this approach will provide continued support for the manufacturing industry. This will help to safeguard employment during these difficult economic times and assist Northern Ireland in its economic recovery.
- 3.38 In relation to rating matters the budget also proposes that the Small Business Rate Relief scheme should continue to operate for the additional year of the budget period. There will also be new provision put in place through the rating

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system to manage the process of district rate convergence by phasing in increases attributed to that convergence over an extended period of time. The Executive has already agreed to forgo Regional Rate revenue of up to £30 million over the life of the scheme which will begin in April 2015.

RRI Borrowing

- 3.39 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 £125 million in 2003-04 and £200 million per annum thereafter of additional expenditure funded by borrowing from the National Loans Fund. This counts as AME and is hence over and above the Northern Ireland Executive's DEL.
- 3.40 The borrowing power and arrangements are broadly, although not exactly, equivalent to the prudential borrowing regime available to local authorities in GB. Borrowing must be to finance spending deemed to be capital in nature. The purpose of the programme is to increase capital investment over and above increases in DEL agreed with HM Treasury in Spending Reviews.
- 3.41 Borrowing under the Reinvestment and Reform Initiative (RRI borrowing) is covered by the Northern Ireland (Loans) Act 1975. This had a limit on outstanding debt of £2 billion, which was raised to £3 billion by the Northern Ireland (Misc Provision) Act 2006. This limit also covers loans drawn by the Northern Ireland Consolidated Fund to facilitate onward lending to local councils.
- 3.42 The formal RRI borrowing limit is agreed by HM Treasury as part of the Spending Review process. For 2015-16 this limit was maintained at £200 million. Furthermore under "Together: Building a United Community" (T:BUC), announced in 2013, the Executive will be able to access an additional £100 million to use on shared education or housing projects. This is profiled over three years beginning 2014-15 and it therefore increases the 2015-16 RRI borrowing limit to £226.8 million.

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3.43 Table 3.2 sets actual and planned borrowing from the introduction of the RRI borrowing facility to the end of the 2015-16 period.

3.44 The table includes RRI borrowing used for on-balance sheet Private Finance Initiative (PFI). In 2007 HM Treasury granted the Executive a concession in respect of PFI projects. This allows the value of an on-balance sheet PFI project (which would otherwise be a direct charge to the Capital DEL) to be substituted for RRI borrowing on the basis that it essentially represents 'borrowing', although from a different source.

3.45 This has had the advantage of minimising the interest costs compared to the original agreement, where the Executive incurred the interest costs of both projects funded under RRI borrowing and those arising from a PFI contract. However, a change in the guidance used to assess PFI projects from 2009-10 has resulted in less PFI projects being regarded as 'on' balance sheet in the intervening years.

Table 3.2: Actual and Planned Use of RRI Borrowing Facility

| | £million | | |
|--------------------------|--------------------|----------------------|--|
| | NLF Borrowing | On-Balance Sheet PFI | Total Use of RRI Borrowing Facility ³ |
| 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 | ¹ 36.9 | 200.0 | 236.9 |
| 2011-12 | ² 375.0 | | 375.0 |
| 2012-13 | 150.9 | | 150.9 |
| 2013-14 | 195.9 | | 195.9 |
| 2014-15 (<i>plans</i>) | 264.9 | | 264.9 |
| 2015-16 (<i>plans</i>) | 226.8 | | 226.8 |
| TOTAL | 2,103.5 | 576.3 | 2,679.8 |

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

² 2011-12 includes £175 m additional borrowing power iro Presbyterian Mutual Society rescue package

³ 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

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- 3.46 Based on the outturn and plans shown in Table 3.2 above, the Executive has set aside £63.4 million to cover the forecast annual interest repayment on RRI loans for 2015-16.
- 3.47 The level of outstanding debt (i.e. loans drawn less principal repaid) in respect of these RRI loans will be an estimated £1,734 million at the end of 2015-16.

Cost of Borrowing

- 3.48 The Executive consider it important to give due regard to the total level of indebtedness in respect of RRI borrowing. Although predicted levels of outstanding debt at the end of 2015-16 are well below the total £3 billion permitted by legislation, incurring large levels of debt that future generations will be responsible for servicing is difficult to justify both morally and financially.
- 3.49 The RRI borrowing facility will have allowed an additional £2.7 billion of additional capital expenditure in Northern Ireland by the end of 2015-16. Therefore it has already contributed significantly to addressing the infrastructure deficit inherited by the Devolved Administration.
- 3.50 The Scottish Government under the Scotland Act 2012 has a borrowing limit of £2.2 billion, which equates to £415 per head of population. Our projected level of indebtedness in 2015-16 of £1.7 billion equates to £948 per head of population. However, as highlighted above, it is important to remember that we have been addressing a significant legacy of under investment.
- 3.51 Interest liabilities incurred in respect of RRI borrowing reduce the level of funding available for other services. Although interest repayments reduce over the term of the loan, the annual interest repayment based on the loans planned to the end of 2015-16, i.e. without taking account of any additional borrowing, will still be approximately £35 million in 2024-25. These forecasts are based on interest rates remaining at around the current level until the end of 2015-16. Should interest rates rise significantly before the end of 2015-16 then the forecast interest repayments will also rise.

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- 3.52 For 2015-16, the £63.4 million budget for interest payments in respect of RRI borrowing equates to 0.7 per cent of the Executive's overall non ring-fenced Resource DEL of £9.7 billion. This would appear to be a relatively small proportion but it exceeds the Resource DEL budget of each of the non-Ministerial departments, with, for example, the Northern Ireland Assembly's non ring-fenced Resource DEL budget in 2015-16 being £40.7 million.
- 3.53 In addition, as outlined previously, the medium term forecast of UK public expenditure shows a downward trend in Resource DEL with the OBR showing a cash terms reduction of almost 7.5 per cent between 2015-16 and 2018-19, putting further pressure on an already constrained Resource DEL Budget.
- 3.54 The 2015-16 draft Budget is predicated on the full drawdown of available RRI borrowing. However, given the need to be mindful of both the overall Resource DEL position and the level of indebtedness that results from RRI borrowing, the Executive are in the process of considering mechanisms for capping RRI borrowing to ensure that the overall level of borrowing remains within manageable limits.

EU Funding

- 3.55 Departmental expenditure over the budget period will include spending that will take place under the 2014-20 EU Structural and Investment (ESI) Funds Programmes, the Northern Ireland Rural Development Programme, and the European Fisheries Fund Programme. In addition Northern Ireland will also receive EU income from its 2007-13 EU Programmes, all of which are on track to meet the regulatory closure targets set by the European Commission.
- 3.56 EU funding provided through the European Commission requires a matched funding element that Member States may provide or, in a change for the 2014-20 programme period, may be provided from external private sources.
- 3.57 Where the EU income is matched by national resources it provides us with additional spending power however any national match funding contributions come from within our

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allocated DEL Budget. Funding cover for national match funding contributions in respect of EU Structural and Investment Programmes has been held centrally in the draft Budget and will be allocated to departments as part of the final Budget.

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CHAPTER FOUR: PROPOSED DRAFT BUDGET OUTCOME

Background

4.1 There were a number of considerations that the Executive had to incorporate in the formulation of the draft Budget. These are outlined below.

Programme for Government

4.2 In the absence of a formal Programme for Government (PfG) that would cover the 2015-16 financial year the Executive has agreed that the draft Budget would be predicated on a carry forward of the five key PfG priorities. The priorities are as follows:

- **Priority 1:** Growing a Sustainable Economy and Investing in the Future
- **Priority 2:** Creating Opportunities, Tackling Disadvantage and Improving Health and Well-Being
- **Priority 3:** Protecting Our People, the Environment and Creating Safer Communities
- **Priority 4:** Building a Strong and Shared Community
- **Priority 5:** Delivering High Quality and Efficient Public Services

4.3 These priorities have influenced the Executive's key plans for 2015-16 and guided the proposed departmental outcomes set out below.

4.4 In terms of Resource DEL, the approach to constructing a one year Resource DEL Budget has favoured an incremental approach. This has been reinforced by comments from pre-consultation stakeholders. Therefore, rather than seeking to establish departmental resource budgets from a zero base, the 2015-16 Budget was established based on a substantive roll forward from the 2014-15 Opening Monitoring position but removing time-bound allocations.

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- 4.5 For Capital DEL, it was recognised that spending profiles can be significantly different from one year to the next reflecting the nature of creating or purchasing capital assets. The 2015-16 Budget was therefore predicated on a zero based approach where capital budgets were built up without assuming any continuation of trends from preceding years.
- 4.6 The key stages in this approach involved an examination and assessment of existing Executive and contractual commitments on an evidence based approach and an assessment of additional requirements based upon consideration of PfG targets and relative departmental priorities.
- 4.7 Although underpinned by consideration of specific projects/programmes, capital has been allocated at a departmental level rather than at project level. This will allow Ministers to refine their departmental priorities and to consider views arising from the consultation before committing to specific projects or programmes of work.

2014-15 Access to the Reserve

- 4.8 As part of the October Monitoring process the Executive secured access to the UK Reserve of up to £100 million to enable it to fund a number of inescapable pressures. The Chancellor made it clear that this would be fully repayable in 2015-16. As a result the draft Budget has set aside £100 million centrally in anticipation of approval from HM Treasury for this to be repaid from our Capital Budget.

Approach to Funding Water and Sewerage Services

- 4.9 Unlike all other areas of the UK, where water and sewerage services are funded by consumer charges, in Northern Ireland the services are currently primarily funded from public expenditure. This creates pressures in other areas, due to no funding being received via the Barnett Formula, as the comparable service is delivered by the private sector. Thus Barnett additions arising in other areas, for example health and education, need to be diverted to cover the associated water service costs.

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4.10 The Executive has decided that it should continue to defer the introduction of domestic water charges.

Public Sector Pensions

4.11 In conjunction with HM Treasury there has been an ongoing work stream to revalue public sector pension schemes. This work is likely to result in significant additional employer contribution costs – particularly for the health and education sectors.

Public Sector Workforce

4.12 Given the wider public expenditure context, the Executive recognise that there needs to be an acceptance that the deteriorating Resource DEL position will necessitate proactive measures to reduce the size of the public sector pay bill.

4.13 The Executive are therefore looking at formulating a workforce restructuring plan, details of which will be prepared within weeks. This will need to examine all possible personnel interventions, including recruitment freezes, suppressing existing vacancies, pay restraint and a voluntary exit mechanism.

4.14 Elements of this restructuring such as any voluntary exit scheme will require setting aside funding upfront. The Executive has begun negotiations with HM Treasury to approve £100 million of RRI borrowing to be used to capitalise this workforce restructuring in 2015-16. Funding this scheme will be vital to deliver the workforce restructuring that our public sector requires, ensuring it is prepared for Resource DEL reductions over the coming years.

Support for Health

4.15 For Budget 2015-16 no department has been given a 'blanket' protection from the impact of tightening budgets and the need to pursue greater efficiencies in service delivery. There is recognition of the significant pressures facing the health service but it is important that the sector continues to pursue its efficiency agenda.

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- 4.16 In that respect the Executive has agreed that the service protection provided to DHSSPS is focussed on direct front-line interventions.
- 4.17 In the context of constrained budgetary pressures, this support will ensure that our health service continues to provide a world class service to the people of Northern Ireland.

Department of Justice

- 4.18 One issue that was an important consideration was the treatment of the Department of Justice (DOJ). When policing and justice was devolved in 2010 the UK government put in place a specific funding package. In order to manage this, the DOJ Budget was ring-fenced.
- 4.19 With the exception of funding for national security measures, which remains ring-fenced, that funding package has now come to an end and it is only appropriate that the ring-fence on DOJ does likewise. This will fully integrate DOJ into the local Budget process and allow effective management of the aggregate financial position.
- 4.20 In 2015-16 DOJ has received £29.5 million Resource DEL and £1.5 million Capital DEL of ring-fenced national security funding from HM Treasury.

Draft Budget Outcome

Departments

- 4.21 The following tables set out the overall draft Budget outcome for individual departments in terms of non ring-fenced Resource DEL and ring-fenced Resource DEL.
- 4.22 For non ring-fenced Resource DEL the need to provide budgetary cover for a number of significant central pressures such as public sector pensions and measures to mitigate against the impact of welfare reform has meant that the overall level of funding available to departments has reduced. Coupled with the Executive's decision to support those departments delivering key public services, it has

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meant that some departments are facing significant reductions compared to the baseline position. Unfortunately some reductions are inevitable in the constrained public expenditure environment we now find ourselves in.

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TABLE 4.1: NON RING-FENCED RESOURCE DEL

| | | £million | |
|--|---------------------------------|--|--------------|
| | 2015-16 Baseline Position | 2015-16 Draft Budget Position | % Change |
| Agriculture and Rural Development | 197.6 | 187.3 | -5.2% |
| Culture, Arts and Leisure | 99.9 | 89.9 | -10.0% |
| Education | 1,943.7 | 1,849.3 | -4.9% |
| Employment and Learning | 756.2 | 674.4 | -10.8% |
| Enterprise, Trade and Investment | 184.2 | 194.0 | 5.3% |
| Finance and Personnel | 155.9 | 139.0 | -10.9% |
| Health, Social Services and Public Safety | 4,542.7 | 4,693.1 | 3.3% |
| Environment | 116.6 | 103.7 | -11.1% |
| Justice | 1,089.0 | 1,024.0 | -6.0% |
| Regional Development | 335.5 | 322.0 | -4.0% |
| Social Development | 653.9 | 589.1 | -9.9% |
| Office of the First Minister and Deputy First Minister | 65.8 | 65.4 | -0.6% |
| Non Ministerial Departments | | | |
| Assembly Ombudsman / Commissioner for Complaints | 1.8 | 1.8 | 0.0% |
| Food Standards Agency | 8.5 | 7.4 | -12.8% |
| NI Assembly | 40.7 | 40.7 | 0.0% |
| NI Audit Office | 7.9 | 7.9 | 0.0% |
| NI Authority for Utility Regulation | 0.1 | 0.1 | -14.3% |
| Public Prosecution Service | 32.7 | 30.5 | -6.7% |
| Total Planned Spend¹ | 10,232.6 | 10,019.5 | -2.1% |

¹Totals may not add due to rounding

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TABLE 4.2: RING-FENCED RESOURCE DEL

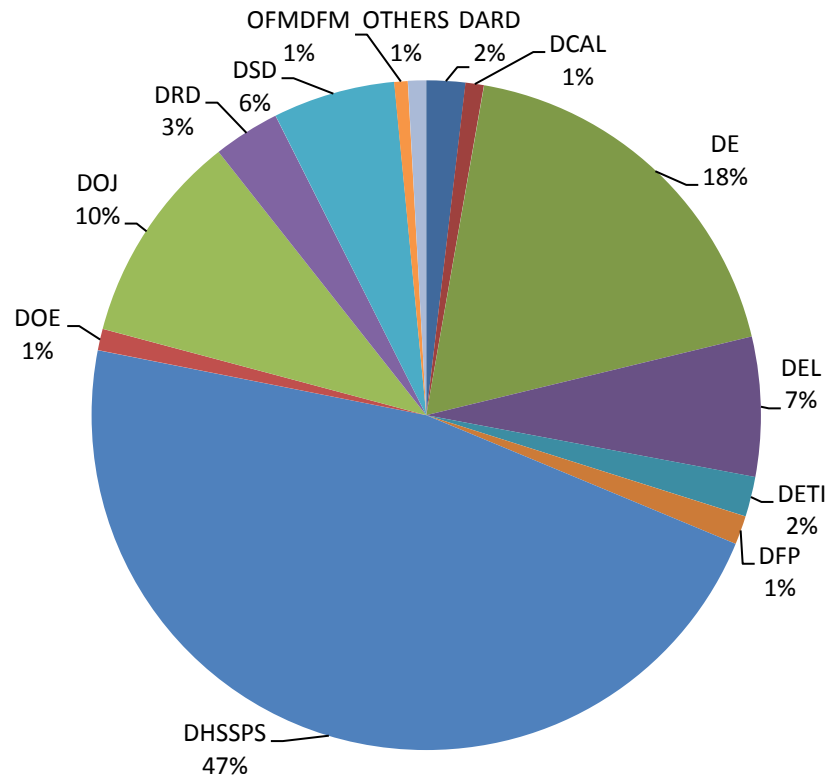
| | £million |
|--|--|
| | 2015-16 Draft Budget Position |
| Agriculture and Rural Development | 11.6 |
| Culture, Arts and Leisure | 5.4 |
| Education | 0.6 |
| Employment and Learning | 158.1 |
| Enterprise, Trade and Investment | 3.7 |
| Finance and Personnel | 29.5 |
| Health, Social Services and Public Safety | 117.5 |
| Environment | 3.5 |
| Justice | 84.1 |
| Regional Development | 108.2 |
| Social Development | 9.7 |
| Office of the First Minister and Deputy First Minister | 0.5 |
| Non Ministerial Departments | |
| Assembly Ombudsman / Commissioner for Complaints | 0.1 |
| Food Standards Agency | 0.0 |
| NI Assembly | 3.4 |
| NI Audit Office | 0.3 |
| NI Authority for Utility Regulation | 0.1 |
| Public Prosecution Service | 1.4 |
| Total Planned Spend¹ | 537.8 |

¹Totals may not add due to rounding

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4.23 The following pie chart demonstrates the split of non ring-fenced Resource DEL funding across departments.

Chart 4.1: Breakdown of Non Ring-fenced Resource DEL Expenditure by Department 2015-16



4.24 Turning to Capital DEL, the overall funding level has shown an increase in 2015-16 which has been primarily due to the increased levels of Financial Transactions Capital.

4.25 The capital allocations shown in the following table are based on an assessment of the contractual or inescapable commitments within departments, the necessary level of recurrent spending, with additional funding being provided for new programmes and projects where possible. As outlined above, this is presented at departmental level at this stage to allow individual Ministers to finalise their programmes of work.

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TABLE 4.3: CAPITAL DEL (NET OF RECEIPTS)

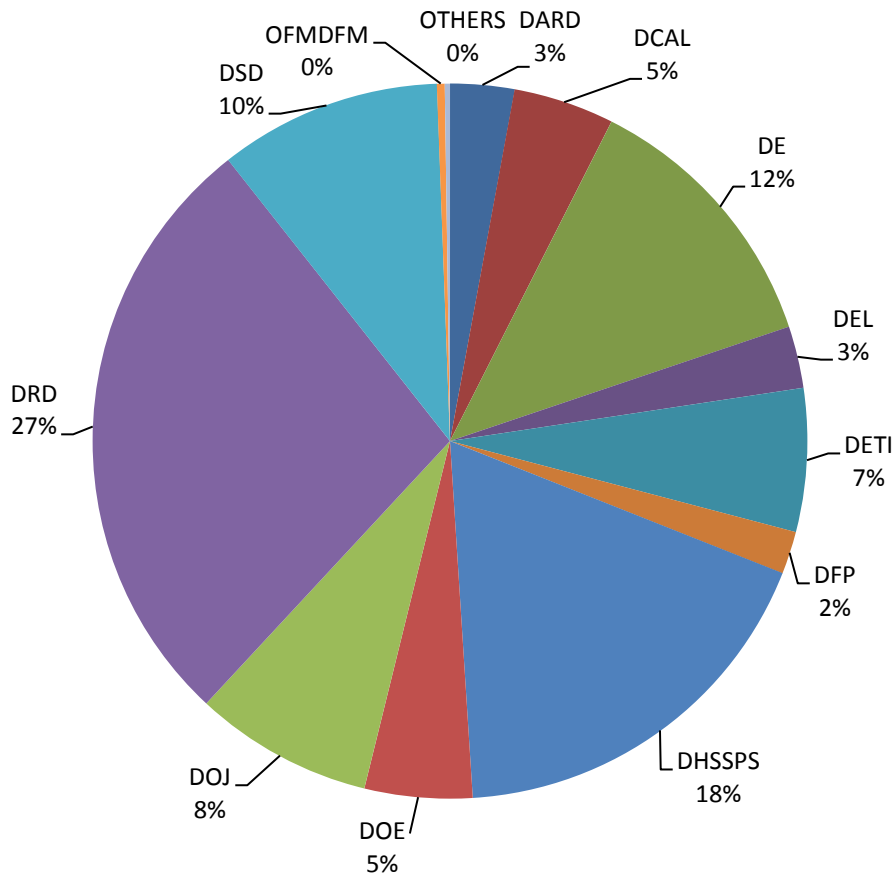
| | £million | | |
|--|------------------------------------|---------------------------|-----------------------------|
| | 2015-16 Conventional Capital | 2015-16 FTC Capital | 2015-16 Total Capital |
| Agriculture and Rural Development | 34.4 | - | 34.4 |
| Culture, Arts and Leisure | 54.1 | - | 54.1 |
| Education | 146.8 | - | 146.8 |
| Employment and Learning | 33.2 | - | 33.2 |
| Enterprise, Trade and Investment | 24.2 | 52.8 | 77.0 |
| Finance and Personnel | 22.9 | - | 22.9 |
| Health, Social Services and Public Safety | 203.4 | 10.0 | 213.4 |
| Environment | 7.1 | 50.5 | 57.6 |
| Justice | 95.9 | - | 95.9 |
| Regional Development | 325.8 | - | 325.8 |
| Social Development | 117.0 | 2.3 | 119.3 |
| Office of the First Minister and Deputy First Minister | 4.2 | - | 4.2 |
| Non Ministerial Departments | | | |
| Assembly Ombudsman / Commissioner for Complaints | 0.0 | - | 0.0 |
| Food Standards Agency | 0.1 | - | 0.1 |
| NI Assembly | 1.8 | - | 1.8 |
| NI Audit Office | 0.0 | - | 0.0 |
| NI Authority for Utility Regulation | 0.0 | - | 0.0 |
| Public Prosecution Service | 0.8 | - | 0.8 |
| Total Planned Spend¹ | 1,071.7 | 115.6 | 1,187.3 |

¹Totals may not add due to rounding

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4.26 The following pie chart demonstrates the split of Capital DEL funding, including FTC, across departments.

Chart 4.2: Breakdown of Capital DEL by Department 2015-16



4.27 It is worth noting two specific strategic Capital allocations.

Together: Building a United Community

4.28 As part of the “Together: Building a United Community” strategy and the Economic Pact with the UK Government, the Executive has negotiated £100 million of additional borrowing power that can be utilised for shared housing or education schemes. In July the Executive confirmed the schemes which will benefit from the £100 million borrowing made available to help deliver the Good Relations Strategy projects.

4.29 These include funding for the Lisanelly shared education campus, spending to improve the facilities at integrated primary schools including at Omagh, Portadown and Corran,

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shared neighbourhood schemes such as those at Felden Mill and the Ravenhill Road in Belfast, and a new further education campus in Craigavon. The 2015-16 allocations are set out in the table below.

Table 4.4: Together: Building a United Community

| £million | |
|-------------------------------------|-------------|
| Shared Housing / Education Schemes | 2015-16 |
| DE | |
| Omagh Integrated Primary School | 2.0 |
| Portadown Integrated Primary School | 0.8 |
| Corran Integrated Primary School | 1.0 |
| Lisanelly | 8.0 |
| Total DE | 11.8 |
| DEL | |
| Craigavon Further Education College | 5.0 |
| DSD | |
| Felden Mill, Ravenhill Road | 3.0 |
| Mixed Tenure Loans | 7.0 |
| Total DSD | 10.0 |
| TOTAL | 26.8 |

Northern Ireland Community Safety College

4.30 An allocation of £53.3 million has been given to the Department of Justice in relation to the Northern Ireland Community Safety College at Desertcreat. This allocation is dependent on agreeing the drawdown of unspent funds from HM Treasury in 2015-16. As part of the final Budget process the Executive will work with HM Treasury to secure this additional funding.

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Central Items

4.31 Details of the centrally held items are included in the Annex to this document, however it is worth referencing specific allocations.

EU Funding

4.32 £10.6 million Resource DEL and £8 million Capital DEL is held centrally in relation to EU Match Funding. Allocations will be made from this during the course of the final Budget process as EU requirements are finalised across departments.

Public Sector Pensions

4.33 As highlighted above, a particular issue that all departments will have to address in 2015-16 is the financial impact of the ongoing public sector pension scheme revaluations. This work is likely to result in significant additional employer contribution costs – particularly for the health and education sectors. Work is ongoing to finalise these costs. In the interim the Executive has agreed to set aside £133.2 million to help alleviate the pressure on departments.

Delivering Social Change

4.34 In recognition of the Executive's Delivering Social Change agenda, Social Investment Fund and the commitment to funding the Childcare Strategy Action Plan, funding is being maintained at 2014-15 levels. This provides £11 million Resource DEL and £15 million Capital DEL for the Social Investment Fund along with £3 million of Resource DEL Childcare Strategy funding. This funding is held centrally for disbursement by Executive decision.

Asset Management Unit Receipts

4.35 The Executive has anticipated that the Asset Management Unit will deliver £50 million of capital receipts in 2015-16. This has been factored into the overall Capital DEL position.

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Welfare Reform

- 4.36 The Executive has agreed to set aside £70 million for a possible package of measures to mitigate the impact of Welfare Reform.

Workforce Restructuring

- 4.37 £100 million of capital funded by RRI borrowing has been held centrally in anticipation of HM Treasury agreement that this can be used to address some of the workforce restructuring pressures outlined above.

Change Fund

- 4.38 The current budgetary climate serves as a reminder of the challenge that the Executive faces in delivering high quality public services to citizens despite increasing demand and reducing budgets.
- 4.39 Upfront investment may be necessary to stimulate innovation, improve outcomes for citizens and generate savings. Therefore the Executive will establish a £30 million Change Fund for 2015-16. In the current budgetary climate, the Change Fund will be an important source of finance to drive forward reform initiatives.
- 4.40 The Fund will be available to finance upfront investment in cross-cutting reform initiatives and preventative measures that are expected to generate savings in the longer term. It will assist transformation and change in the public sector through the introduction of new innovative ways of working.
- 4.41 Preventative spending will be key to encouraging innovation in our public services and will assist in achieving better outcomes for citizens. This in turn will contribute to savings to the public purse in the longer term. The Change Fund presents departments with an opportunity to implement initiatives that could alleviate pressure on frontline services in the longer term.

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4.42 Departments will be asked to submit bids to access the Change Fund in advance of the final Budget and proposals will be brought to the Executive at that time.

Northern Ireland Investment Fund

4.43 Investment in infrastructure is a key driver of economic growth. The Executive invest directly in large scale projects such as roads, public transport, hospitals, schools and water infrastructure, which are all areas within public sector ownership. However, there are a number of areas where significant infrastructure investment is usually taken forward by the private sector but where Government has a particular interest since investment helps to deliver on specific Northern Ireland Executive objectives. These areas include social and affordable housing; energy production, energy efficiency and renewable energy; telecommunications; and urban regeneration.

4.44 The Northern Ireland Executive is keen to ensure that project promoters in all of these areas have easy access to affordable project finance. It is therefore proposing to establish a Northern Ireland Investment Fund to support investment in local infrastructure. This Fund may utilise some of the Financial Transactions Capital funding available to the Executive in 2015-16. It would also potentially allow large international investors, including the European Investment Bank, to invest in local projects that would usually be too small in scale to access this type of finance.

4.45 As a first step the Executive has agreed to commission a study into the feasibility and extent of this Fund which it is envisaged will take 4-5 months to complete. This will inform the scope, scale, design and investment strategy of a potential Fund. This will include determining realistic and deliverable investment need/demand, an appropriate investment strategy and delivery options (i.e. in terms of financial products and structures) to meet the Northern Ireland Executive's objectives.

4.46 The feasibility study will also inform the ideal scale of the Fund but in the interim the Executive has agreed that that the unallocated £12.1 million FTC be set aside to provide an

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initial balance for the Fund. The Executive can then further review the funding requirements once the feasibility study has concluded.

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CHAPTER FIVE: DEPARTMENTAL RESPONSIBILITIES

Departmental Consultation

- 5.1 To provide Ministers with discretion to make decisions on priorities in such a constrained financial environment, proposed allocations within this draft Budget have been made at a departmental level and are not disaggregated further.
- 5.2 Ministers will seek to publish more detailed breakdowns of proposed expenditure on their departmental websites. This should be accompanied by detailed information on the measures required to enable the department to live within their budget allocation. These plans will include details of any implications for frontline services. Each department will also be conducting its own consultation process to run concurrently with the process outlined in Chapter One.
- 5.3 If you wish to comment on funding policies that relate to a specific department, you should contact that department directly. Contact details for individual departments will be available on their departmental websites or via the NI Direct website (www.nidirect.gov.uk).
- 5.4 To inform your consideration of this document, this chapter sets out some information on the key aims and objectives of each department.

Department of Agriculture and Rural Development (DARD)

- 5.5 The DARD vision is of a thriving and sustainable rural economy, community and environment to promote social and economic equality. The Department has five associated Strategic Goals as follows:
 - To help the agri-food industry prepare for future market opportunities and economic challenges;
 - To improve the lives of farmers and other rural dwellers targeting resources where they are most needed;
 - To enhance animal, fish and plant health and animal welfare on an all Ireland basis;

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- To help deliver improved sustainable environmental outcomes; and
 - To manage its business and deliver services to its customers in a cost effective way.
- 5.6 DARD aims to be a department that works with stakeholders, builds partnerships, tackles disadvantage and values its staff; strives to work efficiently, responds quickly to change and focuses on achieving sustainable outcomes.
- 5.7 In order to achieve its vision the Department wants to see a more efficient and competitive agri-food industry with joined up supply chains that maximise economic benefits for everyone from primary production to final processing. This aligns with the vision and recommendations set out in the Agri-Food Strategy Board (AFSB) report “*Going for Growth*”. Overseeing the implementation of the Executive’s agreed “*Going for Growth*” Action Plan is a key priority for the Department.
- 5.8 DARD will continue to work to ensure that the services it delivers, and the ways they are delivered, promote sustainability, achieving proper balance between economic, environmental and social needs. Effective partnership working is an increasingly important issue for the Department. DARD will continue to engage with a wide range of stakeholders from the agri-food business; community, voluntary and environmental sectors so that their views inform the Department’s policy making and service delivery.

Department of Culture, Arts and Leisure (DCAL)

- 5.9 The Department of Culture, Arts and Leisure is dedicated to fully harnessing the transformative power of culture, arts and leisure to deliver wider social and economic change.
- 5.10 DCAL has responsibility in Northern Ireland for setting policy, bringing forward legislation and resourcing in the following areas:
- Arts and creativity;
 - Museums;

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- Libraries;
- Sport;
- Stadiums;
- Inland waterways;
- Inland fisheries;
- The Public Record Office of NI;
- Derry~Londonderry City of Culture legacy;
- Architecture;
- Languages (Irish, Ulster-Scots and Sign Language); and
- Cultural awareness.

5.11 DCAL is also responsible for advising on matters relating to National Lottery distribution.

5.12 DCAL's Mission is:

"To promote social and economic equality, and to tackle poverty and social exclusion

- Through systematically promoting a sustainable economic model;
- Proactively targeting meaningful resources at sectors of greatest inequality, within areas of greatest objective need;
- In the wider context of effectively developing tangible opportunities and measurable outcomes for securing excellence and equality across culture, arts and leisure; and
- Through a confident, creative, informed and healthy society in this part of Ireland".

5.13 DCAL does this by:

- Providing effective leadership on strategy and policy;
- Ensuring the effective and efficient delivery of high quality culture, arts and leisure services; and
- Ensuring effective governance, oversight, probity, and relationship management with our delivery partners.

5.14 DCAL promotes and supports its policy aims largely through grant-in-aid and sponsorship of a number of arm's length bodies.

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Department of Education (DE)

5.15 The Department's vision is for "an education system that is recognised internationally for the quality of its teaching and learning and for the achievement of its young people, and of an education service that has at its centre a focus on the needs of children and young people". The Department wants to see every young person achieving to his or her potential at each stage of his or her development. This is supported by the following five goals:

- Raising standards for all;
- Closing the performance gap, increasing access and equity;
- Developing the education workforce;
- Improving the learning environment; and
- Transforming the governance and management of education.

5.16 A key emphasis is to ensure that every learner fulfils their full potential. Equality of opportunity is therefore central, not only in relation to Section 75 groups but to any children or young people affected by educational disadvantage.

5.17 The Department's main areas of responsibility are in:

- Early Years provision;
- Pre-school, Primary, Post-primary and Special Education;
- The Youth Service;
- The promotion of Community Relations, Equality and Diversity within and between schools; and
- Teacher Education and salaries.

Department for Employment and Learning (DEL)

5.18 The Department's vision is "a dynamic, innovative and sustainable economy where everyone achieves his or her own full potential". Its aim is "to promote learning and skills, to prepare people for work and to support the economy". It is responsible for Further and Higher Education, training and skills and employment programmes. In pursuing its aim the Department's strategic objectives are:

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- To promote economic, social and personal development through high quality learning, research and skills training; and
- To help people into employment and promote good employment practices.

5.19 It seeks to achieve these through four main areas of activity:

- Promoting the provision of learning and skills, including entrepreneurship, enterprise, management and leadership;
- Encouraging research and development, creativity and innovation in the Northern Ireland economy;
- Helping individuals to acquire jobs, including self employment, and improving the linkages between employment programmes and skills development; and
- Developing and maintaining a 'fit for purpose' employment law framework.

Department of Enterprise, Trade and Investment (DETI)

5.20 Growing competitiveness through a focus on export-led economic growth remains a key priority for the Northern Ireland Executive and is at the centre of ambitions in DETI.

5.21 The key aims and objectives of DETI over the budget period align with the key priorities identified in the Northern Ireland Economic Strategy. This includes delivery of initiatives to rebalance the Northern Ireland economy in the medium to longer term in the following key areas:

- Stimulating innovation, Research and Development and creativity;
- Increasing collaboration between business, Higher Education/Further Education and public sector;
- Attracting and embedding greater levels of higher value Foreign Direct Investment (FDI);
- Growing and diversifying the export base;
- Increasing the economic contribution of the tourism sector;
- Encouraging business growth (including social economy and reducing the regulatory burden); and
- Developing our telecoms and energy infrastructure.

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5.22 In the short term, DETI will continue to take action to rebuild the local labour market and address the impact of the global economic downturn by promoting investment and offering accessible job opportunities, particularly for those in areas of economic disadvantage.

Department of Finance and Personnel (DFP)

5.23 The overall aim of the Department is “to help the Executive secure the most appropriate and effective use of resources and services for the benefit of the community”.

5.24 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.

5.25 DFP has a critical role in working with departments to ensure value for money, sound financial management and accountability in line with the financial processes set by the Executive. It provides a range of common corporate services, primarily to NICS departments, in the areas of HR, training, finance, ICT and Procurement.

5.26 DFP also provides a range of frontline services, for example, in the areas of civil registration, rates collection, valuation, land registration and mapping information. The Department is also responsible for the NI Direct programme which aims to improve and simplify access for citizens to government services through a range of channels including internet, telephone, SMS and social media.

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

5.27 The overall aim and mission of the Department is “to improve the health and social well-being of the people of Northern Ireland”. DHSSPS is responsible for:

- Health and Social Care – includes policy and legislation for hospitals, family practitioner services and community health and personal social services;
- Public Health – covers policy, legislation and administrative action to promote and protect the health and well-being of the population; and

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- Public Safety – covers policy and legislation for fire and rescue services.

5.28 In pursuing its overall aim the Department's key objectives are:

- To improve health and well-being outcomes through a reduction in preventable disease and ill-health by providing effective, high quality, equitable and efficient health and social care; and
- To create a safer environment for the community by providing an effective fire fighting, rescue and fire safety service.

5.29 DHSSPS aims to reduce health inequalities across the population and encourage individuals to engage more in ensuring their own health and well-being. It does this by promoting healthy living activities, behaviours and attitudes.

Department of the Environment (DOE)

5.30 The overall aim of the Department of the Environment is “to work in partnership with the public, private and voluntary sectors to promote sustainable development and to secure a better and safer environment”.

5.31 In pursuing this aim the key objectives of the Department are:

- To protect, conserve and enhance the natural environment and built heritage;
- To support the adoption of the principles of sustainable development; and
- To manage and plan development in a sustainable manner which contributes to a better environment which is modern and responsive to the community.

5.32 DOE also aims to work with statutory and voluntary partners to reduce road deaths and serious injuries. The Department also supports a system of effective local government which meets the needs of residents and ratepayers.

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Department of Justice (DOJ)

5.33 The Department of Justice supports the Minister of Justice in building 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.

5.34 The Department's priorities are:

- Safer, Shared Communities – to promote and contribute to Safer Communities through partnership working with statutory organisations, communities, the third sector and businesses.
- Faster, Fairer Justice – to promote faster fairer justice through cross cutting policy, procedural and structural reforms.
- Rehabilitating Offenders – to have a prisons delivery model that is capable of withstanding changes in both prisoner population size and needs.

Department for Regional Development (DRD)

5.35 The overall aim of the Department is to improve quality of life by securing transport and water infrastructure and shaping the region's long-term strategic development.

5.36 In pursuing this aim the Strategic Objectives of the Department are:

- Supporting the economy by planning, developing and managing safe and sustainable transportation networks; setting the legislative and policy framework for harbour services; enhancing transport infrastructure links to airport and harbour gateways; and shaping the long-term future of the region; and
- Contributing to the health and wellbeing 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 services.

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Department for Social Development (DSD)

5.37 The overall aim of the Department can be summarised as “together, tackling disadvantage, building sustainable communities”.

5.38 In pursuing this aim the key objectives of the Department are to:

- Provide access to decent, affordable, sustainable homes and housing support services;
- Meet the needs of the most vulnerable by tackling disadvantage through a transformed social welfare system, the provision of focused support to the most disadvantaged areas and encouraging social responsibility; and
- Bring divided communities together by creating urban centres which are sustainable, welcoming and accessible to live, work and relax in peace.

Office of the First Minister and Deputy First Minister (OFMDFM)

5.39 The overall vision of the Department 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”.

5.40 The key strategic objectives of the Department build on the momentum achieved under the Programme for Government 2011–15 and include:

- Supporting Ministers and the institutions of government;
- Delivering the Executive’s Programme for Government;
- Promoting better community relations, a culture of equality and rights; and
- Targeting social need and promoting social inclusion.

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Non Ministerial Departments

5.41 The following departments, also known as minor departments, are not represented by a Minister. The budget for these departments, although relatively small, must still be found from within the Northern Ireland Executive's DEL.

Assembly Ombudsman/Commissioner for Complaints (AOCC)

5.42 The Assembly Ombudsman for Northern Ireland and the Northern Ireland Commissioner for Complaints 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. It provides an independent investigative resource to support the work of the Committee on Standards and Privileges in dealing with complaints against Members of the Assembly.

Food Standards Agency (FSA)

5.43 The Food Standards Agency aims to protect public health from risks arising in connection with the consumption of food and the interests of consumers in relation to food. In doing this it aims to:

- Ensure that food being sold is safe to eat;
- Consumers understand about safe food and healthy eating;
- Consumers can make informed choices; and
- Regulation in the food chain is effective and proportionate.

Northern Ireland Assembly Commission (NIA)

5.44 Established in 1998, the Northern Ireland Assembly holds Ministers and their departments to account in carrying out executive functions. It has legislative authority for policy in such areas as education, health, agriculture and environment.

5.45 Within the Assembly there is an Assembly Commission (the Commission) whose role is defined by the Northern Ireland Act 1998. The Commission ensures the Assembly is

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provided with the property, staff and services required for the Assembly to carry out its work and engage with the public. It sets the Assembly Secretariat's (its administrative body) strategic direction and purpose to ensure the efficient and effective operation of the Assembly and to support members in fulfilling their Assembly, constituency and office-holder duties.

Northern Ireland Audit Office (NIAO)

5.46 The Northern Ireland Audit Office seeks to hold public bodies to account for the way they use public money. It also seeks to promote accountability and the best use of public money. It 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)

5.47 The Northern Ireland Authority for Utility Regulation is responsible for independently regulating the electricity, gas and water and sewerage sector. The aims of the Northern Ireland Authority for Utility Regulation are:

- Protecting the interests of electricity consumers with regard to price and quality of service by promoting competition in the generation, transmission and supply of electricity;
- Promoting the development and maintenance of an efficient, economic and co-ordinated gas industry and protecting the interests of gas consumers with regard to price and quality of service; and
- Protecting the interests of water and sewerage customers with regard to price and quality of service where appropriate by facilitating competition in the supply of water and the provision of sewerage services.

Public Prosecution Service for Northern Ireland (PPS)

5.48 The Public Prosecution Service for Northern Ireland (PPS) was established in June 2005 and is the principal prosecuting authority in Northern Ireland. In addition to taking decisions as to prosecution in cases investigated by the

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police in Northern Ireland, it also considers cases investigated by other statutory authorities, such as HM Revenue and Customs.

5.49 Since the devolution of justice and policing to the Northern Ireland Assembly on 12 April 2010, the Service has been designated as a non-ministerial government department.

5.50 The Department's Corporate Plan is based around four strategic priorities:

- Delivering an efficient and effective prosecution service;
- Building the confidence and trust of the community we serve;
- Strengthening our capability to deliver; and
- Building the capacity of our people.

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CHAPTER SIX: EQUALITY CONSIDERATIONS

Background

- 6.1 This Chapter sets out the actions taken by the Executive and individual departments in assessing the potential equality, good relations, poverty, social inclusion and sustainable development impacts of the 2015-16 draft Budget.
- 6.2 In line with Equality Commission guidance that equality considerations should be mainstreamed into the policy decision process, there remains a greater onus on the departments responsible for spending proposals to ensure that the equality and sustainable development impacts are considered in the appropriate manner.

Statutory Equality Obligations

- 6.3 Section 75 and Schedule 9 to the Northern Ireland Act 1998 came into force on 1 January 2000. It placed a statutory obligation on public authorities to ensure that they carry out their various functions relating to Northern Ireland 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.
- 6.4 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.
- 6.5 From January 2007 public authorities are also required to have due regard to the need to promote positive attitudes

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towards people with a disability and to encourage participation in public life by people with a disability.

- 6.6 The Delivering Social Change framework was set up by the Northern Ireland Executive to tackle poverty and social exclusion. It represents a new level of joined-up working by Ministers and senior officials across Executive departments to drive through initiatives which have a genuine impact on the ground. Delivering Social Change is a new way of doing business, moving away from plans with long lists of existing activities towards a smaller number of actions which can really make a difference. This framework provides departments with an outline for cross-cutting policy development in the context of reducing poverty and social exclusion.

Equality Impact Screening

- 6.7 The 2015-16 draft Budget sets out a framework of resources that will underpin the Executive's priorities and help achieve the overall aim of a peaceful, fair and prosperous society in Northern Ireland. Due to the economic context, we are dealing with a draft Budget scenario that once again represents a real terms decline in public spending.
- 6.8 In this context, and in recognition of the fact that the allocation of resources has always the potential to impact on Section 75 groupings, an equality impact screening document will be produced, in accordance with statutory requirements, to consider the equality impacts of the Budget. The aim of the screening document conducted at this strategic level will be to consider the overall impacts which may be associated with the Executive's strategic priorities and the allocation of resources. This in turn will help to shape the final Budget.
- 6.9 The assessments in the screening document will be indicative of the potential impact, and each Section 75 grouping will be considered separately. The focus will be on the provision of resources rather than the services to be provided or outcomes generated.

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6.10 Due to the strategic focus of the Budget and the subsequent departmental level allocations, the equality impacts of individual policies, programmes and capital projects cannot be specifically considered within the screening document. These will be subject to separate screening by departments as outlined below.

Departmental Role

6.11 The delivery of policies, programmes and projects at departmental level will be informed by the screening document and draft Budget public consultation. These departmental 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.

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

6.13 Details of departmental Equality Screening and EQIAs will be available from individual departments. Departmental contact information can be found in the contact section of www.nidirect.gov.uk

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ANNEX A: FINANCIAL TABLES

| | |
|----------------|--|
| Table 1 | Reconciliation of Planned Spend to HM Treasury Control Totals – Resource DEL |
| Table 2 | Reconciliation of Planned Spend to HM Treasury Control Totals – Capital DEL |
| Table 3 | Annually Managed Expenditure by Programme |
| Table 4 | Annually Managed Expenditure by Department |

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Table 1: Reconciliation of Planned Spend to HM Treasury Control Totals – Resource DEL

| | £million | | |
|--|--|--|------------------------------|
| | 2015-16 Non Ring- Fenced Resource | 2015-16 Ring- Fenced Resource | 2015-16 Total Resource |
| Total Departmental Resource DEL | 10,019.5 | 537.8 | 10,557.3 |
| EU Funding | 10.7 | | 10.7 |
| Social Investment Fund | 11.0 | | 11.0 |
| Childcare Strategy | 3.0 | | 3.0 |
| Pensions | 133.2 | | 133.2 |
| Change Fund | 30.0 | | 30.0 |
| Welfare Reform Measures | 70.0 | | 70.0 |
| RRI Interest Repayment | 63.4 | | 63.4 |
| Unallocated Funding | | 12.6 | 12.6 |
| Regional Rates Income | -649.8 | | -649.8 |
| Total Resource DEL¹ | 9,691.1 | 550.4 | 10,241.5 |

¹Totals may not add due to rounding

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Table 2: Reconciliation of Planned Spend to HM Treasury Control Totals - Capital DEL

| | £million | | |
|---------------------------------------|------------------------------------|---|-----------------------------|
| | 2015-16 Conventional Capital | 2015-16 Financial Transactions Capital | 2015-16 Total Capital |
| Total Departmental Capital DEL | 1,071.7 | 115.6 | 1,187.3 |
| Repayment of 2014-15 Reserve Claim | 100.0 | | 100.0 |
| EU Funding | 8.0 | | 8.0 |
| Anticipated Receipts | -50.0 | | -50.0 |
| Social Investment Fund | 15.0 | | 15.0 |
| Workforce Restructuring Costs | 100.0 | | 100.0 |
| RRI Borrowing | -200.0 | | -200.0 |
| RRI Borrowing (T:BUC) | -26.8 | | -26.8 |
| NI Community Safety College | -53.3 | | -53.3 |
| NI Investment Fund | | 12.1 | 12.1 |
| FTC Repayment to HM Treasury | 0.0 | | 0.0 |
| Total Capital DEL¹ | 964.6 | 127.7 | 1,092.3 |

¹Totals may not add due to rounding

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Table 3: Annually Managed Expenditure by Programme

| | £million |
|--|-----------------|
| | 2015-16 |
| Benefits | 5,636.8 |
| Pensions | 2,479.3 |
| Non Cash Costs | 607.7 |
| Student Loans | 215.2 |
| NI Renewable Heat Incentive Scheme | 12.1 |
| Arm's Length Bodies Corporation Tax Payments | 11.0 |
| Total Programme Allocations¹ | 8,962.2 |

¹Totals may not add due to rounding

Table 4: Annually Managed Expenditure by Department

| | £million |
|---|-----------------|
| | 2015-16 |
| Agriculture and Rural Development | 30.9 |
| Culture, Arts and Leisure | 9.0 |
| Education | 729.3 |
| Employment and Learning | 222.4 |
| Enterprise, Trade and Investment | 38.4 |
| Finance and Personnel | 520.4 |
| Health, Social Services and Public Safety | 1,060.7 |
| Environment | 0.9 |
| Justice | 403.4 |
| Regional Development | 251.5 |
| Social Development | 5,693.1 |
| Non Ministerial Departments | 2.2 |
| Total Departmental Allocations¹ | 8,962.2 |

¹Totals may not add due to rounding

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Comments on the draft Budget 2015-16 can be submitted by writing to the following address:

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More details, including the electronic version of this document, are available on the Executive's website:

www.northernireland.gov.uk/budget

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