

Cost of Division

A benchmark of performance and expenditure

Overview Report

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Introduction

- This overview report sets out a summary of the findings of the benchmarking analysis. It includes the following:
 - Benchmarking across the main areas of public spending; and
 - Potential lost economic opportunity
- *A more detailed paper has also been produced and is available separately.*



Summary and Conclusions

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Summary – costs

- This report provides the results of a benchmarking analysis of the costs of public sector service delivery in Northern Ireland (NI) relative to other regions in the UK (and Republic of Ireland (RoI) where comparable data was sourced).
- **On average, the cost of service delivery in NI tends to be higher than the overall UK average. However, across most areas of spend, NI costs typically fall within the range of costs identified in other UK regions, albeit at the upper end.**
- **The one exception is policing, where average costs are significantly greater than all other comparable police forces in the UK and RoI.**
- In general, the cost of public sector service delivery can be higher across regions for a number of reasons, including:

- Higher level of need
- Policy decisions
- Historical lack of decision making
- Inefficient delivery
- Divided society

These factors are not mutually exclusive, for example policy decisions, higher levels of need and even inefficient delivery could be interrelated and in NI influenced by the culture of division.

- Separately identifying the cost of division from the other factors identified would require a significantly more detailed level of analysis than possible within the scope of this research. As a result, a range of upper and lower bound costs have been identified which could at least partially be caused by division.

Summary – costs

- An estimated range of **additional annual public service costs** incurred in NI relative to other comparable regions in the UK, is set out below. These additional costs provide a basis to estimate the potential cost of division in NI.

Estimated range of annual costs incurred in NI relative to comparable UK regions

Element	Lower Bound £'m	Upper Bound £'m
Policing and justice	312.2	550.3
Education	16.5	95.0
Health	36.1	36.1
Community Relations	24.3	35.0
Housing	2.5	2.5
Transport & Infrastructure	0.6	0.6
Sports and Leisure	3.7	106.7
Agriculture	0	0
Governance	7.6	7.6
Total of public expenditure costs	403.6	833.9

Summary – lost economic opportunity

- The following table sets out the change to the NI economy if performance was equivalent to the North East of England, Wales and the UK average.

Impact on NI economy if economic performance was equivalent to comparator regions

Element	NE England	Wales	UK average
Economic Wealth			
GVA per capita	£567 lower	£1,056 lower	£5,845 higher
Employment			
Jobs	13,500 higher	22,000 higher	60,000 higher
Skills			
Nos. with higher qualifications (NVQ L4+)	11,000 lower	45,000 higher	75,000 higher
Investment			
FDI (new and safeguarded jobs p.a.)	300 higher	1,650 higher	1,000 lower
Tourism			
Inbound tourist visitors p.a.	40k lower	185k higher	610k higher
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Enterprise			
Business births p.a.	1,171 higher	988 higher	3,745 higher

would be:

Green text – NI outperforms

Red text – NI underperforms

Summary – lost economic opportunity

- NI economic performance has been consistently below the UK average for several decades, but performance against the North East of England and Wales across a range of economic indicators is broadly similar. Therefore a number of other factors must also impact economic performance, and these include:
 - challenges faced in transitioning to a post-industrialised economy;
 - structural factors – such as relative sizes of industrial sectors (agriculture vs professional services), historic infrastructure investment and level of skills attainment;
 - run down of ‘traditional’ industry (e.g. mining in Wales and ship building in NI and the North East of England).
- The scale of impact of these other factors may differ across regions. For example, lower levels of productivity in Wales could primarily be due to the run down of the mining industry, but in NI the impact of division may be the dominant factor. Only a detailed economic regional comparative analysis could provide more clarity and disentangling the effects with precision may not be possible.
- NI also currently performs well in some areas, such as Foreign Direct Investment (FDI). There may have been a significant lost FDI opportunity in the period prior to 1998 and this could still be impacting the private sector in NI, but identifying this historic lost opportunity would be very subjective, given the lack of available data.

Conclusions

- This benchmarking analysis identifies a **cost range of approximately £400 million to £830 million** per annum, which at least in part is potentially caused by the need to provide services in a divided society.
 - The most significant cost area is linked to policing and justice, accounting for over half the estimated additional cost.
 - This benchmarking analysis identifies areas where division is potentially contributing to a higher cost of service delivery, BUT it is only one of many factors.
 - It should NOT be concluded from this research that the additional costs identified represent potential savings which could be achieved. In some instances that may be the case, but in others instances the costs are unavoidable or would require significant investment to ameliorate.
- The **lost economic opportunity** associated with division is also difficult to identify and may be caused by a range of factors. In general, NI is one of the weakest performing regions in the UK but similar to Wales and the North East of England. Therefore from an economic development perspective, the level of need is similar across a number of regions.

Conclusions – 2007 research

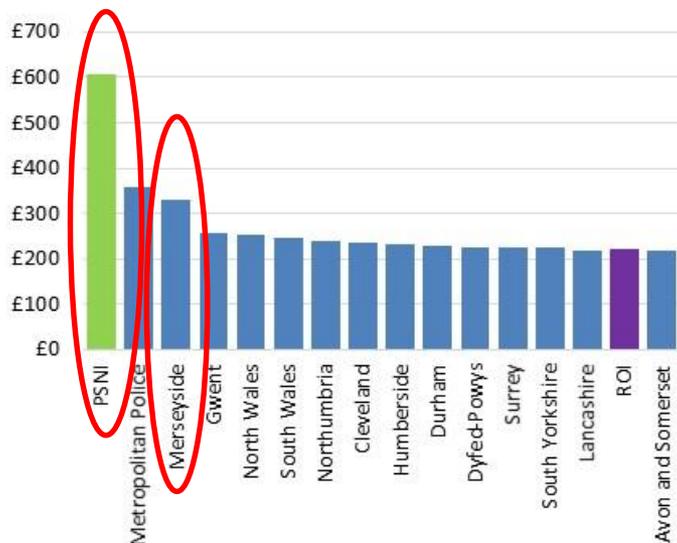
- The UUEPC undertook a review of the 2007 Deloitte research. In addition to a detailed analysis of individual Government Department spend, the report also estimated an upper range cost of £1.5bn associated with division. This was based on comparing NI Government spend as a % of GVA with Welsh Government spend as a % of GVA.
- This approach of calculating a % of GVA comparison may not accurately reflect the cost of division for a number of reasons:
 - The calculation reflects the size of private sector GVA as much as it reflects the level of Government spending; and
 - The level of additional spend in NI, compared to other regions, varies significantly from one year to the next. It is unlikely that the cost of division would be so volatile.
- Other macro-measures such as a comparison of Government Spend per head was also considered, but the differential between regions can also vary significantly from one year to the next.

Summary of individual public service costs

Individual public service costs – Policing

- **Introduction** – policing is the one public service area that continues to be significantly impacted by division.
- **Need** – recorded crime in NI is ‘mid-table’, relative to other areas of the UK and ROI:
 - Does this mean the cost of policing in NI should be close to the UK average? or
 - Is higher levels of police spending required to keep crime lower in NI?
- **Benchmarked costs** – PSNI is by a significant margin the most expensive police force in the UK (analysis excludes City of London). It does not necessarily follow that significant efficiencies could be made in the PSNI budget as a result of the need to deal with legacy issues and ongoing threats.

Policing cost per capita, 2013/14



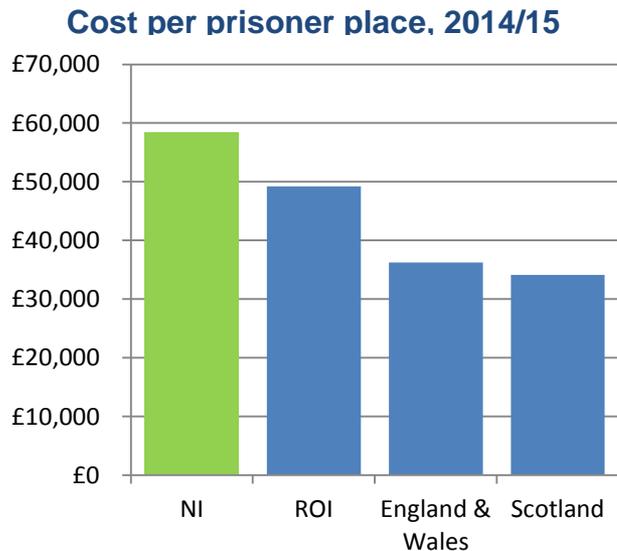
- **Upper bound cost** – on basis of “next highest cost” police force with similar characteristics to NI (Merseyside) – the additional cost is £499m
- **Lower bound cost** – as part of this research, the PSNI informed the UUEPC that 27% of their budget was “spent on policing the security situation” – equivalent to £297m.

Estimates applied in analysis:

- Upper Bound - £499m
- Lower Bound - £297m

Individual public service costs – Prisons

- **Introduction** – the prison service is also an integral part of the overall ‘policing and justice’ infrastructure.
- **Need** – the NI per capita prison population is lower than the rest of the UK but higher than the ROI, but challenges exist in NI:
 - E.g. reduced scope for economies of scale, multiple categories of prisoners, keep apart;
 - Public and private sector service delivery approaches
- **Benchmarked costs** – cost per prisoner place in NI is higher than in rest of UK and ROI



Source: NI Prison Service, Irish Prison Service, Audit Scotland, Ministry of Justice (England and Wales) & Bank of England (exchange rates).

- **Upper bound cost** – on basis of “next highest cost” UK prison service (England & Wales) – **the additional cost is £39.9m**
- **Lower bound cost** – on basis of 70 paramilitary prisoners at average cost per prisoner place (£58k) – **equivalent to £4.1m**. [Prudent estimate as higher cost associated with paramilitary prisoners, but could not be identified by NI Prison Service.]

Estimates applied in analysis:

- Upper Bound - £39.9m
- Lower Bound - £4.1m

Individual public service costs – other justice

- A range of other programmes and projects were identified and are associated with the legacy of division. The following table sets out an estimate of the annual costs being incurred.

Other justice related costs

	Lower Bound	Upper Bound
	£'m	£'m
Home Protection Service	7.0	7.0
Legacy Investigations Branch	2.7	3.0
Parades Commission	1.0	1.0
Compensation Agency (costs and admin)	0.1	0.1
Independent Commissioner for location of victims remains	0.1	0.1
Sentence Review Commissioners	0.1	0.1
Independent Assessor for military complaints	0.1	0.1
Peace Walls (maintenance)	0.1	0.1
Total (Other Justice)	11.2	11.5

Source: NIO, PSNI, Parades Commission, DoJ & UUEPC

Note: costs estimated to nearest £0.1m

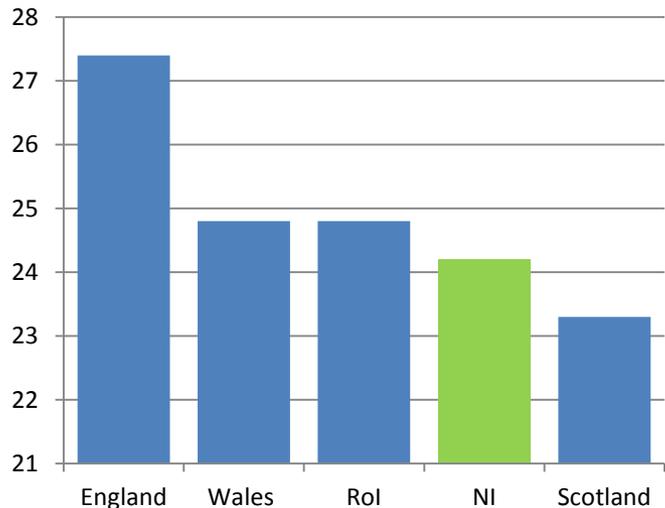
Estimates applied in analysis:

- Upper Bound - £11.2m
- Lower Bound - £11.5m

Individual public service costs – Education

- **Introduction** – education is still largely segregated in NI, therefore the scope for duplication of services and associated inefficiencies may be higher than elsewhere in the UK.
- **Considerations** – other parts of the UK also have a range of delivery structures including faith based schools, local authority provision, independent academies and larger private sector provision. Therefore, choice and diversity is a common feature across many geographies, not just NI.
- **Benchmarked costs** – a cost per pupil benchmarking analysis was conducted (and suggested costs in NI were lower than all other regions in the UK). However DENI advised that the costs were not collated on a like-for-like basis, therefore the cost analysis has not been used.

Average class sizes, 2014



- **Average class sizes** – NI is broadly similar to Wales, ROI and Scotland and lower than in England.

Individual public service costs – Education

- **Surplus places** – the level of surplus places in NI compares favourably to Scotland, is equivalent to Wales but significantly higher than England.

Surplus levels by region

	Primary	Post Primary	Total
Scotland	28%	20%	25%
Wales	21%	17%	19%
Northern Ireland	23%	13%	19%
England	10%	13%	11%

Source: DENI, Department for Education, Welsh Government & The Scottish Government

- **Surplus provision is a much greater issue in the primary sector.**
- Post-primary surpluses in NI are amongst the lowest in the UK.

Surplus places by sector

	Primary	Post Primary
Controlled	23,574	8,401
Catholic Maintained	24,649	10,692

Source: NI Audit Office

- Similar levels of surplus in both the maintained and controlled sectors. It is not a problem specific to one sector.

Individual public service costs – Education

- Levels of surplus provision are a significantly greater issue in the primary sector and division may be a factor impacting the effective management of this surplus.

Estimates applied in analysis:

- Lower Bound: £14.3m
- Upper Bound: £92.8m

- Lower bound – if NI surplus at primary level was reduced to Welsh levels (from 23% to 21%)
- Upper bound – if NI surplus at primary level was reduced to English levels (from 23% to 10%)

Teacher training

- The International Review Panel Report, states that NI *“has five relatively small teacher education providers, three of them in close geographical proximity ... failing to minimise the significant duplication of activity that occurs.”*
- Two of the five teacher training colleges receive additional premia funding to stay viable. This totals **£2.2m p.a.** which could represent a cost of division.

Estimates applied in analysis:

- Lower Bound: £2.2m
- Upper Bound: £2.2m

Individual public service costs – Health

- **Introduction** – the extent to which division is creating an increased cost base for the delivery of health services is assessed.
- **Benchmarked spending** – NI per capita spending is broadly equivalent to spending in Scotland, but higher than in both England and Wales. NI also has amongst the highest number of beds per capita. This is considered to be primarily policy driven decision making rather than a feature of division.

Health expenditure per capita

NI	England	Scotland	Wales	UK
£2,157	£1,978	£2,162	£1,981	£1,998

Source: PESA 2015 Analyses

- **Direct Costs – Mental health** is one area of public health spending often linked to the legacy of division.
 - PTSD linked to conflict – cost estimated at £10.3m
 - Mental health admissions – cost estimated at £25.2m
- **Fire and Rescue Service costs** – in respect of attending bonfires the estimate is £0.6m

Estimates applied in analysis:

- Lower Bound: £36.1m
- Upper Bound: £36.1m

Individual public service costs – Community relations

- **Introduction** – there are a wide range of community relations programmes in operation across NI.
- **Benchmarked performance** – based on PESA data, NI per capita spending on ‘Religious and other community services’ is significantly higher than every other region in the UK (£22 per capita in NI compared to £3 per capita in Scotland (next highest)). **Equivalent to additional £35m p.a.**
- **Direct Spend** – community relations related expenditure coordinated through OFMDfM and DENI is set out below. This list may not be exhaustive but covers the areas identified in the research.

Community Relations

OfMDfM Programmes	2014/15	DENI Programmes	
Victims and Survivors Services	13.2	Community relations, equality and diversity	0.3
Community Relations Council Allocation	3.5	Planned youth service intervention	1.1
District Councils Good Relations	2.8	Total	1.4
Central and Other Good Relations	1.3		
Contested Spaces Programme	0.7		
North Belfast Strategic Good Relations	0.7		
Planned Interventions (and pilot projects)	0.7		
Total	22.9		

Source: OfMDfM and DENI

Estimates applied in analysis:

- Lower Bound: £24.3m
- Upper Bound: £35.0m

Individual public service costs – Housing

- **Introduction** – the public cost of housing in a divided society is a complex issue and gave rise to the creation of the NI Housing Executive (NIHE) assuming control of public housing from local authorities.
- **Benchmarked performance** – given the significantly greater prevalence of housing associations in the provision of social housing in other parts of the UK, a regional benchmarking analysis would not provide a like for like comparison.
- **Direct Spend** – the following areas of NIHE’s spending is linked to areas closely linked with societal division, including:
 - **Void properties** – the legacy of division is impacting the efficient management of public housing. A total of 233 habitable properties are categorised as ‘difficult to let’ or are ‘void in exceptional circumstances’ and these could potentially be linked to division. Annual rental income lost in respect of these properties is estimated at **£1.5m**
 - **SPED (Special Purchase of Evacuated Dwellings) programme** – annual expenditure and administration costs estimated at **£0.8m**
 - **Base 2 homelessness** – annual funding totalled **£0.1m**
 - **‘Normalising’ interface areas** – annual funding totalled **£0.1m**

Estimates applied in analysis:

- Lower Bound: £2.5m
- Upper Bound: £2.5m

Individual public service costs – Transport

- **Introduction** – the additional cost of delivering public transport services in a divided society is considered in this section.
- **Benchmarked performance-** it was concluded that a comparison on a like-for-like basis with other regions would be difficult given that public transport policy differs significantly across the UK.
- **Direct Spend-** the following specific transport costs are deemed to be closely linked with societal division:
 - Additional security on buses – e.g. CCTV, cab screens and “anti-bandit glass”. Annual average costs estimated at **£408k**.
 - Bus substitution services – costs vary from year to year. Annual average costs estimated at **£72k**.
 - Buses destroyed due to civil unrest – 1 bus destroyed in the last 3 years, resulting in annual average cost of **£40k**.
 - Damage to roads, traffic lights etc. as a result of bonfires totalled **£40k** in 2014/15
 - Delays due to security alerts on the rail network – costs vary from year to year. Annual average cost estimated at **£46k**.

Estimates applied in analysis:

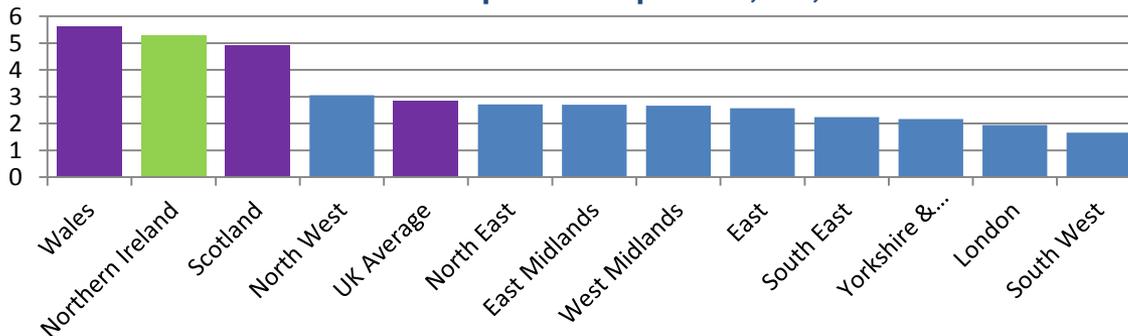
➤ Lower Bound: £0.6m

➤ Upper Bound: £0.6m

Individual public service costs – Sports and Leisure

- **Introduction** – there is at least a perception of duplication of leisure provision in NI caused by division.
- **Benchmarked performance** - both the level of provision of leisure centres and also per capita expenditure on Recreation and Sporting Services across the 12 UK regions have been considered.
 - **Leisure centre provision** – NI has a similar level of provision as Scotland and Wales (on the basis of the per capita number of leisure centres) and this is greater than across the rest of the UK.
 - **Public expenditure** – based on PESA data, NI per capita spending on ‘Recreation & Sporting Services’ is the highest across all UK regions (NI: £130 per capita; Scotland £128 (second highest); and Wales £72 (third highest)).
 - Lower bound estimate – based on a per capita cost equivalent to Scotland (£3.7m p.a.)
 - Upper bound estimate – based on a per capita cost equivalent to Wales (£106.7m p.a.)

Leisure centre provision per 100,000, 2015



Estimates applied in analysis:

- Lower Bound: £3.7m
- Upper Bound: £106.7m

Source: UK Local Councils

Individual public service costs – Governance

- **Introduction** – division is creating a significantly increased cost of governance (at the political level) in NI
- **Benchmarked performance-** analysis of both the number of politicians at local authority, assembly and parliamentary level and the impact of division on the number of Central Government Departments in NI.
 - **Political representation:** NI has over twice as many MLAs per capita compared to Scotland and Wales. The rationale is to ensure broad political representation which is a legacy of a divided society. It has been estimated that a reduction to 3 MLAs for each parliamentary constituency (or a reduction of 54 MLAs) would deliver an annual saving of **£6.6m** (based on an average salary of £48k and average expenses of £74k).
 - **Government Departments:** the proposed reduction of 3 NI Departments (from 12 to 9) reflects a move towards the “normalisation” of political structures. Whilst the functions of the 3 “additional” departments will be transferred rather than abolished only the costs associated with the private offices would be reduced. Private office costs are estimated at £339k each, therefore the additional costs of 3 departments is **£1m**.

Estimates applied in analysis:

- Lower Bound: £7.6m
- Upper Bound: £7.6m



Lost economic opportunity

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The lost economic opportunity

- The following table sets out the change to the NI economy if performance was equivalent to the North East of England, Wales and the UK average.

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- It is recognised that the scale of impact of these other factors may differ across regions. For example, the reason for lower levels of productivity in Wales could primarily be due to the run down of the mining industry, but in NI the impact of division may be the dominant factor. Only a detailed economic regional comparative analysis could provide more clarity on this issue but disentangling the effects with precision may not be possible.
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Additional funding to NI

- NI has also received significant funding from external sources (primarily the EU and the US) to assist in the transition to peace.
- The following table sets out revenue accruing to NI in 2014/15 related to the legacy of division.

Summary of Peace related funding received

Element	£'m
PEACE IV Programme	17.9
International Fund for Ireland	4.3
Atlantic Philanthropies ⁽¹⁾	9.5
Total	31.7

Source: SEUPB, IFI and Atlantic Philanthropies

Note 1: Atlantic Philanthropies closes in 2016

Note 2: This list may not be exhaustive but covers the areas identified in the research.

Other 'benefits'

- An additional 'benefit' of enhanced public sector spending in NI is the associated higher levels of public sector employment. Although this is identified as a cost in the analysis, relatively high skilled and well paid public sector jobs also has a beneficial impact on the economy.



END

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