

Deloitte.

Research into the financial cost of the Northern Ireland divide



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Only the final copy should be regarded as definitive.

Glossary

Average Daily Hours	ADH
Annually Managed Expenditure	AME
Atlantic Philanthropies	Atlantic
Community Action Group	CAG
Central Community Relations Unit	CCRU
Centre for Economics and Business Research	CEBR
Comhairle na Gaelscolaíochta	CnaG
Community Relations Council	CRC
Community Relations Officers	CRO
Community Relations Youth Service Scheme	CRYSS
Community Relations Unit	CRU
Core Funding Programme	CFP
Confederation of British Industry	CBI
Cost Per Prisoner Place	CPPP
Council for Catholic Maintained Schools	CCMS
Council for the Curriculum, Examinations and Assessment	CCEA
Department of Agriculture and Rural Development	DARD
District Council Community Relations Programme	DCCRP
Department of Education	DE
Department of the Environment, Food and Rural Affairs	DEFRA
Departmental Expenditure Limit	DEL
Department of Health, Social Services and Public Safety	DHSSPS
Department for Regional Development	DRD
Department for Social Development	DSD
Education and Library Board	ELB
Economic Research Institute of Northern Ireland	ERINI
Education and Skills Authority	ESA
Education and Training Inspectorate	ETI
Foreign Direct Investment	FDI
Family Resources Survey	FRS
Full Time Reserve	FTR
Gross Domestic Product	GDP
Gross Value Added	GVA
Households Below Average Income	HBAI
Historical Enquiries Team	HET
HM Inspectorate of Constabulary	HMIC
HM Prison Service	HMPS

Health and Personal Social Services	HPSS
Health and Social Services	HSS
Health and Social Services Authority	HSSA
Health and Social Services Boards	HSSBs
Initial Teacher Education	ITE
International Fund for Ireland	IFI
Local Community Fund	LCF
Local Management of Schools	LMS
Northern Ireland	NI
Northern Ireland Assembly	NIA
Northern Ireland Commissioner for Children and Young People	NICCY
Northern Ireland Council for Integrated Education	NICIE
Northern Ireland Economic Council	NIEC
Northern Ireland Executive	NIE
Northern Ireland Fire & Rescue Service	NIF&RS
Northern Ireland Housing Executive	NIHE
Northern Ireland Office	NIO
Northern Ireland Prison Service	NIPS
Northern Ireland Railways	NIR
Northern Ireland Transport Holding Company	NITHC
Office of the First Minister and Deputy First Minister	OFMDFM
Peace and Reconciliation in NI and the Border Counties of Ireland	Peace Programme
EU Programme for Peace and Reconciliation	Peace II
Police Service of Northern Ireland	PSNI
Post Traumatic Stress Disorder	PTSD
Protection of Private Property at Interfaces	POPPI
Public Expenditure Statistical Analysis	PESA
Review of Public Administration	RPA
Rural Community Network	RCN
Rural Development Council	RDC
Rural Development Programme	RDP
Royal Irish Regiment	RIR
School Community Relations Programme	SCRIP
Special Purchase of Evacuated Dwelling	SPED
Visiting Friends and Relatives	VFRs
Voluntary and Community Sector	VCS
Voluntary and Community Unit	VCU
Voluntary Grammar	VG
Youth Service Community Relations Support Scheme	YSCRSS

1 Introduction & Background to Research

1.1 Introduction

Deloitte MCS Limited (Deloitte) was commissioned on the 29th March 2006 by the previous administration to undertake research into the financial cost of the Northern Ireland (NI) divide. The research was conducted and finalised during direct rule. The final report was presented by Deloitte in April 2007 prior to devolution.

1.2 Background

The costs of the deeply entrenched communal divide in NI are visible at all levels of society. At the level of the individual and family it has led to loss of lives, jobs and homes, injury and illness. At a regional level costs have included damage to property and physical infrastructure, restricted inward investment and loss of human resources through emigration. The divide has also led to duplication or even multiplication of service delivery for the communities as they live side by side but do not integrate or share easily.

A Shared Future: Policy and Strategic Framework for Good Relations in NI (2005) provides a vision of a shared and inclusive society and establishes a number of underpinning principles. One of these principles highlights the link between division and economic cost:

Separate but equal is not an option. Parallel living and the provision of parallel services are unsustainable both morally and economically...the costs of a divided society – whilst recognising the very real fears of people around safety and security considerations – are abundantly clear: segregated housing and education, security costs, less than efficient public service provision...Policy that simply adapts to, but does not alter these challenges, results in inefficient resource allocations. These are not sustainable in the medium to long-term. (Section 1.4, Fundamental Principles, Shared Future).

This vision to move beyond a “managerialism” approach (i.e. working with division), as opposed to working towards a shared society is built on moral and economic rationale, as per the principle cited above. This research seeks to develop understanding of the economic rationale.

The Review of Public Administration (RPA) also forms an important backdrop for this study. **A Shared Future’s** community relations policy and strategic framework has been developed in the context of the RPA. The focus of RPA on economy, efficiency and effectiveness across the large sections of the NI public sector (especially health, education and local government), dovetails with the economic imperative to tackle the costs of division, including those of public service provision, highlighted by **A Shared Future**.

1.3 Terms of Reference

The overall aim of this research was to conduct a thorough investigation of the financial costs of the NI divide and identify the financial costs of division to NI as they relate to service provision. This has included an analysis of how and why these costs have arisen.

The terms of reference for the research were to:

- identify and quantify the broad range of costs which have arisen from, and can be directly attributed to, the divisions within society in NI;
- examine the pattern and scale of public expenditure in NI in response to this division; and
- assess the efficiency or otherwise of the current system of service delivery.



With regard to the additional costs, these have been categorised as follows:

- **direct costs** arising from civil unrest;
- **less obvious costs** arising from the need to provide services separately to meet the needs of the two communities; and
- **other costs** due to additional expenditure on a variety of activities, including community relations work, promoting NI as a tourist destination or an inward investment location, and the opportunity cost of under-developed economic sectors such as tourism

The terms of reference also stipulated that additional costs should be quantified in financial terms, and required the project team to examine how and why these costs have arisen. The purpose of this analysis being to inform the understanding of how public service provision has adapted to and been shaped by division.

1.4 Overview Approach and Methodology

In response to the terms of reference, we developed an approach which comprised three separate elements. These were:

- **project management and governance:** the series of activities around project management, governance and deliverable sign off and validation;
- **core project tasks:** the common tasks including design of the analytical framework, consistent data collation templates and assumptions and a literature review; and
- **engagement with Departments/across sectors:** the tasks and approach associated with, and specific to, each of the Departments/sectors.

The exercise commenced in June 2006 and the final report was presented to Steering Group in April 2007, prior to devolution.

Throughout the course of the exercise, we drew on the detailed sectoral understanding of the Reference Group established as an advisory body for the exercise. The membership of the Reference Group is set out in Appendix 1. This exercise presented to the Reference Group at two key stages and drew on the expert advice and guidance of its membership at those points.

Core elements of our approach and an overview of the key assumptions underpinning the analysis are detailed in Section 2 of this report.

1.5 Completeness and Availability of Information

For the purposes of this report, save where we have been able to corroborate information, we have had to assume that the information provided to us in terms of costs of service provision is reliable and complete. The scope of the exercise did not extend to an audit of the data provided.

2 Analytical Framework

2.1 Introduction

In this section of the report we set out the framework within which we have undertaken the research. Initially, we set out key definitions and principles underpinning the research and upon which estimation of the costs of the divide have been based. Secondly, the analytical framework for undertaking the research is presented. This framework was developed in conjunction with feedback from the Steering and Reference Groups, and was agreed with Steering Group. Thirdly, data challenges faced during the research are summarised. Finally, a categorisation developed to assist reporting is set out.

2.2 Definitions and Principles

2.2.1 Definitions

The following definitions have been agreed:

- **Direct Costs** – public expenditure costs that are incurred as a direct result of civil unrest or a divided society;
- **Duplication Costs** – public expenditure costs arising from the duplication of service delivery resulting from a divided society; and
- **Economic Lost Opportunities** – shift share profiling of lost opportunities arising from the divided society in terms of impact on tourism, foreign direct investment (FDI) and the labour market.

The data captured during the research can be defined as follows:

- **Quantified Costs** – financial costs due to the divide that have been identified and quantified. This includes direct costs (e.g. policing costs in dealing with divide related civil unrest) and costs arising from duplication of service provision;
- **Costs Identified But Not Quantified** – financial costs due to the divide that have been identified but for which we have been unable to quantify for various reasons (see Section 2.4). The possible and probable extent of the impact is considered as allowed (e.g. education, funding for the voluntary and community sector (VCS)). This category includes the very long-term inter-generational impacts of the divide that are extremely difficult to measure (e.g. impact on mental health); and
- **Economic Lost Opportunities** – the cost that the impact of the Troubles has had on tourism, FDI and the labour market.

2.2.2 Principles Underlying the Research

The core principles underpinning the research were agreed as follows:

- financial costs are defined based on costs to the public purse only;
- the research focuses on identifying those material financial costs that are still being incurred as a result of the divided society or the conflict situation. Historical costs may, however, be used in setting the context;
- in considering financial costs which continue to be incurred as a result of the divided society or conflict situation, the base year is 2004/5;
- material financial cost areas have been identified in consultation with Departmental representatives and are based on the knowledge and expertise provided by these individuals and by Reference Group members. Existing research and “what if” analysis has been used to supplement this. This approach is adopted rather than trying to capture an exhaustive list of all ongoing financial costs arising from the conflict situation or a divided society;
- total historical costs of the divided society/conflict situation are not required. Historical costs may, however, be included in order to set the context; and
- economic costs include an analysis of lost opportunities arising from the divided society. This focuses on the areas of tourism, the economy and the labour market.

2.2.3 Human Cost

The terms of reference, definitions and principles have made clear that this research is focused on financial costs associated with societal divide. This research has neither been asked to, nor has it attempted to, quantify the human cost of the divide in NI.

2.3 Analytical Framework

We defined a common analytical framework across which the direct/indirect and opportunity costs of the divide have been captured. The analytical framework is set out in the following sub-sections.

2.3.1 Macro Analysis

Macro analysis considering the proportion of public expenditure of Gross Domestic Product (GDP) in NI compared to other countries and regions within the UK has been undertaken. This identifies at a high level, whether there is additional public expenditure in NI that could potentially be due to societal divide. There has also been consideration of additional non-domestic government and non-government funds that are available in NI. This macro analysis is discussed in Section 4.

2.3.2 Approach to Identifying Direct and Service Duplication Costs

The estimation of direct and service duplication costs has been approached as follows:

- obtain high level costs per sector (e.g. health, education etc) for NI and the rest of UK for 2004/05, with population data applied to give an indicative cost per capita. This enabled us to identify the relative spend per head of population in NI compared to the rest of the UK for each sector, and to identify those sectors with the most significant variations;
- develop a draft information request for circulation to Departments. This was tailored for individual Departments, the purpose being to capture total expenditure in 2004/5 and potential direct and duplication costs that could be associated with the divide/conflict situation;
- meet with Departmental representatives identified by the Reference Group to:
 - consider the draft information request and identify the potential sources for information therein;
 - consider if the list of direct costs of the divide/conflict situation is comprehensive and complete. Where additional direct cost areas are highlighted, identify the potential source of this information;
 - consider if there are any duplication costs arising from the divide/conflict situation for the sector and identify potential sources of information; and
 - agree mechanisms and timescales for completion and return of the information request.

In addition to the evidence identified through departmental representatives existing research and “what if” analysis was used.

Appendix 2 includes the list of all Departments and organisations that were consulted as part of this research exercise.

2.3.3 Approach to Identifying the Cost of Economic Lost Opportunities

We identified three key areas of lost opportunity arising from the divided society. These are:

- FDI;
- tourism; and
- the labour market.

Our approach to analysing the impact of conflict on FDI, tourism and the labour market are detailed below.

2.3.4 FDI

In order to estimate the extent of lost opportunity to NI in terms of FDI, the following approach was followed:

- trace the build up of FDI into NI between 1960 and 1998 and try to separate the pre-and post onset of conflict positions;
- compare the NI FDI performance with that of Scotland, Wales and the Republic of Ireland over the same period in terms of:
 - the overall volume of FDI;
 - broad industrial sector; and
 - gross and net cost per FDI job;
- compare the NI inward investment incentives package with Scotland, Wales and the Republic of Ireland; and
- use the information above to construct estimates of the amounts of additional FDI that NI might have attracted over the period in absence of the divide.

2.3.5 Tourism

Estimation of the effects of societal division and its negative spill-over on the tourism industry in NI was based on the following approach:

- compare the level and the growth of tourist expenditures in NI, the Republic of Ireland, Scotland and Wales. This provided the basis for a “mini” shift-share analysis by giving NI the Welsh or Scottish or Irish tourist spending growth rates and recalculating. The difference between the actual NI expenditure and the shift share estimate is a measure of the tourism opportunity cost of an abnormal society;
- in terms of tourist visits, a similar approach has been developed. It is recognised that most of NI’s actual tourist visitors during the 1968-98 period were Visiting Friends and Relatives (VFRs). It was necessary to compare the trends in VFRs in NI, the Republic of Ireland, Scotland and Wales as well as trends in other types of tourist visits. Again a mini shift-share analysis gave an estimate of the number of tourist visits foregone.

2.3.6 Labour Market

The main issue in terms of assessing the effects of societal division on the operation of the NI labour-market is that of mismatch – the extent to which local labour-markets are segmented on sectarian grounds thus leading to both unfilled vacancies and relatively higher unemployment.

2.4 Difficulties with Data Collection

Researching the financial cost of the NI divide has raised a range of difficulties with regard to identifying, analysing and reporting data. These difficulties and challenges have included:

- in certain parts of public service, data collection has proved particularly complex. The majority of resource allocation decisions are made on the basis of a range of factors that will include, for example, demographics and deprivation, and may also have to a greater or lesser extent, a link to issues of community/societal conflict or divide. Disaggregation or disentanglement of such factors is particularly problematic, thus it has proved particularly difficult to isolate costs that are purely related to societal divide;
- public expenditure allocations attributable to service duplication issues are neither readily identifiable nor tracked from a financial accounting point of view. We have however amassed a significant amount of financial data which Departments have presented as evidence of resource allocations influenced by conflict and issues of divide. We have, within the research, attempted to present an overview of the data and a meaningful interpretation of the key policy decisions influencing resource allocation;
- valid comparators have not always been available to test whether a service delivery mechanism has been distorted due to reasons of division;

- our approach sought to consider costs for the 2004/05 financial year. Where possible and where appropriate this has been done. In certain cases this has not been possible (for example, in some instances comparator research was available for other years rather than 2004/05). In some instances it has also been relevant to consider a time series rather than a single year; and
- sectors where it appeared that costs existed, but where there was no explicit policy decision that linked service provision to the divide and where financial data was much more difficult to extract. In some of the more intractable cases our research identified policy decisions influenced by the divide, but did not result in quantification of that expenditure.

2.5 Reporting Framework

A categorisation has been developed to reflect the nature of data captured and to assist in developing overall findings and conclusions in a consistent and meaningful manner. The categorisation includes three levels of data defined in Section 2.2.1:

- quantified costs;
- costs identified but not quantified; and
- economic lost opportunities.

These categories will be used in section summaries and within the overall research conclusions.

3 Societal Division in NI – An Historical Overview

3.1 Overview

This section sets out a short overview of the historical context of societal division in NI and attempts to track the impact of division and conflict across various aspects of community and life.

3.2 Historical Context

This part of the island of Ireland has been in conflict since the seventeenth century and since then very few generations have escaped conflict and violence. The settlement of English and Scottish people in the northern part of the island set the scene for a continuing conflict about rights and nationality and laid down patterns of economic and social life that, by and large, still exist in NI. The patterns of settlement may have adjusted as years have gone by and the balance of population in some areas may have changed, but in overall terms there is still a significant east west divide, and a skewing of the Protestant population towards the north east of NI. The violence of the last 30 or more years has greatly increased the levels of division between the two main communities in NI.

While the history of this part of the island of Ireland has ensured that a high level of segregated living has always characterised communities, research has shown that during each episode of conflict and violence the communities have tended to separate further and, while they tend to come together again after violence has ended, the level of mixed living is never as great as existed before the conflict began.

Segregation in housing, and reluctance to mix because of cultural differences or a fear of violence have been critical factors in determining the level of public services needed to support communities. This is more so in Belfast, Londonderry and some of the larger towns because of their relatively larger urban space and populations needing to access facilities safely.

Much of the research on segregation has focussed on Belfast which is not surprising given that the early 1970s in Belfast witnessed some of the greatest movement of people seen in Europe since the end of the Second World War. Most of this movement took place, in and between, working class areas and between public housing estates. This pattern continued at varying rates during the conflict and by 2000 the Northern Ireland Housing Executive (NIHE) stated that their estates in Belfast were almost wholly segregated.



Middle class areas have tended not to be ethnically segregated. In the 1980s Boal reported that:

“middle class areas tend to be less ethnically segregated than working class areas...a middle class household is more likely to be located in a mixed street than a working class household, and its neighbourhood is less likely to be ethnically transitional.” (Boal 1982)

While the segregated nature of Belfast is widely acknowledged, this was clearly not the case in the rest of NI. Poole and Doherty (1997) concluded that while the picture for Belfast was clear the situation in the rest of NI was more complex. They found that of the 39 towns in NI, only 17 were highly segregated, though they did contain a high percentage of the total population of the region.

The most segregated local council areas at that time were Belfast, Derry and Craigavon, which were also the areas most affected by the troubles. The least segregated councils were in the mainly rural areas in the Northwest, Northeast and Co Down. Murtagh also referenced these in 2001 as areas with stable religious populations, low rates of intimidation, a low death rate and mixed housing.

Drawing attention to the costs of division, and reflecting findings from a range of other studies, Shirlow and Murtagh (2006) identified the policy implications of residential segregation.

Their summary is detailed in Table 3.1 below.

Table 3.1 – Policy Implications of Residential Segregation

Issue	Description of Need
Activity segregation	Activity segregation resulting in facilities and services ‘trapped’ in the territory of the out-group.
Community institutions and critical mass	Locality population change undermines local institutional capacity, thus accelerating ‘exit’ and the critical mass of community necessary for sustainability.
Deprivation	High rates of socio-economic deprivation reflecting the residents’ weak bargaining power in the housing allocation and transfer system.
Quality of life	Pervasive sense of fear, danger and direct violence in areas where the ethno-sectarian map is most contested.
Death and injury	Higher rate of death and violence in areas in the areas where the ethno-sectarian map is most contested.
Demographic imbalance and housing need	High demand in republican/nationalist areas fuelled by higher than average fertility rates, family sizes and younger age profiles. Protestant demographics generate comparatively less housing need, particularly given the wider choice of housing search territory.
Symmetrical land and property markets	The reproduction of segregated space through symmetrical and often self-contained property markets.
Direct costs	Physical construction of interfaces, buffer zones and security adaptations to property.
Blight of land and property	Land and housing near interface areas blighted by fear, violence and lack of investment confidence.
Image	Negative imagery produced by walls of division, sectarian graffiti and physical dereliction to investors and tourists.

Source: Shirlow and Murtagh 2006.

3.3 Segregated Communities

In NI, the separation of communities in the 1960s, and the rise of ethno-sectarian violence, led to the construction of more defined physical and psychological boundaries between ‘own’ and ‘other’ community (Shirlow & Murtagh, 2006). Many residents of segregated and interface areas defined their need for physical separation in terms of security provided against attacks from ‘the other side’. Ironically, the sense of safety was often more illusory than real, as the protective walls and barriers between communities became the focal point for low level and localized violence. The demarcation of territory, intended to provide a base for self-defense, also ring-fenced targets for those who were intent in carrying out sectarian attacks. In addition, during the worst of the conflict, the presence of the army within bounded, segregated space was associated with a concentration of violence within these areas (Shirlow & Murtagh, 2006). Although, figures are not available for NI as a whole, Shirlow and Murtagh (2006) map the relationship between conflict-related deaths and interfaces/segregation in Belfast from 1969-2004. They found that:

- a third of the victims of politically motivated violence were murdered within 250 meters of an interface;
- around 70 per cent of deaths occurred within 500 meters of all segregated boundaries;
- over 80 per cent of deaths occurred within places that were at least 90 per cent Catholic or Protestant; and
- more middle class areas endured the lowest levels of politically motivated violence.

Although conflict-related deaths have reduced significantly since the cease-fires, ongoing problems of interface violence remain, as highlighted by headline grabbing events in recent years, including the Holy Cross dispute that started in summer 2001 and the rioting in the wake of the disputed Whiterock Orange parade in September 2005. The preponderance of ‘incidents’ at urban interfaces leaves little doubt about the link between factors such as residential segregation, violence and social class. However, as highlighted by Jarman (2006), there is a danger in assuming that zones of tension and violence are exclusive to working-class, urban communities. Jarman makes the point that spatial segregation is much more pervasive elsewhere in NI, and that violence on interfaces between public housing estates is merely the most visible exemplar of tensions that underlie relations in areas that do not easily fit the stereotypical model.

Jarman identified interface issues as being present in the intersection between middle-class and working-class residential areas; some suburban areas; parks and other local spaces; town centres and shopping areas. He observed that in Belfast and Londonderry, ethno-sectarian violence has become an 'expected way of life', and that segregation and associated violence has increased in many rural and towns. He noted, for example:

- in Ballymena, patronage of the two main shopping centres is divided on community lines;
- in Lurgan the town centre is divided into two distinct ethnic domains; and
- in Ballynahinch, the town centre becomes more visibly claimed by one community during the summer months.

Hughes and Donnelly (2006) also noted that in Armagh, large areas of the city are seen as 'out of bounds' by residents, based on mental maps of perceived 'ownership'.

Manifestations of division and segregation include not only physical violence, but also a pervasive sense of fear and anxiety that can mediate levels of social, cultural and economic interaction between segregated communities. Social psychologists argue that protracted experience of fear causes a number of effects. Specifically, it sensitises alertness to threatening cues, gives priority to processing information about potential threats, causes an overestimate of danger, facilitates the selective retrieval of information related to fear, increases expectations of threat and increases the accessibility of knowledge that was effective in responding to previous threatening situations (Clare, Schwarz & Conway, 1994; Gallagher & Clare, 1985; Gray, 1989; Isen, 1990; Lazarus & Folkman, 1984; LeDoux, 1995, 1996; Ohman, 1993).

Empirical evidence suggests that fear has more general effects on cognitive processing, such as the avoidance of risk and new situations. Studies of mobility in segregated areas have been consistent in their finding that residents feel safe in their own community and have reservations (at least) about entering areas dominated by the 'other community' (Shirlow and Murtagh, 2006). Based on two surveys of ethno-sectarian enclaving and the reproduction of fears in Belfast (comprising responses from 9,000 individuals in six segregated communities), Shirlow and Murtagh made the following observations:

- only one in eight people worked in areas dominated by the other community;
- seventy-eight per cent of respondents could provide examples of at least three publicly funded facilities that they did not use because they were located on the 'wrong side' of an interface;
- in some of the six segregated communities included in the survey, 75 per cent of respondents refused to use their closest health centre if it was located in a place dominated by the 'other' community;
- over half of all respondents travel twice as far as they need to, at least twice a week, in order to locate two or more private sector services that they need;
- eighty-two per cent of respondents whose nearest benefits office was located in an area dominated by the other community, travelled to a benefits office in an area dominated by their own community, even where this meant undertaking a longer journey;
- one in eight respondents were prepared to forgo healthcare for younger members of their family, rather than use the nearest facilities, if these were located in an area dominated by the other community; and
- only 18 per cent of respondents undertook, on a weekly basis, consumption related activities (e.g. shopping and socialising) in areas dominated by the other community (Shirlow and Murtagh, 2006).

Explaining these patterns, survey respondents indicated both fear of attack by the other community and fear of being ostracised by their own community as contributory factors in their decisions to avoid areas predominated by the other community (Shirlow and Murtagh, 2006). In a qualitative study of two segregated Belfast communities (one Protestant, the other Catholic), Hughes et al (forthcoming 2007) found that such fears are often justified by experience of the consequences of infringing accepted behavioural norms. They found that residents, particularly in the Protestant community, were in little doubt that local paramilitaries would 'punish' association with Catholics.

A key feature of ethno-political identity in divided societies often relates to memories and ideologies held by individuals and shared by communities that can inform and justify a collective fear of the out-group and hostility towards it. In Belfast, murals represent spatially proximate events that reflect a link between place and experience (Shirlow and Murtagh, 2006). Other examples of demarcated territory indicating a 'collective emotional orientation', include sectarian graffiti and other regalia denoting 'Irishness' or 'Britishness' of residents (e.g. murals dedicated to members of the Royal family or Irish historical figures, Irish Tricolour or British Union flags and bunting).

These environmental stimuli serve to prompt behavioural responses of fear and avoidance in the out-group and are manifest in an in-group desire to remain within their 'own' or 'neutral' territory.

Based on a comprehensive, secondary data analysis of social surveys, Jarman (2005) highlighted the costs of demarcated territory and associated sectarianism to sense of wellbeing and safety. He found that the following negative effects were disproportionately experienced by young people:

- one in four young people had experienced sectarian verbal abuse in the previous year;
- young people were more likely than older people to experience sectarian abuse;
- a high percentage of young people felt threatened or intimidated by murals and other visual displays;
- more than 50 per cent of young people did not feel safe in areas dominated by the other community; and
- a high percentage of young people favoured a segregated, living, schooling and working environment.

3.4 Mixed Communities

Research has found that cross-community contact holds a number of observed benefits for inter-group relations (Allport 1954, Hewstone and Brown 1986 and Pettigrew 1986). Where there are opportunities for sustained contact between ethnic groups in divided societies, this has been associated with lower levels of both blatant and subtle prejudice, greater support for pro-'other' group policies and more generalised positive attitudes to the entire other communities (Pettigrew, 1997). Pettigrew (1998) identified four interrelated processes through which contact can mediate positive attitudinal change. These include:

- learning about other groups, where optimal inter-group contact generates new learning that helps correct negative views of other groups/communities;
- changing behaviour, where inter-group contact acts as a benign form of behaviour modification that can lead to positive attitudinal change;
- generating affective ties, where positive emotions aroused by contact and friendship can, for example, reduce anxiety and generate inter-group empathy; and
- in-group reappraisal, where inter-group contact provides insights about 'own' group as well as other groups that challenge taken for granted own group norms and customs as the only way of effectively managing the social world.

A recent qualitative study that explored mediators of contact in mixed and segregated areas of Belfast (Hughes et al, forthcoming, 2007) found that in the mixed communities, the opportunity presented for inter-group interaction had an ameliorating effect on fear and anxiety associated with the 'other' community. Supporting Pettigrew's analysis, Hughes et al also found that residents of the mixed community tended to demonstrate more knowledge and greater understanding of ethnic 'others', and were more receptive to inter-group contact than those in the segregated areas. Linked to this, they were less likely to refer to the other community as a homogenous 'mass' and were more likely to discriminate between 'good and bad' in both (Protestant and Catholic) communities (Hughes et al, forthcoming, 2006). The significance of this ability to make nuanced out-group categorisations in divided societies is that perceived homogeneity limits the capacity to view people as individuals in a situation where out-group fear is a pervasive emotion. According to Park et al (1991), when out-group members are seen as interchangeable, indiscriminate action against any or all other community members can be more easily rationalized.

Hughes et al also found that ethnic identity affiliation in the segregated communities was stronger and more publicly asserted than in the mixed communities. In the latter, cross-cutting identities (membership of the same organisation, shared interest in sport or other social activity, parenthood etc) were more often ascribed greater priority than religious/ethnic identity. Though, in both communities, ethnic identity was a recognised dimension of inter-group relations. In an apparently related finding, Murtagh (2002) in a study of Carryduff and Outer South East Belfast, found that the population of the area was more moderate than the rest of the NI population. This conclusion was reached by taking into account voting patterns, social attitudes, contact and self-categorisation. However, Murtagh's research also showed significant 'self-containment' associated with exclusive membership of schools and Churches.

Another interesting observation in the Hughes et al report is that mixed community residents did not share the view prevailing in segregated areas that segregation represents safety and security. Some residents of the mixed communities, who had previous experience of living in a segregated community, were resentful of 'constraints imposed on them' by segregation, including pressures to '**wear the badge**' of political/religious identity, and

conform to accepted community norms of intolerance and bigotry. Some indicated that they found the greater anonymity of the mixed environment liberating and many, as they became more upwardly mobile, had opted to move from segregated communities to, **'get away from painted curbs, flag flying and tribal mentality'** (Hughes, et al, 2006).

Other research in mixed communities has explored the potential for mixing to enhance social capital. The basic premise informing the social capital concept is that interaction enables people to build communities, to commit themselves to each other, and to build the social fabric. According to Robert Putnam, who launched social capital as a subject for research, a sense of belonging and the positive experience of social networks (and the relationships of trust and tolerance that can be involved) can bring benefits such as reduced crime, better health, higher educational achievement and better economic achievement (Putnam, 2000).

Although Putnam's work has been criticized, on the basis that arguments for social capital can justify the pursuit of sectional interests (bonding capital) (Perri 1997; Zetter et al 2006), and that his model does not take adequate account of power relations (Woolcock, 2001), it has been usefully applied by Byrne et al (2006) to assess the nature of relations in mixed communities of NI. Based on qualitative research in three mixed communities, it was found that within each there existed numerous possibilities for inter-group interaction. These interactions were facilitated through individuals, organized groups and by the existence of buildings and shared physical space. Bridging capital was strong in all communities¹, with people from different community backgrounds working together to promote and regenerate the community as a whole. Working relationships took the form of shared participation on management committees of various community enterprises and social clubs/societies.

Although, it was acknowledged that the communities selected reflect a more middle class orientation than segregated communities, and that the degree of integration is often circumscribed as much by overtly tolerant attitudes, as by latent, more negative, responses to the other community, the value of mixing was perceived to have a number of positive outcomes. Reflecting social capital, the authors summarise these as:

- few sectarian incidents – those that did occur were widely condemned by both communities;
- acceptance of cultural symbols and events associated with one or other community – based on dialogue, engagement and compromise;
- freedom of movement;
- cultural diversity and freedom to participate in sports/other cultural activity without fear of persecution; and
- strong cross-community participation in a range of activities/organizations.

3.5 Schools and Mixing

Mapped on to the residential segregation that characterises many areas of NI, the education system is also extensively segregated at primary and secondary levels, with the majority of pupils attending either Controlled (largely Protestant) or Catholic Maintained schools (see section on education). Although little research exists to sustain an argument that segregated schools perpetuate division, there is some suggestion that integrated or mixed education (5.5 per cent of pupils were enrolled in integrated schools in 2005/06) can deliver more positive social attitudes through increased inter-group interaction (Irwin 1991, McClenaghan et al 1996, McGlynn 2001, and McGlynn et al. 2004). McGlynn (2001), in an examination of past pupil attitudes, found that 93 per cent felt integrated education had a positive impact on their lives (making them more tolerant and less prejudiced). Cairns & Hewstone (2002) and Hewstone et al (2006) in a quantitative analysis of past pupils found that contact through integrated education mediated out-group anxiety reduction. In the most recent study, Hays et al's (2006) secondary analysis of social attitudes data found 'positive long-term benefits [of attending an integrated school] in promoting a more integrationalist and less sectarian stance in relation to political outlooks'.

¹ Whilst Byrne et al (2006) is a qualitative study encompassing three mixed-communities, OFMDFM's Continuous Household Survey provides a quantitative view on social capital. The research found thematic differences around social capital. First it noted that "Socio-economic group affects social capital; people in lower socio-economic groups display more bonding social capital while professionals display more bridging and linking capital". Second it found that "Protestants have stronger bridging social capital". However, the two communities were found to be similar in terms of bonding, linking and overall social capital.

3.6 Attitudes to Mixing in NI

A range of surveys has for some years been monitoring attitudes towards mixing in NI. These surveys have been consistent in their finding that the majority of Protestants and Catholics would prefer to live, work and educate their children in mixed environments. The 2005 data from the NI Life and Times Survey are reported below in Table 3.2.

Table 3.2 – Results from the NI Life and Times Survey 2005

A – If you had a choice, would you prefer to live in a neighbourhood with people of only your own religion, or in a mixed-religion neighbourhood? %

Own religion only	18
Mixed religion neighbourhood	79
Other (please specify)	2
(Don't know)	1

Results for people of different religions	Catholic	Protestant	No religion	%
Own religion only	16	20	9	
Mixed religion neighbourhood	81	77	87	
Other (please specify)	2	2	0	
(Don't know)	1	1	3	

B – If you were working and had to change your job, would you prefer a workplace with people of only your own religion, or a mixed religion workplace? %

Own religion only	9
Mixed religion workplace	88
Other (please specify)	1
(Don't know)	2

Results for people of different religions	Catholic	Protestant	No religion	%
Own religion only	7	11	5	
Mixed religion workplace	91	86	92	
Other (please specify)	1	1	0	
(Don't know)	2	2	4	

C – If you were deciding where to send your children to school, would you prefer a school with children of only your own religion, or a mixed-religion school? %

Own religion only	35
Mixed religion school	61
Other (please specify)	1
(Don't know)	3

Results for people of different religions	Catholic	Protestant	No religion	%
Own religion only	38	37	17	
Mixed religion school	58	59	80	
Other (please specify)	1	1	1	
(Don't know)	3	3	2	

When the 2005 data are compared with previous years, they show an increasing trend in the numbers of both Protestants and Catholics who express preference for mixing. For example, in 2000, the figure for those expressing a preference for mixed religion neighbourhoods was just 70 per cent (compared with 79 per cent in 2005). In relation to workplace mixing, the trend has also been positive, with percentages of 81 and 88 applying for all respondents in the years 2000 and 2005 respectively. Responses to mixed religion education too show a positive trend in those preferring mixed schools to segregated schools (from 55 per cent preference for mixed schools in 2000 to 61 per cent in 2005).

When responses from the Protestant and Catholic communities are compared, it is interesting to note that the positive trends have been consistent to both, and that there is relatively little difference in the significant numbers of Protestants and Catholics in 2005 who desire a more mixed community.

3.7 Summary

Conflict in this part of the island of Ireland stretches back for centuries, however the violence of the last thirty or more years has greatly increased the levels of division between the two main communities in NI. Research shows that a high level of segregated living has always characterised communities in NI. Segregation in housing and reluctance to mix because of cultural differences or a fear of violence (Shirlow and Murtagh) has been a critical factor in determining the level of public services needed to support communities.

Within segregated urban communities, the literature shows a relationship between conflict-related violence/deaths, other sectarian 'incidents' and the physical interfaces built to protect from the 'other' community. More widely, spatial segregation is in evidence across NI between public housing estates, between middle-class and working class residential areas, parks and commercial space such as shopping centres etc. Territories are often demarcated with environmental symbols such as sectarian graffiti, murals or flags. This division and segregation is associated with a sense of fear and anxiety about entering areas and using public services deemed to belong to the 'other' community.

In contrast, research indicates that living in more mixed areas provides a number of benefits for inter-group relations including reduced fear of the 'other' community, greater freedom of movement, more cross-community participation in a range of activities and reduced exposure to sectarian incidents. Some of the research examining mixed education environments also indicates that integrated education can result in more positive social attitudes through increased inter-group interaction.

Surveys monitoring the attitudes of people in NI towards inter-group mixing suggest an increasing preference over time for living, working and educating in mixed environments.

Overall it remains apparent that there are negative financial implications arising from segregated living, working and educational patterns that exist in NI.



4 Policy Response and Resource Allocation

4.1 Introduction

In this section we have set out an overview of the policy framework defined by Government to influence and shape community relations and the current policy context of 'Shared Future'.

The core focus of this research is to identify the extent and amount of public expenditure skewed directly or indirectly to funding issues of societal divide. As a starting point we have considered the funding allocation regime and basis of financial accountability in NI.

4.2 Policy Response

Building better community relations has been part of government policy and a high priority since before the advent of direct rule. In the aftermath of the troubles from 1968 onwards, the Stormont administration created legislation to establish a Ministry of Community relations and a Community Relations Commission. The infrastructure fell apart following the prorogation of the Stormont government in 1972 and the short-lived power-sharing Executive in 1974.

Community relations policy fell dormant until the late 1980s when the Central Community Relations Unit (CCRU) and a non statutory Community Relations Council (CRC) was established. The policy aims have not altered radically over the years and address the three broad themes of:

- equality;
- better relations; and
- respect for cultural diversity.

The 1990s heralded the emergence of the Belfast Agreement with the commitment of participants to "reconciliation, tolerance, and mutual trust, and to the protection of human rights of all". The NI Act 1998 followed with its Section 75, an equality duty and a duty to promote good relations between people of different religious belief, political opinion or racial group.

A debate about "a shared future" has been prominent for the last few years and in 2005 the government issued the policy documents described in Section 4.3.

4.3 Current Policy Context – A Shared Future

The 2003 comprehensive review of community relations policy affirmed the problems of division and outlined a broad strategy for a more shared and pluralist society. Following an analysis of over 500 written responses to a consultation document (Darby & Knox, 2004) Government released the 'Shared Future' policy document in 2005.

A Shared Future outlines a commitment to a more coherent, coordinated and long-term approach, that places responsibility for improving relations at all levels of public sector delivery. Policy aims are articulated with regard to the establishment, over time, of a 'shared society' defined by a culture of tolerance, and the achievement of reconciliation and trust (CRU, 2005, p.3). The document also makes clear that 'benign apartheid' is not an option. A set of three principles are established:

- that everyone in NI deserves to be treated as an individual, equal with all others and not a 'mere cipher for a 'community'';
- that there should be mutual recognition of common humanity; and
- that the state should be neutral between competing cultural claims (*ibid*, 1.1.13, p.9).

Based on this vision, the document offers aims and illustrative actions that, 'can be taken by departments and other social actors' (*ibid*, 1.1.14, p.9) and outlines the mechanisms that will facilitate a more integrated approach to the delivery of a shared society. Key policy priorities include:

- the achievement of a shared society, where people can live, work and play together;
- elimination of sectarianism, racism and other forms of prejudice to enable people to live and work together without fear of intimidation;
- the reduction of tension and conflict at interface areas;
- the promotion of civic-mindedness through citizenship education;
- the protection of members of minority groups;
- the impartial delivery of public services;
- the shaping of policies, practices and institutions that will enable trust and good relations to grow; and
- the promotion of dialogue between, and mutual understanding of, different faiths and backgrounds (*ibid*, p10-11).

Linked to these objectives, Section 2 of A Shared Future outlines priority areas (e.g. shared housing and shared communities) and a range of associated actions that can facilitate the development of a shared society. In addition to identifying actions in specific policy areas, Government outlines proposed infrastructure for action at central, regional, local government, community and individual levels that are aimed at driving forward the strategic framework and policy.

Analysis has suggested that many of the commitments outlined by Government in 'A Shared Future' represent a real opportunity for change. Firstly, Shared Future represents a move away from adaptive policy making towards a more transformative approach. Secondly, Shared Future reflects the moral and economic unsustainability of a 'separate but equal' approach to segregation and offers a vision of a transformed 'shared' society based on the principles of peace and reconciliation. Thirdly, a key theme in the shared future document is the importance of a 'joined-up', interagency, strategic approach to the achievement of peace and reconciliation objectives. Finally, 'Shared Future' indicates a shift away from the bipolar, static analysis of the NI conflict and accepts the uniqueness of **individual** identity, dynamic identity processes and the folly of blunt classifications attached to whole communities.

Challenges, however, remain. In particular policy implementation of a 'joined-up' interagency strategic approach to the achievement of peace and reconciliation objectives across all public service areas is complex and in many sectors will require a significant change in existing service delivery models and service planning.

4.4 Funding Allocations and Financial Accountability

One of the core terms of reference for this research is to examine the pattern and scale of public expenditure in NI which has occurred in response to division. As a starting point, we have considered how public expenditure is allocated to NI and the extent to which issues of division are reflected in this allocation.

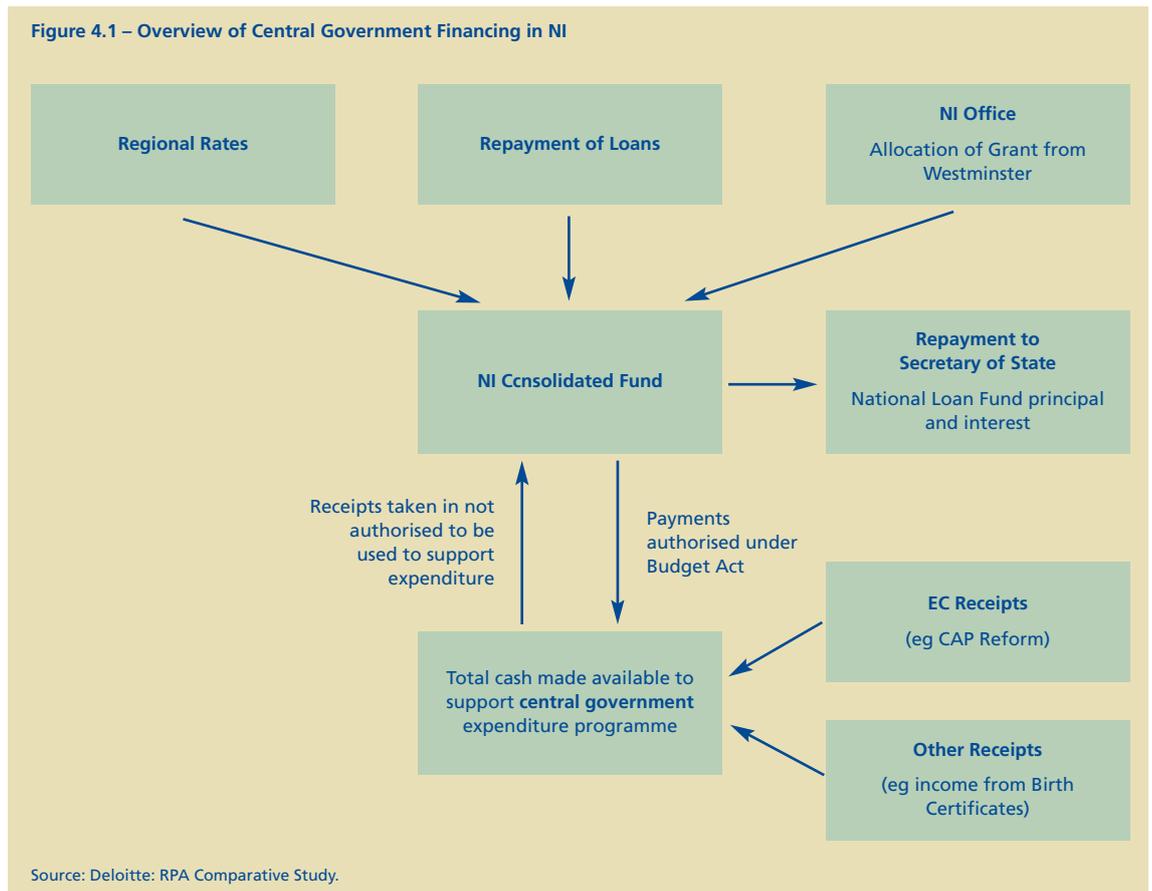
Central Government spending in NI is largely financed by payment of a grant from HM Treasury (through the NIO) to the NI Consolidated Fund. The total annual grant payable is subject to approval by the Westminster Parliament (allocating expenditure based on the Barnett formula). The Barnett formula determines changes to expenditure within the assigned budgets of the devolved administrations. Under the formula, the Northern Ireland Executive (NIE) receives a population-based proportion of changes in planned spending on comparable Government services in Great Britain as appropriate. It is worthy of emphasis that the formula determines changes to each devolved administrations spending allocations; it does not determine the total allocation for each devolved administration.

In addition, over and above the public expenditure changes driven by Barnett there are a number of exceptions where the population based approach is not appropriate. These include:

- within the Departmental Expenditure Limit (DEL) ring fenced public expenditure provision for the European Unions Peace and Reconciliation Programmes; and
- within the Annually Managed Expenditure (AME):
 - Common Agricultural Policy programme payments;

- Social security benefits where adjustments are based on the latest economic assumptions produced by Treasury in conjunction with forecasts produced by the Department for Social Development (DSD); and
- Regional Rates.

The NI Ministers have freedom to allocate funds to their respective Departments and other public bodies as they determine and subject to Northern Ireland Assembly (NIA) approval. A three stage budgeting process is adopted, moving from preliminary spending priorities and a provisional expenditure plan through to approval of the budget by the NIE by February of the financial year to which the plan relates. An overview of the financing of central government in NI is shown in Figure 4.1.



Public funding from HM Treasury to NI in 2004/05 amounted to £8.4 billion. The NIE accounted for £7.1 billion of this expenditure and £1.3 billion was attributable to the Northern Ireland Office (NIO). Therefore total HM Treasury expenditure on NI amounts to £4,871 per capita of the NI population.

As part of this research we have explored whether the Department Expenditure Limit has over time been increased by allocations made in response to issues of conflict. Material changes in the level of funding available as a result of the Barnett consequentials arise in the context of United Kingdom Spending Reviews, and thus the overall level of funding available in the annual Priorities and Budget Process remains largely as set out in the most recent Spending Review. Some marginal increases to the NI DEL may, however, come from outside the Spending Review (i.e from the Chancellor’s March Budget or the Pre-Budget Report). Whilst anecdotal evidence exists to suggest that such allocations may have been made several years ago there is no available evidence to confirm or quantify them. In the absence of such evidence, one can conclude that NI’s core NIE funding allocates public resources on the basis of the population base and without further top up to reflect the funding of additional service provision due to segregation or direct conflict related issues.

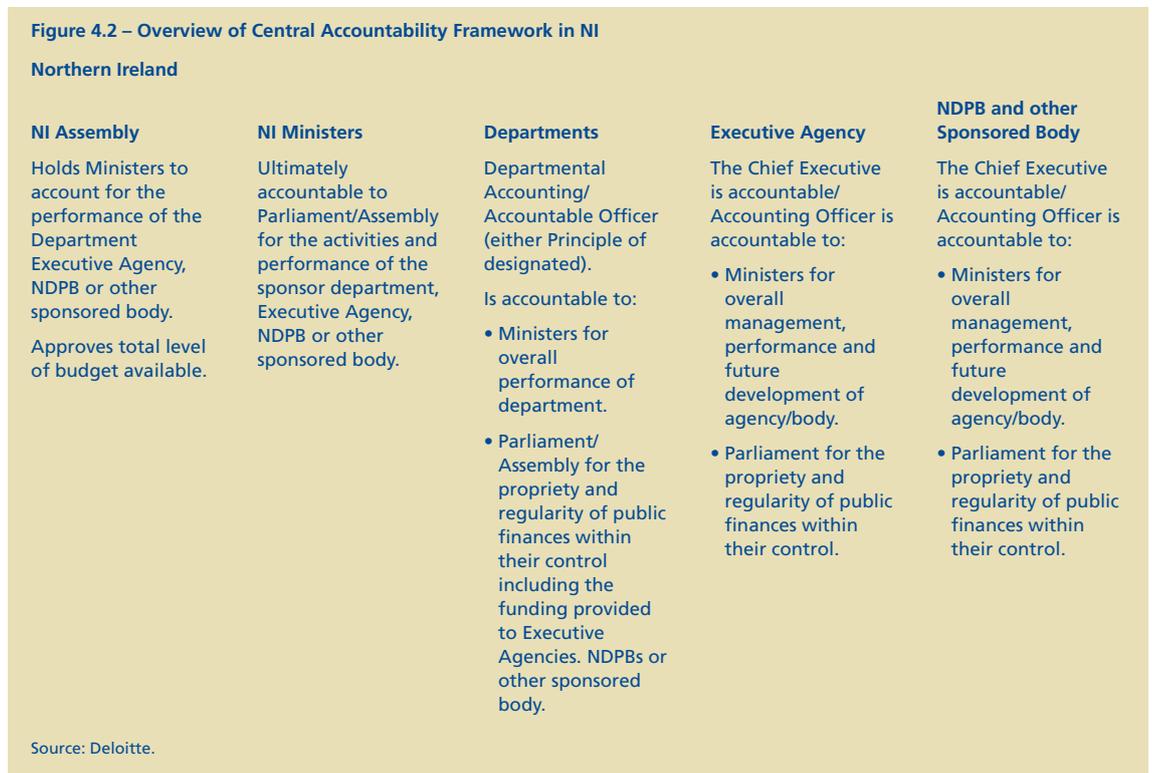
Policy decisions to allocate the available public expenditure pot to issues of divide or conflict are therefore made in the context of front line service funding priorities and decisions.

4.5 Financial Accountability

Those holding responsibility for the conduct of public business and the handling of public money must be held fully accountable for the conduct of that business. At the heart of public accountability in NI lie three key principles:

- Ministers are responsible for determining policy agenda;
- senior public servants (accounting /accountable officers) are responsible for implementing these policy decisions, incurring expenditure in pursuit of policy objectives and for reporting performance through to Ministers; and
- both Ministers and accounting/accountable officers are held accountable for the performance of their duties to the public via the NIA.

The accountability and management framework for NI is summarised in Figure 4.2 below.



One of the interesting aspects of this study is that, to date, little if any research has been carried out into establishing the financial implications of the conflict or the divide. Figures have been quoted publicly but these have been based more on anecdotal evidence rather than on hard data or research.

The most significant study into the cost of the Troubles concentrated on the human cost and made no reference to the financial cost of service delivery (Cost of the Troubles, 1999). Some area based research has looked at the financial impact of the conflict and the implications for service delivery. For example in North Belfast a study in 2001, “Caring Through The Troubles” looked at the additional costs of Health and Social Services (HSS) provision as a result of the concentration of political violence in North Belfast. However while the study highlighted potential higher costs flowing from duplicated facilities and higher levels of ill health, there was no definitive estimate of the additional costs and the final recommendation made a general plea to government to recognise that HSS provision in north and west Belfast cost more than elsewhere in NI.

4.6 Macro-Analysis – NI

It is useful to present some data that puts NI into context alongside comparator regions and countries. This will assist in identifying whether, at a high level, there appears to be any evidence as to additional public expenditure in NI and whether there are any possible reasons for this other than societal divide. This section provides some initial statistics, comparing NI with Wales and the UK as a whole. Due to its population size, and socio-economic profile, Wales has been chosen as the country most comparable to NI within the UK. However, in addition this section considers public expenditure as a proportion of GDP for NI compared to all UK regions and countries.

Since 1990, economic evidence has highlighted that NI has seen a marked improvement from a previous position of high unemployment and slow GDP and employment growth², overtaking Wales and North East of England in terms of Gross Value Added (GVA). Despite that, and considering the poor base position, there are still issues to address. Table 4.1 shows that NI has a high rate of economic inactivity (the highest of the 12 UK regions) while households spend more than Welsh households but receive less income. Whilst the data in Table 4.1 highlights evidence of some additional challenges that NI faces that may attract additional public expenditure, it neither provides a comprehensive nor conclusive comparison with regard to deprivation and need.

Table 4.1 – Key Statistics for NI, Wales and UK

	NI	Wales	UK
Population, 2004	1,710	2,953	59,835
Working Age Economic Activity Rate (Spring 2005, percentages)	71.4	74.2	78.2
Working Age Economic Inactivity Rate (Spring 2005, percentages)	28.6	25.8	21.9
Unemployment Rate (Spring 2005, percentages)	4.7	4.5	4.7
Average gross weekly household income, 2001/02 to 2003/04	461	461	554
Average weekly household expenditure, 2001/02 to 2003/04	393.0	348.60	406.2

Source: National Statistics, Regional Trends 39.

There is no definitive measurement of poverty³ but there is some evidence that suggests NI has comparatively higher levels of poverty. The Households Below Average Income (HBAI) report uses data collected in the Family Resources Survey (FRS). This survey is undertaken throughout the UK and provides some basis for comparison. Table 4.2 presents data on the proportion of population below certain income thresholds. This data suggests that, having taken into account housing costs, NI has comparable levels of income distribution to GB, with no greater proportion of people below the mean and median income thresholds examined.

Table 4.2 – Percentage of Individuals Below Thresholds of Contemporary GB Mean and Median Income

After Household Costs ¹	Income Thresholds					
	Below Mean			Below Median		
	40%	50%	60%	50%	60%	70%
NI (%)	12	21	31	12	19	28
Wales (%)	–	–	–	14	21	31
UK (%)	13	21	31	13	20	28

1. Data takes account for household costs to ensure consistency and allow comparison.

Source: FRS 2004/05.

Broadly speaking, Table 4.2 provides limited evidence that NI has higher levels of poverty than other parts of the UK. Table 4.3, however, showing receipt of state support by household, presents a different picture. This indicates that a higher proportion of NI households are reliant on a range of state supports compared to Wales and to the UK as a whole. This suggests that lower income and poverty are more likely to be issues in NI.

Table 4.3 – Households by State Support and Region

State support received	Income Thresholds		
	NI (%)	Wales (%)	UK (%)
Working tax credit	6	6	5
Child tax credit	19	17	16
Income support	11	8	7
Housing Benefit	17	13	14

Source: FRS 2004/05.

² See Labour Market Bulletin Number 19, Chapter 4, Progress in the NI Economy – A UK Regional Comparison.

³ Department of Work and Pensions are currently recalculating all poverty measurements using OECD equivalence scales.

Having put NI into some context with regard to some macro-level indicators, this section will now consider levels of government funding within NI.

Expressing public expenditure as a proportion of regional Gross Domestic Product allows for comparison between countries and between regions within countries. Public Expenditure Statistical Analyses 2006 (HM Treasury 2006) presents regional and country split for the identifiable 83 per cent of Total Managed Public Expenditure, a standard measure of total public spending. Non-identifiable expenditure includes expenditure that is difficult to allocate, for example overseas spending and defence. Using this data, CEBR⁴, scaled up identified public spending for non-identified spending assuming a similar split and presented public expenditure as a percentage of GDP. This is shown in Table 4.4.

Table 4.4 – Public Spending as a Share of GDP

	Public Spending Percentage of GDP per Region/Country				
	2001-02	2002-03	2003-04	2004-05	2005-06
UK	38.9	39.9	41	42	43
NI	65.2	67	66.6	67.4	71.3
England	37.5	38.4	39.5	40.9	41.5
Wales	56.3	58.8	59.5	60.3	62.4
Scotland	50	50.4	51.9	52	54.9
North East	56.4	57.4	58	59	61.5
North West	47.8	49.1	50.1	51.3	52.6
Yorkshire & the Humber	44.8	45.2	45.7	47.2	48.9
East Midlands	39.1	39.6	40.7	42.2	43.6
West Midlands	41.7	42.6	44	45.4	46.3
East of England	34.5	35.8	36.8	38.1	38.5
London	29.1	30.3	32	33.3	33.4
South East	30.4	31.3	32.2	33.9	33.9
South West	39.9	39.6	40.9	42.3	42.9

Source: Centre for Economics and Business Research, Forecasting Eye, 2006.

Table 4.4 shows that NI has the highest share of public spending as a proportion of GDP amongst all UK countries and regions. In 2004-05 NI's public spending percentage of its GDP was 67.4 per cent. The closest comparators were Wales (60.3 per cent) and the North East region of England (59 per cent). Therefore compared to Wales an additional 7.1 per cent of GDP was public expenditure in NI. This equates to approximately £1.5 billion.

Based on such high level analysis and the evidence of differential levels of income in NI compared to other areas of the UK, this £1.5 billion could be considered to be the upper limit for the cost of the divide in NI. Sectoral analysis will seek to identify the detail of additional costs associated with societal division.

4.7 Other Funding Sources – ‘Benefits’ of Divide

Whilst this research is appropriately focused on costs associated with the divide in NI, there needs to be acknowledgement of the benefit of additional funds that would not have occurred without the existence of division. These funds have included focus on peace building, reconciliation and conflict transformation processes as well as assisting on a range of community, social and economic issues. The three main programmes of funding identified as being directly due to problems relating to a societal divide are the Special Support Programme for Peace and Reconciliation in NI and the Border Counties of Ireland (hereafter referred to as the “Peace Programme”), the International Fund for Ireland (IFI) and the Atlantic Philanthropies.

⁴ Forecasting Eye Special, Centre for Economics and Business Research, May 2006, “How Public Money is Spent in Each Region and Country of the UK”.

4.7.1 The Peace Programme

The Peace Programme was established by the European Commission in 1995 following the first cease-fires in NI. It set out to reinforce progress towards a peaceful and stable society and to promote reconciliation. There have been sequential programmes since then. These have been Peace I (1995-1999), Peace II (2000-2004) and the Peace II Extension (2005-2006). Currently there is ongoing preparation for the Peace III programme (2007-2013). The Peace programme was distinctive within Europe to NI and six border counties in Republic of Ireland. It did complement other pan-EU funding streams (for example Building Sustainable Prosperity) that were contributing to other EU objectives around convergence and regional policy. These other funding streams were not, however, distinctive to NI due to its divide and hence our focus is on the Peace Programme rather than all incoming EU funding. Table 4.5 provides an overview of programme expenditure across the Peace Programme.

Table 4.5 – Peace Programme Expenditure

Programme		Total EU Peace Programme Expenditure (NI and Border Counties)	NI EU Peace Funding (80% of NI and Border Counties Total)	Average Additional ¹ Annual Programme Expenditure	NI Domestic Match Funding (25% of overall spend)
Peace I	1995-1999	£340million	£272 million	£68 million	£91 million
Peace II	2000-2004	£360 million	£288 million	£72 million	£96 million
Peace II Ext	2005-2006	£100 million	£80 million	£40 million	£27 million
Total to Date	1995-2006	£800 million	£640 million		£214 million
Peace III	2007-2013	£180 million	£144 million	£24 million	£36 million

1. Additional funding includes EU funding only – not domestic government match funding.

Source: European Union web site, SEUPB, Deloitte.

Table 4.5 highlights that NI has received £640 million in EU funding through the Peace programmes to date (1995-2006). This excludes Peace III funding. During the three programme phases within this time period Peace II provided the most substantial boost with NI benefiting from additional expenditure of £72 million of EU funding per annum during the Peace II programme. Preparation work for the Peace III programme is currently underway. The fund is expected to decline with additional EU Peace programme monies expected to be £24 million per annum, between 2007 and 2013.

As well as additional divide related funding from Europe, the Peace programmes have had an impact on how domestic government money is spent. Alongside funding from EU, there is match funding, worth 25 per cent of project costs, from domestic government departments. For example there were 10 public transport and road infrastructure projects supported under Peace II Measure 1.1D “Business Competitiveness”. The EU funding for these projects totalled £19.8 million. The relevant implementing body, DRD, provided match funding of £6.6 million. Therefore for the overall programme between 1995 and 2006 alongside £640 million of EU funding, domestic Government match funding totalled almost £214 million.

Projects funded through the Peace programme are inherently linked with the divide. This is tested through an application process in which projects have to meet certain distinctiveness criteria before being approved. Therefore the need for domestic match funding has skewed domestic funds towards addressing the consequences of the divide and hence should be considered a cost. We would however consider it a maximum cost as it is recognised that some part of this government spending is likely to have been directed towards such projects regardless of the Peace funding requirement for match funding and regardless of the divide. In those situations however, the additional Peace funding may have allowed the project to commence or proceed more quickly, or to be of a higher quality or a larger scale or scope. Therefore we suggest the £214 million of domestic government match funding should be considered a maximum cost (as some would have been spent on these projects regardless of the divide) rather than a benefit.

Within Departments there are costs associated with administering the various processes associated with promotion, management and evaluation of applications for funding and monitoring. Departments and agencies have provided various estimates for the cost of administering Peace funding. Annual costs incurred by Departments and government agencies are not always recorded and have proved difficult to estimate. Overall however, we do not see these as significant when set against the net benefit of Peace funding.

Table 4.6 – Peace Programme 1995-2006 Net Financial Benefit

	Total EU Peace Funding into NI (Additional Benefit)	Total NI Domestic Government Match Funding (Cost)	Total Net Benefit for NI
Peace Programmes (1995-2006)	£640 million	£214 million	£426 million

Source: European Union web site, SEUPB, Deloitte.

Table 4.6 shows the overall net benefit of the Peace programme between 1995 and 2006 is considered to be £640 million (additional EU funding) minus the £214 million (cost), which equals £426 million net benefit through Peace I, Peace II and Peace II extension funding. This is a net figure having taken Government match funding as a cost. Between 2000 and 2004, the net benefit Peace funding expenditure is estimated to have been £48 million per annum.

4.7.2 International Fund for Ireland

The International Fund for Ireland (IFI) was established as an independent, international organisation by the Irish and British Governments in 1986. The body was set up with dual goals:

- to promote social and economic advance; and
- to encourage contact, dialogue and reconciliation between nationalists and unionists on the island of Ireland.

It is clear from the second of the IFI’s twin goals that the fund is seeking to address consequences of societal divide. The IFI has taken a multi-faceted approach towards achieving these goals and has supported a range of programmes framed around three priority areas of community capacity building, regeneration of deprived areas and economic development.

Between 1986 and 30 September 2004, the IFI has supported over 5,200 individual projects in NI and the border counties through funding totalling over £465 million. The IFI is required to spend approximately three quarters of its resources in NI and one quarter in the Southern border counties. Based on this ratio overall IFI funding into NI between 1986 and 2004 was approximately £349 million. The annual budget of the Fund has varied quite significantly from year to year. In more recent years, however, budgetary allocations have tended to be quite steady, averaging £32 million over the period 2000-2004, or approximately £24 million per annum in NI.

The work of the IFI is directed by an independent board, consisting of seven members appointed jointly by both the British and Irish governments. The monies to enable the Fund to pursue its objectives are provided by the United States, the European Union, Canada, Australia and New Zealand. In January 2006 the Fund launched a new strategy entitled “Sharing this Space”. The strategy is aimed at making the fund more flexible and responsive to changes in the environment whilst retaining a strong focus on reconciliation. The fund’s budget for 2006 was £24 million. Programmes were aligned around four key areas. These were building foundations (working in most marginalised communities), building bridges (contact between divided communities), integrating (moving towards greater integration), and leaving a legacy (focus on sustainability).

4.7.3 The Atlantic Philanthropies

The Atlantic Philanthropies (hereafter referred to as “Atlantic”) is a limited life foundation committed to spending its endowment by 2020 and completing active grant making by 2016. The fund currently focuses on four themes, three of these, Ageing, Disadvantaged Children and Youth, Reconciliation and Human Rights, are operated in NI. The Reconciliation and Human Rights theme is pertinent to considering the costs, and in this instance, the benefits, of the NI divide.

Between 1982 and 2004 Atlantic invested £230 million in NI. In 2005 Atlantic spent \$16.4 million, of which \$8.1 million (approximately £4.4 million) was for the Reconciliation and Humans Rights theme (based on Atlantic Annual Report 2005 and Grant Database). In 2004 and 2005, however, spend amounts on programmes are considered comparatively low as the new strategy and programmes are still bedding in. Atlantic’s investment trajectory in new NI programmes is expected to rise to between \$30 million to \$35 million, or £15 million to £18 million per annum (based on exchange rate at time of writing⁵).

⁵ Current exchange rate £1:\$1.97 (7.12.06).

4.7.4 Reinvestment and Reform

In May 2002 the then Chancellor, Gordon Brown, sought to reinforce societal shift toward peace and prosperity with an economic settlement for NI to back up the political agreement and reverse the underdevelopment of NI's public services by 30 years of focus on security issues. This was called the Reinvestment and Reform Initiative. The initiative included a facility for the NIE to borrow on its own account raising an additional £125 million in the initial two years for public infrastructure projects. The initiative also made provision for the free transfer of six military and security sites. These were the Maze Long Kesh prison, Ebrington Barracks, Crumlin Road Gaol, and security bases at Magherafelt and Malone Road Belfast. The former Malone Road Army Barracks was sold in December 2003 for £3.4 million, with the proceeds committed to the regeneration of the Crumlin Road Gaol whilst the former Royal Irish Regiment (RIR) base in Magherafelt was offered to the North Eastern Education and Library Board to facilitate additional schooling provision. The Reinvestment and Reform Initiative provides arguably exceptional additional sources of funding (and assets) that would not have been made available in the absence of division in NI.

4.8 Summary

The Shared Future policy provides a key framework for this research and outlines a commitment to a more coherent, coordinated and long-term approach, that places responsibility for improving relations at all levels of public sector delivery. Its policy aims are articulated with regard to the establishment, over time, of a 'shared society', and make clear that 'benign apartheid' is not an option. Policy implementation through a 'joined-up' inter-agency strategic approach to the achievement of peace and reconciliation objectives across all public service areas is complex, and in many sectors will require a significant change in existing service delivery models and service planning.

With regard to NI public expenditure resource allocation, whilst anecdotal evidence suggests some uplift many years ago in response to issues of conflict or civil unrest faced at that time, there is no hard evidence of this. With the core NI allocation driven through the population-based Barnett formula and budget priorities set thereafter according to our local service policies and priorities, decisions to allocate public resource directly to issues of conflict or maintaining or developing separate public services are being made at the expense of front line service allocations.

Data on public expenditure did however show that NI has the highest share of public spending as a proportion of GDP amongst all UK countries and regions. Compared to the closest comparator an additional 7.1 per cent of GDP was public expenditure in NI. This equates to approximately £1.5 billion. Whilst there is evidence of lower income in NI compared to other areas of the UK which likely accounts for some level of additional public expenditure, based on a high level analysis the £1.5 billion could be considered to be the upper limit of the cost of the divide in NI.

A review of the context highlights resources that would not have otherwise been available in NI without the existence of division. The "benefits" have included additional funding from external sources, in particular EU Peace Programme funding, IFI and Atlantic. In addition the Reinvestment and Reform Initiative has facilitated additional funding for public infrastructure projects and transferred a number of potentially strategic sites free of charge to the NIE.

5 Lost Opportunity

5.1 Introduction

The Terms of Reference for this research specified the need to consider the “opportunity cost of under-developed economic sectors”. Following discussion with the steering group and reference group it was agreed that the focus of the research on estimating lost opportunities due to the divide in NI would include the impact on private sector investment, tourism and the labour market. Our consideration of each of these is discussed in turn.

5.2 Impact of a Divided Society on Private Sector Investment in NI

The environment for industrial development in NI over the past thirty years could not be described as “normal”. In terms of FDI it could be argued that, in addition to the normal commercial risks associated with a business investment, foreign investors would have had to accept an additional unquantifiable risk in NI. At various times during the above mentioned period, foreign investors were confronted with images of civil unrest, terrorist outrages and periodic sectarian strife. These images served to reinforce this additional risk associated with investing in NI.

Looking ahead, NI cannot rely on the public sector as a source of growth of the magnitude that is required to close the gap in living standards with the rest of the UK. The public sector can provide a form of insurance against the worst effects of a slow down in growth, however it is not a suitable vehicle for promoting growth on the scale that a higher trajectory requires. This is the challenge for the private sector.

It is widely recognised that for many regional economies, an export-led approach to development is appropriate⁶. This is particularly appropriate for smaller economies whose domestic market is insufficient to sustain the requisite levels of savings and investment. In the case of NI, a market of 1.7 million is simply too small to provide a base for growth. Like many other peripheral regions, NI relies heavily on the attraction of external investment in addition to promoting indigenous enterprise as the mechanism for economic development. Social cohesion and political stability are important prerequisites for the encouragement of investment, whether from within the economy or outwith. The absence of social and political consensus in NI and the associated terrorist campaigns undoubtedly deterred many potential investment decisions that ultimately affected the economic structure, employment opportunities, skills and life chances here.

To date there has been little, if any, research undertaken to analyse the effects of almost 30 years of political instability and terrorist violence on industrial development in NI and in particular on FDI. Most of the published analysis of the economy of NI by academic researchers, economic analysts and other commentators has eschewed formal analysis of the direct effects of terrorism on economic development. Economic development policy has implicitly acknowledged the impact of terrorism over the years by means of the relatively more generous investment incentives on offer in NI compared to other parts of the United Kingdom. This is particularly so in terms of the attractive package of financial assistance offered to inward investors over the years. Comparisons of regional packages published by both PricewaterhouseCoopers and Andersen have commented on the relatively more generous investment package offered in NI⁷. The Northern Ireland Economic Council (NIEC) also compared a number of European incentives packages and concluded that the range of incentives in NI were generous compared with most other European regions⁸. However, judged in terms of the levels of inward investment achieved in NI over the past 30 years, this has still been inadequate to balance the perceived risk profile of an investment in NI.

NI has experienced a range of different industrial development strategies over the past 30 years which have implicitly factored in consideration of civil unrest. With the onset of the troubles, the private sector weakened, inward investment ebbed away and gradually the public sector became a surrogate for the private sector. More normal levels of investment were not achieved because of the debilitating effects of political instability and terrorism. This can be illustrated with reference to the support of high-risk projects such as Strathearn Audio, Delorean, Valence Technologies and the abortive Hualon proposal. As was argued earlier, the relatively more generous levels of industrial development assistance in NI necessary to secure projects can be interpreted as an indicator of the higher commercial risk perceived by investment decision makers. It is also noted that before offering Selective Financial Assistance government agencies undertake due diligence analysis and make efforts to ensure that projects are secured with the minimum amount of assistance.

6 See for example “The Third Report on the Economic Challenges Facing Northern Ireland ” prepared by the Preparation for Government Committee, November 2006 pp 266-67.

7 “Sources of Grants and Aid for Businesses in Northern Ireland”. PricewaterhouseCoopers, Belfast 1996.

8 NIEC (1990) The Industrial Development Board for Northern Ireland: Selective Financial Assistance and Industrial Development Policy, Report 79 February.

The role of the development agencies such as Invest NI is to try to correct many forms of market failure in terms of industrial development. Economists describe the existence of development agencies in terms of a market failure known as “missing markets”. Very often markets fail because they simply do not exist. Economic development is a clear case in point. Invest NI exists to help to share the risk associated with the future industrial development of NI with the private sector. IDA Ireland and Enterprise Ireland in the Republic similarly share the risk with both indigenous and foreign entrepreneurs in the future development of industry. The same arguments may be made in terms of the Welsh Development Agency, Scottish Enterprise and the development agencies in the English regions. Future markets, by definition, do not exist. In a world of perfect foresight, perfectly efficient capital markets and low levels of risk adverse behaviour, entrepreneurs would create and develop these future markets on their own. In reality, however, the risks and uncertainties associated with the creation of these “missing” future markets prove to be too much for the private sector and so development agencies step in to share the risks.

As has already been stated, the level of public financial support for industrial development is higher in NI than in the other regions of the UK. The latest data from H M Treasury for the period from 1990 to 2005 is set out in Table 5.1.

Table 5.1 – Expenditure on Enterprise and Economic Development

	Average Identifiable Public Expenditure per head (1990-2005) (UK identifiable expenditure = 100)			
	England	Scotland	Wales	NI
Enterprise & Economic Development	87	116	187	291

Source: E, 2004-05 H M Treasury (the Grey Book).

As is outlined in Table 5.1, NI spent nearly three times as much per capita on industrial development than the UK average.

Table 5.2 – NI Expenditure on Enterprise and Economic Development

Description	Quantity
Identifiable current and capital expenditure on enterprise and economic development in NI, 2004-05	£333 million
Identifiable expenditure on enterprise and economic development in NI, per head indexed, 2004-05	176
What scale of expenditure on enterprise and economic development would NI have received based on UK average (i.e. per capita index of 100)	$(333m/176)*100$ = £189 million
Scale of ‘above UK average’ expenditure on economic development in NI during 2004-05	£333 m – £189 m = £144 million

Source: PESA, 2004-05 H M Treasury (the Grey Book).

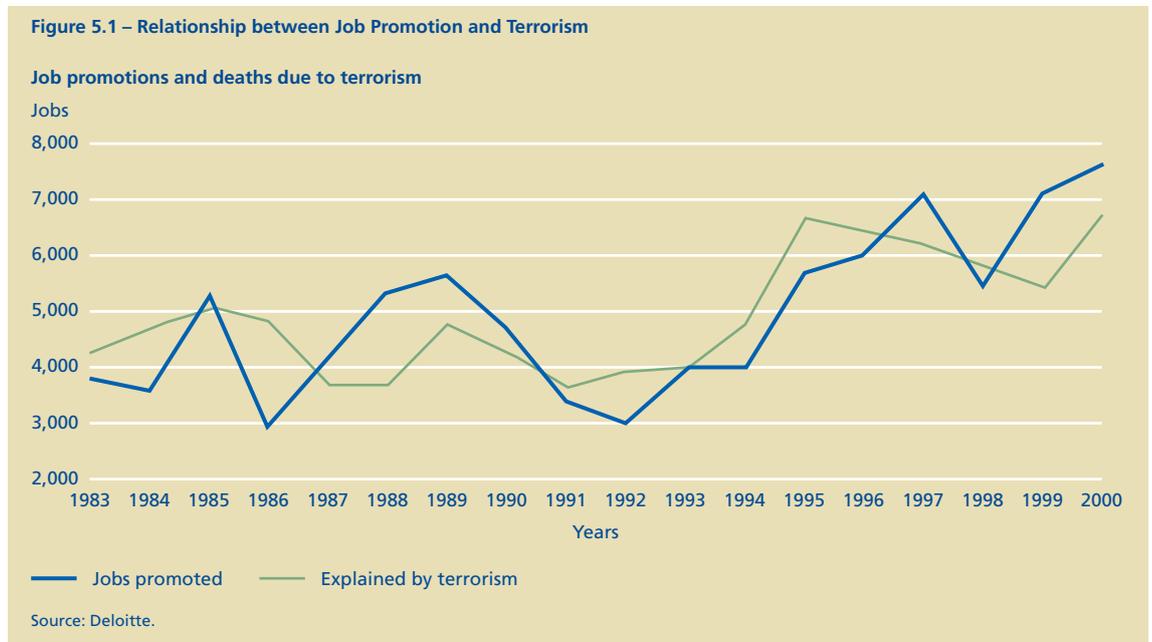
Table 5.2 shows that in 2004-05, based on the overall identifiable expenditure on enterprise and economic development in NI and its per capita index compared to the rest of the UK in that year, there was an additional expenditure of £144 million expenditure by government on enterprise and economic development in NI.

It can be argued that NI firms received larger amounts of public financial assistance than those in other regions and that they therefore tended to be less dependent on private sector risk capital and more dependent on state support. It is argued here that the relatively more generous support package for indigenous industrial development in NI compensated effectively for the negative impact of terrorism and societal division.

To some extent it could be argued that the opportunity cost to NI of political instability in terms of FDI and indigenous business development over the past 30 years can be seen in the remarkable industrial development performance of the Republic of Ireland over the same period. GDP per capita in the Republic has more than doubled over the last 12 years, in large measure due to the substantial inflows of FDI it has successfully attracted. The crucial importance of the Republic’s low corporation tax regime in its economic renaissance has been acknowledged by many commentators⁹. Other factors such as a responsive vocational education system, the supply of skilled labour and more recently an improving physical infrastructure have also been influential in the economic transformation of the Republic. An interesting counterfactual, however, would be to ask what levels of FDI would the Republic have attracted without its low corporation tax regime. In this sense the Republic’s favourable corporation tax regime was a significant factor in this FDI performance but so too was its “normality” and political stability.

⁹ See for example Frank Barry, “Third Level Education, FDI and Economic Boom in Ireland” in the International Journal of Technology Management reproduced in “The Third Report on the Economic Challenges Facing Northern Ireland” op cit.

In terms of direct impact on NI industry, terrorist violence disruption of business did not commonly lead to the permanent closure of enterprises¹⁰. Its indirect effects however were much more insidious. Although there are several alternative approaches to estimating these indirect effects, they are hampered by a persistent lack of accurate data not just for NI but for comparator regions such as Scotland and Wales. It was possible to formulate an analytical model that explains variation in the level of industrial development employment creation in NI in terms of variation in the level of terrorist violence. The extent of terrorism can be measured in a number of ways such as by the number of shooting incidents, deaths due to terrorism, bombings and other terrorism-related injuries. Various formulations of the model were estimated using these alternative metrics of terrorist activity. Given the seriousness of terrorist incidents resulting in deaths and their relatively larger impact on press and other media coverage of the troubles, it is not surprising that the most effective explanatory variable was deaths due to terrorism. Using annual data from 1983 to 2000 on job promotion and the number of deaths due to terrorist activity in NI, this analytical model was estimated econometrically. The model and results are set out in Appendix 3. The results are statistically robust and suggest that fluctuations in terrorist violence explain 53 per cent of the variation in job promotion. Figure 5.1 sets out the level of jobs promoted as explained by the model.



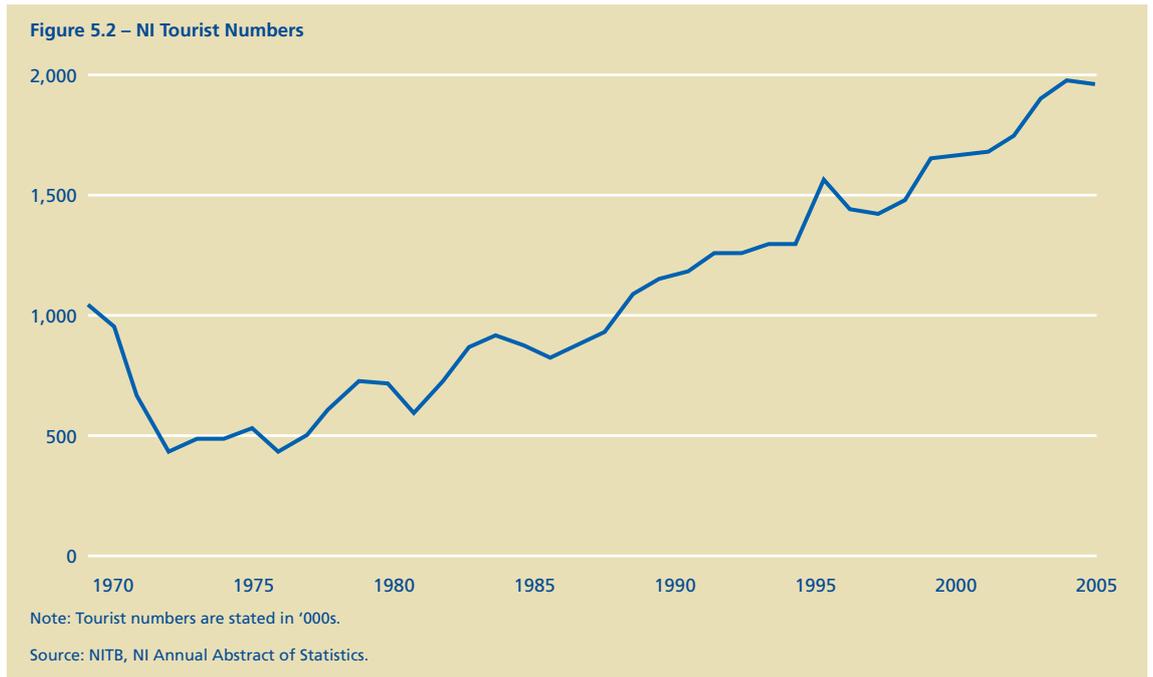
On its own, this provides empirical evidence that headline-grabbing terrorist incidents (associated with deaths) seems to have a systematic dampening effect on NI's industrial development performance. Furthermore, over time, periodic bouts of terrorist violence and political instability also have cumulative effects on economic development in NI. One of these cumulative effects has been the requirement for Government intervention to support industrial investment activity, supplanting more traditional market-provided forms of finance. This has, in turn, created a relative dependence by NI businesses on grant assistance from the public purse.

The implications of this estimated model are that, on average, each death that resulted from terrorist activity was associated with a reduction of 35.6 in industrial development jobs promoted. It is customary to modify the number of jobs promoted by a conversion factor to give an estimate of actual jobs created. The conversion factor can vary depending upon the industrial sector and also on timing and the vagaries of the business cycle. On a historical basis approximately 75 per cent of job promotions convert into jobs on the ground in NI. Jobs promoted were converted using this factor and over the 1983 to 2000 period this represented a job loss of 27,600, equivalent to a loss in GVA of £173.25 million (Table 1, Appendix 3 provides year by year data). When the full indirect and induced effects of these job losses on the NI economy are taken into account, the total GVA loss rises to just over £225 million over the period.

¹⁰ Fothergill and Guy (1990) studied the number of branch factory closures in Northern Ireland during the 1980s and concluded that the troubles did not cause a substantial number of plant closures.

5.3 Impact of a Divided Society on Tourism in NI

In most developed economies tourism may be seen as an indicator of confidence and the ability of the region or nation to market itself externally to foreign visitors and also to appeal to a proportion of the indigenous population as an attractive source of cultural, sporting and leisure activities. This description applied to NI in the decade or so before the outbreak of the Troubles and can be seen in Figure 5.2 below. The volume of tourist visits to NI exceeded one million per annum during the latter years of the 1960s. By 1972, however, tourist visits had fallen by over 60 per cent and the one million mark was not breached for another 17 years.



The sharp decline in tourism activity in NI during the 1970s and 1980s can be explained to a large extent by the ongoing effects of terrorist violence, political instability and the associated societal divisions. The linkage between terrorism and tourism has been observed elsewhere. For example the Bali bombing in Indonesia, the sporadic targeting of tourists in Egypt and Israel have undermined confidence in these regions that are, to varying degrees, dependent on tourism revenues.

Figure 5.3 shows the comparative trends in tourism expenditures between NI and the Republic of Ireland over the past 40 years and the divergence in performance is striking.

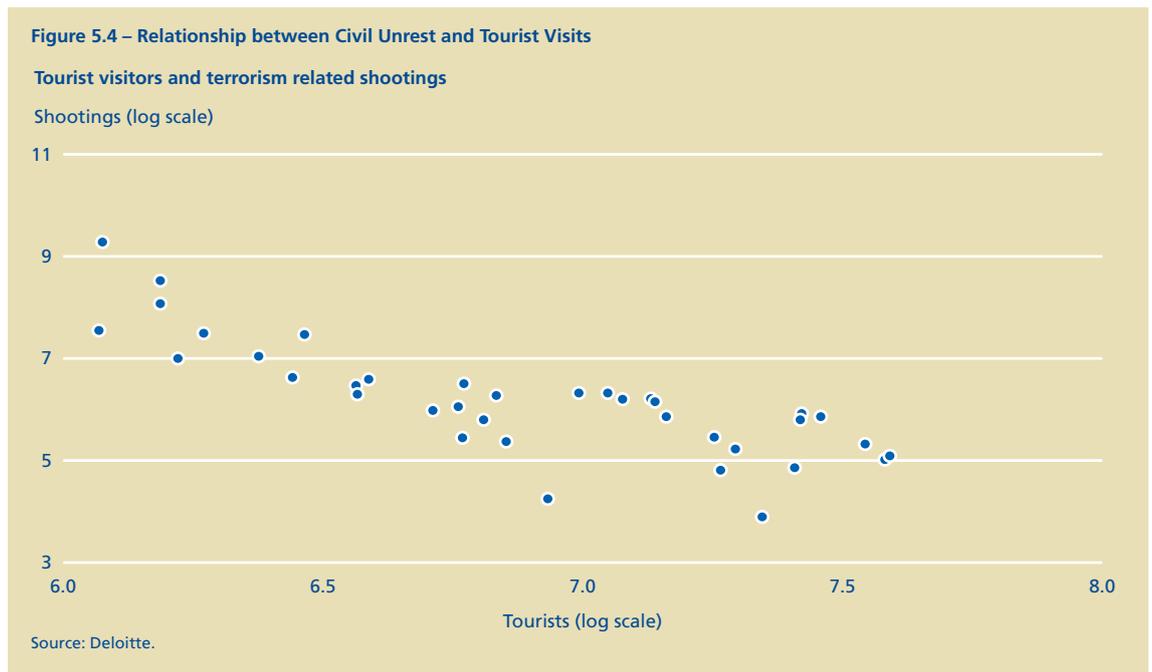


In the aftermath of the mid-1990's terrorist ceasefires which led to the negotiation of the Belfast Agreement, a revival of NI tourism was anticipated as part of the so-called peace dividend. The CBI in NI ventured to suggest that if the NI tourism industry could be grown to a comparable level with tourism in Republic of Ireland up to 50,000 additional jobs could be created. This was an explicit affirmation that the troubles had seriously retarded tourism activity.

Tourism is significant with regard to being an engine of economic growth for two reasons. First of all in a region such as NI, tourism revenues that derive from visitors from outside the region constitute a tradable service and are logically the same as manufactured exports. For NI the only sustainable economic development strategy in the longer term is growth that is export-led. Tourism can play a major role in such export-led growth. In addition, tourism employment tends to be better spatially distributed than many other types of employment. Areas of Outstanding Natural Beauty, inland and coastal waterways, sporting activities such as angling, golf and other cultural and leisure tourism offerings tend to be relatively evenly distributed spatially.

As in other public policy areas, the tourism policy response to ongoing terrorist violence in NI and lack of private sector tourism investment was prompted by market failure arguments. Successive EU Structural Fund Programmes from 1989-93 and 1994-99 justified public investment in tourism accommodation, tourism venues and tourism training on the grounds of market failure. Some commentators such as Leslie (1999) have argued that the troubles acted like a veil in obscuring the reality that the underlying NI tourism product did not progress as it did elsewhere. This resulted in an underdeveloped, outdated tourism offering that has subsequently struggled. Leslie's argument is somewhat weak in terms of causality. Was tourism investment in NI low because of poor policy and poor implementation by the tourism authorities or was it low because terrorism made it too high-risk to be undertaken?

The relationship between civil unrest as proxied by the number of shooting incidents and tourist visits to NI, is depicted in Figure 5.4. There is a clear inverse relationship between terrorism resulting from societal divisions and tourist activity over the last 37 years. This relationship is systematically depicted causally in Figure 5.4 which shows how variation in terrorist-related shootings links to variation in tourist visits in NI. Over the 1969-2005 period, a simple econometric model was estimated. This model and the data used are set out in Appendix 3. The estimated model suggests that for every 1 per cent rise in shootings there was, on average, a 0.15 per cent fall in tourist visits. This is a robust result and it confirms an important negative impact of societal division on tourism in NI. To put this point slightly differently, if there were to be a resumption of the terrorist campaigns, the same negative tourism effects would be expected to re-appear.



In terms of quantifying the economic effects of a divided society on tourism in NI, it is possible to estimate how the NI tourism industry might have evolved if it had performed as well as, say, the Republic of Ireland tourism sector. The choice of the Republic of Ireland tourism sector as the most appropriate comparator reflects a number of considerations. The tourism offerings in both NI and Republic of Ireland have many actual and potential similarities such as a high proportion of Visits to Families and Relatives, shared heritage, large diaspora and similar leisure and sporting infrastructures. While not entirely homogeneous, the tourism offerings in both parts of the island have more similarities than with Scotland, Wales and England. Considering the similarities it could be argued that tourism on the island represents a single externally projected offering. Tourism Ireland represents the embodiment of this notion.

In order to estimate the direct impact of societal division in NI on the region's tourism sector, it is possible to use a type of shift-share analysis. If it is accepted that tourism growth in the Republic of Ireland was largely unaffected by the terrorist violence in NI during the troubles, then the rate of growth of Republic of Ireland tourism can be used to recalculate NI tourism growth. The difference between this re-calculated growth and the actual growth provides an estimate of the tourism activity foregone because of the troubles. Comparable data on total revenues from tourism in both NI and Republic of Ireland were used to recalculate the NI tourism sector. The data were then deflated to constant 1985 prices using the appropriate deflators. Table 2 in Appendix 3 sets out the real tourism revenues in NI and Republic of Ireland between 1976 and 2005 in constant 1985 prices.

The annual average real growth of tourism revenues in NI between 1976 and 2005 was 3.66 per cent compared with 4.76 per cent for the Republic of Ireland tourism sector. When the NI tourism revenues were re-calculated at the annual average Republic of Ireland growth rate, the cumulative difference between 1976 and 2005 was £720 million in constant 1985 prices or £1,461 million in current prices (see Table 3 in Appendix 3). These are estimates of the cumulative tourism revenues that NI might have received if the local tourism market had grown at the same rate as the Republic of Ireland market. It does not make allowances for the possibility that a significant proportion of tourists to Republic of Ireland may have also visited NI. During the period of the troubles this proportion is believed to have been very small. In effect, these calculations suggest that NI tourism might have generated up to £1.5 billion in additional revenues if societal divisions which manifested themselves in political violence had not existed.

There are some caveats with these estimates. It is assumed that the NI tourism industry would have undertaken the necessary physical and human capital investments to sustain a higher level of tourist traffic. Leslie (op cit) characterises tourism investment and policy during the Troubles as "aiming to bring NI up to par rather than developing new ground". It is not, however, unreasonable to assume that in a non-conflict environment, public policy and private sector investment response would have developed it further.

5.4 Labour Market Outcomes in a Divided Society

Over the past 40 years in NI labour market outcomes have been viewed variously as accurate indicators of societal division, and as evidence of religious discrimination and of the abuse of political hegemony. Differences in sectarian economic activity and unemployment rates have been used by politicians, political activists, and community and voluntary organisations to support their respective claims for differential treatment. The introduction of fair employment legislation, institutions and policies represents a conscious effort to address perceived and actual inequalities within the labour market.

There is a general perception that after many years under some of the most advanced equality law in the world, the workplace is the one area where communities in NI mix effectively. Recent research, whilst acknowledging overall improvement, highlights limitations as to the degree this is borne out in practice.

Fair Employment in NI: A Generation On (2004, Equality Commission by Blackstaff Press, edited by Bob Osborne of the University of Ulster and Ian Shuttleworth of Queen's University) found that there have been major changes in fair employment since the mid 1970s with virtually no comparison with how things were over a quarter of a century ago. The most substantial improvement is the employment profile of Catholics, most marked in the public sector but not confined to it. Catholics are also now well represented in managerial, professional and senior administrative posts. Table 5.3 sets out the reduction in the unemployment differential by religion. The report however does note that some areas of Catholic under-representation remain such as local government and security but the overall picture is a positive one. Catholic unemployment rates are consistently higher than those of Protestants. There are also emerging areas of Protestant under-representation in the public sector, particularly in health and education.

Table 5.3 – Unemployment Rates by Religion in NI (Economically Active Aged 16+)

	Prot. Males (%)	Cath. Males (%)	Prot. Females (%)	Cath. Females (%)	Protestant (%)	Catholic (%)
1971 census	6.6	17.2	3.5	6.9	5.5	13.8
1981 census	12.4	30.2	9.6	17.1	11.4	25.5
1991 census	12.7	28.4	8.0	14.5	10.7	22.8
2001 census	5.9	10.8	3.9	6.2	5.1	8.7

Source: NISRA and Census.

Recently the Committee on the Administration of Justice published a report to coincide with the 30th anniversary of the Fair Employment legislation in 1976. This also found that there have been very significant improvements in the overall balance of representation in the workforce, with the monitored workforce broadly reflecting the proportions available for work. It also highlighted some remaining structural imbalances in relation to where certain sections of the community tend to work and some important sectors of employment and employment types that are still predominantly occupied by one community or the other. This commentary and the examples are not meant as a judgment about different areas of employment for there are many reasons why a workforce has certain characteristics (for example the community balance of the local area, choice, transport costs, ethos). The data is shown to illustrate that in the workplace, as in other areas of life in NI, the notion of a mixed community has still some way to go.

One example is local government, which employs around 9,000 people. While the overall figures for all councils broadly reflect the community balance, the figures for individual councils show considerable variations. It has to be remembered however that employment patterns, to a considerable extent, reflect the community balance in particular areas as well as a range of other reasons.

Table 5.4 – Local Council Employment in NI by Community Background

Council Area	Employees	
	Per cent Protestant	Per cent Catholic
Carrickfergus	93.2	6.8
Castlereagh	91.2	8.8
North Down	89.3	10.7
Newtownabbey	89.1	10.9
Ards	82.7	17.3
Ballymena	82.0	18.0
Ballymoney	81.9	18.1
Lisburn	80.1	19.9
Banbridge	79.1	20.9
Coleraine	74.2	25.8
Larne	74.0	26.0
Antrim	69.4	30.6
Craigavon	62.2	37.8
Belfast	61.3	38.7
Limavady	60.4	39.6
Cookstown	56.4	43.6
Armagh	54.7	45.3
Dungannon	52.2	47.8
Magherafelt	48.4	51.6
Fermanagh	44.1	55.9
Omagh	34.1	65.9
Moyle	33.0	67.0
Strabane	32.8	67.2
Down	25.0	75.0
Derry	24.8	75.2
Newry and Mourne	13.9	86.1

Source: Committee on the Administration of Justice, 2006.

Employment in the security sector is another area where there remains limited mixing of the communities. Out of a total of nearly 14,500 employees in security related employment, there are around 2,000 Catholics and approximately 1,000 for whom no religion was specified.

In the private sector too there remain areas of employment imbalance, even though the overall percentage of people in private sector employment now broadly reflects the community balance. For example the aircraft and airline industry remains significantly imbalanced with around 6,000 employees, 15 per cent of whom are Catholic. The energy sector also has around 10 per cent Catholics in a workforce of around 1,800. In the retail sector too there is under representation of both communities. One large company, for example, that employs just over 3,000 people has a significant under representation of Protestants, while another with nearly 8,000 staff has an under representation of Catholics.

There are of course many reasons for the composition of different employment sectors and companies, but this data does illustrate that segregation still exists to a significant extent in employment and that there is still some way to go in securing a fully mixed workforce in Northern Ireland.

A review of the relevant empirical research on the impact of fair employment in NI reveals a number of important findings. In particular the comprehensive study by Osborne and Shuttleworth (2004) makes four evidence-based assertions:

Since the early 1990s:

- there has been significant progress towards the equalisation of employment and employment opportunities across the communities. This equalisation has occurred quite evenly across both the public and private sectors;
- religious differences in NI are having less and less effect on the social progress of individuals;
- levels of educational qualifications in the two communities have almost converged; and
- there is increasing evidence of normalisation in labour market outcomes and of recruitment on the basis of merit.

There is little evidence that labour market segmentation contributed directly to relatively slower economic growth in NI; rather its effect has been indirect and linked to the causes of political instability and terrorist violence.



5.5 Education Outcomes

The Cost of the Troubles Study (1999) indicated a clear relationship between the level of Troubles related occurrences experienced and educational outcomes. The study found that areas with a high intensity of occurrences (e.g. interface areas) tended to have low educational attainment, high unemployment and high levels of benefit dependency. Therefore, as well as direct costs of education that may be linked to the divide, the economic costs associated with poor educational outcomes were considered.

Recently published poverty and social exclusion statistics for NI (Joseph Rowntree Foundation and New Policy Institute, 2006) suggest that the number doing well in educational terms has continued to improve but there is no sign of any reduction in those who do least well – the proportion of school leavers getting fewer than 5 or no GCSEs has remained around 15 per cent between 1994/5 and 2004/5. The research supports the view that poor educational performance is more likely to exist in more deprived areas – among children entitled to free school meals this figure is doubled at around 30 per cent over the ten year period. The number going onto further and higher education is also lower in more deprived areas. The JRF/NPI study reports that some 45 per cent of school leavers went onto further and higher education in the most deprived fifth of wards compared to 65 per cent in wards with average levels of deprivation.

Poor educational outcomes result in poor economic prospects in terms of propensity to be out of work and likelihood of being poorly paid. The JRF/NPI study reports that six per cent of those aged 25-50 in NI lack, but want, paid work. The equivalent figure for those with a degree is 3 per cent and for those with A-levels it is 5 per cent. However those without any qualifications or who do not have any GCSEs at Grade C or above have double the risk of lacking, but wanting, paid work (10 per cent). For those 25-50 year olds in employment in NI, a similar but more pronounced relationship exists between poor qualifications and low pay. On average 23 per cent are low paid, but for those with low or no qualifications this rises to 50 per cent risk.

In addition to the financial costs incurred in education as a result of the divide (described in Section 9), there are economic costs associated with low educational attainment and attendant poor labour market outcomes. These costs may be intergenerational requiring intervention additional to that which may have been required in absence of the divide.

5.6 Summary

Societal division has had a differential impact on various economic sectors. In this analysis we have focused on the cost the divide has had with regard to private sector investment, tourism and labour market and education outcomes. The environment for industrial development and tourism in NI over the past thirty years could not be described as 'normal'. Investors and potential tourists have been confronted with images of civil unrest, terrorist outrages and periodic sectarian strife.

Evidence analysed indicated that on average each death that resulted from terrorist activity was associated with a reduction of 35.6 in industrial development jobs promoted. Over the 1983 to 2000 period this represented a job loss of 27,600, equivalent to a loss in GVA of £173 million. When the full indirect and induced effects of these job losses on the NI economy are taken into account, the total GVA loss rises to just over £225 million. If this was spread evenly across the period for which data was analysed this would equate to over £12.5 million per annum.

Taking the Republic of Ireland as a comparator and using a shift-share analysis it was estimated that NI lost tourism revenue of £1,461 million in current prices between 1976 and 2005. This represents an average of almost £49 million per annum.

The research found little evidence, however, that labour market segmentation contributed directly to relatively slower economic growth in NI.

The analysis has highlighted that in 2004/05 NI spent nearly three times as much per capita on industrial development than the UK average, this equating to £144 million above the UK average spend in that year.

6. Direct/Indirect Costs and Service Efficiency – Sectoral Analysis

6.1 Introduction to Sectoral Analysis

Consistent with the terms of reference, we have focused this research on those key public service areas where policy decisions and resource allocations are deemed to have been influenced by the divide with a resulting impact on expenditure. The focus of the research has been to identify:

- the policy area in question and service delivery responsibilities;
- the funding mechanisms involved and details of overall expenditure compared to other parts of the UK highlighting any differences;
- reasons for cost differences, identifying those costs that can be attributed to the divide and the type of cost incurred (i.e. direct, duplication or lost opportunity); and
- discussion as to how and why these costs have arisen and the specific barriers to sharing or efficiencies that exist.

As noted in Section 1, our methodological approach involved a series of strategic consultations across each sector, to identify potential themes and key service areas where resource allocations can be considered directly or indirectly attributable to issues of conflict or societal divide. This was followed up by a detailed information request through the issue of a tailored data collection tool. As agreed with the Steering Group, the research has concentrated on the financial resource allocation decisions in the base year, defined as 2004/05.

Sections 7 to 14 provide the findings of our analysis of the range of public service areas in which policy decisions and associated expenditure are deemed to have been influenced by the divide. The sectoral analysis includes findings within the following areas:

- Section 7 – policing, security and the political process;
- Section 8 – community relations;
- Section 9 – education;
- Section 10 – health;
- Section 11 – housing and physical environment;
- Section 12 – transport and infrastructure;
- Section 13 – supporting the community and voluntary sector; and
- Section 14 – agriculture and rural development.

Finally, a short case study is included that attempts to demonstrate the broad range of expenditure that can be triggered by unexpected incidents associated with the divide – in this case the civil disorder that occurred following the disputed Whiterock parade in September 2005.

6.2 Analysis of Service Efficiency

In addition, we have considered issues of service efficiency and service duplication at a sectoral level within this research. In this sub-section we reflect first upon the structure and efficiency of the NI public service governance system as a whole.

Since the early 1970s, various efforts have been made by the British Government to institute forms of devolution within NI. The desire to devolve government in NI, which has been based on the principle of consent, whilst at the same time improving co-operation with the Republic of Ireland, stemmed from the ongoing political conflict within NI. UK government initiatives aimed at reform included the Power Sharing Executive of 1972, 'rolling devolution' of 1982 and the Anglo-Irish Agreement of 1985. The nature of NI's political history created a number of temporary

administrative arrangements of governance including a downplaying of the role of local government and the creation of quangos to deliver core public services (health, education and housing). In addition to the delivery of core public services, a range of organisations have been established to address key areas of conflict including discrimination within the labour market (Fair Employment Commission, now the Equality Commission) and community relations (NI CRC). Similarly, following the Anglo-Irish Agreement in 1985, a range of inter-governmental bodies were established with the remit of improving co-operation between the UK government and the Government of the Irish Republic.

The signing of the Belfast Agreement in April 1998 resulted in a new range of governance arrangements for NI. The NI Act (1998) gave effect to current devolved arrangements that are characterised by the following:

- a 108 member elected assembly with legislative power on all devolved matters; and
- the creation of 11 government Departments from a previous configuration of six Departments.

Table 6.1 details areas that are currently reserved and excepted by the UK Parliament and those that are devolved to NI. Significantly, the Act notes that reserved matters may eventually be devolved to NI, subject to cross party support within the NIA. The NIA has full legislative competence (in other words, it can pass both primary and secondary legislation) across a wide range of devolved subjects.

Reserved	Devolved
<ul style="list-style-type: none"> • Constitution • Defence • National Security • Security and Prisons • Equal Opportunities • Various aspects of energy regulation • Regulation of Telecommunications • Fiscal and economic matters including income tax and national insurance • Gambling and the National Lottery • Immigration and nationality • Trade and Industry • UK and international transport • Taxation and economic management • Policing • Criminal Justice 	<ul style="list-style-type: none"> • The Civil Service • Agriculture • Forestry • Fishing • Education and training • Employment Legislation • Environment • Natural and built heritage • Planning • Sport • Arts and Culture • Tourism • Economic Development • Health • Social Work • Social Security • Housing • Justice and home affairs • Fire Services • Local Government • Internal Transport • Vehicle Licensing and Testing
Excepted <ul style="list-style-type: none"> • Election • Peace & Reconciliation • Common Markets (Europe) • Foreign Affairs and international development 	

In addition to the Assembly and 11 central Government Departments there are:

- 140 Public Bodies;
- 3 Members of the European Parliament;
- 18 MPs in Westminster; and
- 582 Local Government Councillors.

At a macro level it can be argued that the NI public service governance and administration system is inherently inefficient as, in the absence of an effective devolved administration, structures were established and maintained to provide a forum for local decision making and administration. This has led to an overall accountability and governance regime that is cumbersome and overly bureaucratic.

Response: The Review of Public Administration

The return of powers to the NIA in December 1999, with full legislative and executive authority over the functions of 'direct rule' civil service departments, precipitated a rethink of local governance arrangements in NI. The Programme for Government pledged the Executive from the outset 'to lead the most effective and accountable form of government in NI' (NIE, 2001: 7.1). It stressed the need for change and outlined the internal and external pressures driving the change process. A key issue, according to the Executive, was 'the need to consider the rationalisation of public administration so that resources can be used best to serve the public rather than maintaining bureaucratic structures'.

The NIE considered the system of public service administration under Direct Rule:

"we have inherited from the last 30 years a wide range of public bodies. Their organisation and structure reflected the needs of those times. They helped maintain services at a time of very limited public accountability. But now that devolution has been achieved, there is a need for change that will provide not only greater accountability, but should ensure that organisations that deliver many key services throughout NI are more coherently organised. It is therefore important that we set about a major process of reform in central government" (NIE, 2001: 7.1.1).

The RPA was launched in 2002. The central theme of RPA was effective and accountable service provision. The focus was on ways to rationalise public service provision, as the Assembly struggled (without the benefit of tax-raising powers) to meet the ever increasing demands of public service provision. The Assembly inherited a system of non-departmental public bodies (quangos) responsible for major functions such as health, education and housing which consume half of its devolved budget. To accommodate the needs of a power-sharing executive, a structure of 11 government departments was implemented (to replace six). This complex mosaic now represents the configuration of public administration in NI.

At the launch of RPA, the First and Deputy First Ministers suggested that the Review 'has the potential to recommend changes which would transform the operation of the public sector in NI' (OFMDFM: 2002). They pointed out that among the most important issues addressed by the Review would be the structure, accountability and responsibilities of local government, non-departmental public bodies and government agencies. Structures of public administration are the mechanisms for public service delivery and what is ultimately important is the quality of that provision. Structures are therefore a means to this end.

Whilst the Review was launched by the NIE in June 2002, since the suspension of devolution in the autumn of that year it was progressed by direct rule ministers.

The Review reached a conclusion in March 2006 and the Secretary of State announced the final outcome of the review in two parts. In November 2005 he announced final decisions on the future of local government (reduction to seven local authorities), Education (creation of a new Education and Skills Authority (ESA) to replace the Education and Library Boards (ELBs) and other sector administrative bodies) and Health and Social Service structures (reduction in 18 Health Trusts to five, and a single Health and Social Services Authority (HSSA) to replace the four Health and Social Services Boards (HSSBs)). In March 2006 the Secretary of State announced decisions on the remaining public bodies (81 public bodies to be reduced to 54).

In terms of the overall efficiency potential of this public service reform agenda and possible extent of release of public expenditure to front line services, the Review identified a total maximum post implementation efficiency saving of £206 million (Deloitte, November 2005). Clearly whilst this estimate of potential release was based upon a set of assumptions which were valid at that point in time, it provides a useful indicator of the potential scale of public expenditure resource that could be re-directed to front line services, assuming full implementation is continued on a timely basis.

7 Policing, Security and the Political Process

7.1 Introduction

This section considers the degree to which expenditure on policy areas within the remit of the NIO can be attributed to the divide, and where possible attempts to quantify that expenditure.

The NIO serves the Secretary of State for NI in delivering government policy in NI and supporting the political and democratic process in the region. This remit is discharged in partnership with a range of associated organisations, chiefly the Police Service of Northern Ireland (PSNI), the Northern Ireland Prison Service (NIPS), the Compensation Agency, Forensic Science NI and various independent bodies. The NIO Departmental Report for 2006 reports that the Department’s total public resource outturn for 2004/5 was £1,242.65m.

Our analysis focuses on the following policy areas:

- Policing;
- Security (other than Policing);
- Compensation for criminal damage and injuries relating to terrorism;
- Supporting the NI political process; and
- Prisons.

The analysis does not consider whether the administration costs of NIO are in excess of that which would be in place in a devolved situation.

7.2 Policing

7.2.1 Policy Area & Service Delivery Responsibilities

This section considers public expenditure relating to policing in NI, with a focus on direct policing expenditure. Policing is a reserved matter within the remit of the NIO. The Policing and Security Directorate is responsible from a policy perspective for NIO’s Public Service Agreement targets in relation to policing and provides financial resources to the PSNI for delivery of direct policing.

7.2.2 Total Expenditure Analysis

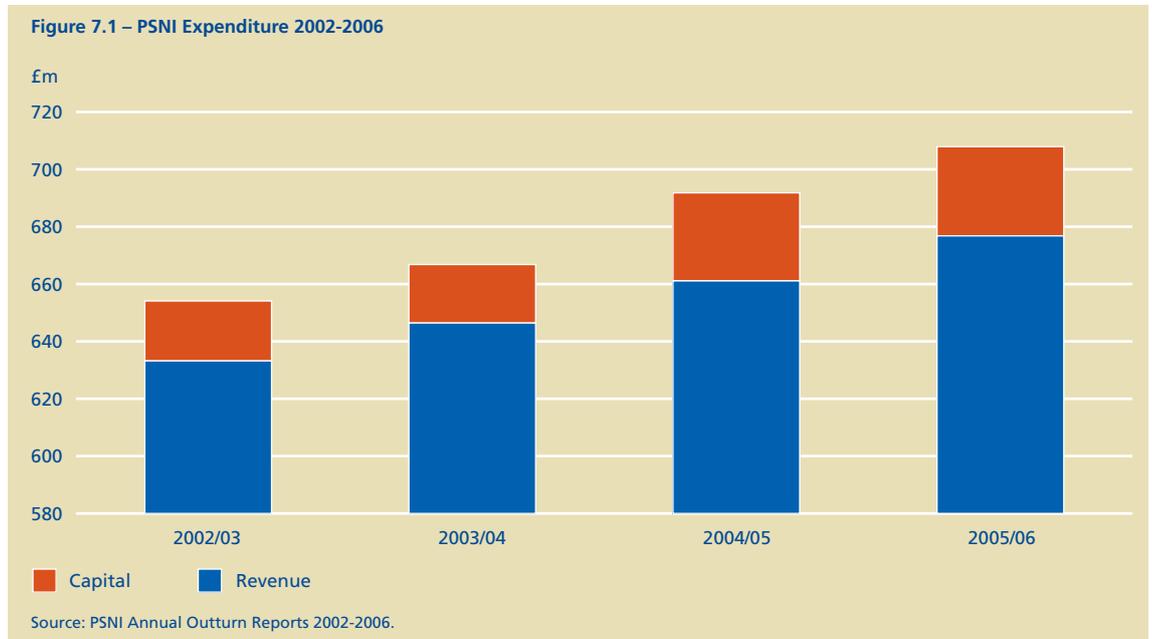
Annual Expenditure

NIO’s 2006 Departmental report details the total expenditure on direct policing in 2004/5 as £823.6m, of which £791.5m was resource expenditure and £32m was capital expenditure. Spend on policing (including Patten) constituted 71 per cent of the total NIO outturn of £1,242.65m in 2005, and spend on direct policing (excluding Patten) accounted for 66 per cent. Costs associated with implementing the recommendations of the Patten Report are identified separately and account for five per cent of expenditure (further details on Patten expenditure are provided in Section 7.2.4). Table 7.1 summarises NIO expenditure on direct policing and Patten in 2004/5.

	Resource Outturn	Capital Outturn	Total Outturn
Direct Policing	791,520	32,084	823,604
Patten – Severance	25,600	0	25,600
Patten – Non-Severance	22,928	14,500	37,428
Total	840,048	46,584	886,632
Total Departmental Budget	1,172,120	70,532	1,242,652

Source: NIO Departmental Report 2006.

PSNI financial records report that total policing expenditure in 2004/5 was £691.73m comprising £661.1m revenue and £30.67m capital¹¹. Figure 7.1 shows the trend in PSNI expenditure between 2002/3 and 2005/6 illustrating an increase of £54.8m or eight per cent over the four year period. Capital expenditure accounted for between 3-4 per cent of total spend in each year.



7.2.3 Comparative Analysis of Expenditure

PSNI has conducted benchmarking studies that compare expenditure on policing in NI with that of other forces. One such study completed in 2006 compared the costs of policing in NI with that for all of the Police Authorities in England and Wales as set out in annual publications produced by CIPFA.

The comparison found that net expenditure on policing per 1,000 population in NI has been much higher than in England and Wales historically. Figures for 1999/2000 suggested that net spend per 1,000 population in England and Wales was £141,000 compared to £405,000 in NI. This disparity still remained in 2004/5 when spend in NI was £478,000 per 1,000 compared to £183,000 per 1,000 in England and Wales. The report notes that the number of police officers per head of population has decreased each year of the study (from 1999/0 to 2005/6) in NI and increased each year in England and Wales.

In 2004/05 the difference between policing expenditure in NI (£478,000) and England and Wales (£183,000) is £295,000 per 1000 people. Based on this, the upper limit of the cost of the divide on policing can be considered £295,000 per 1000 people. Scaling this up for the whole population of NI¹², the maximum additional cost of policing in NI due to the sectarian divide is potentially £504 million.

7.2.4 Impact of the Divide on Expenditure

Our analysis finds that the higher cost of policing in NI can largely be attributed to societal divide and that the chief factors relate to:

- the cost of implementing the recommendations made in the Patten report (1999);
- the size of the police force in NI;
- the cost of policing public order incidents;
- the cost of replacing services and equipment previously provided by the army;
- the cost to ‘normalise’ the police estate; and
- the cost of historical enquiries.

¹¹ This figure is lower than the NIO Direct Policing expenditure which comprises additional costs other than the police grant e.g. grants to independent policing bodies such as the Office of the Police Ombudsman for Northern Ireland.

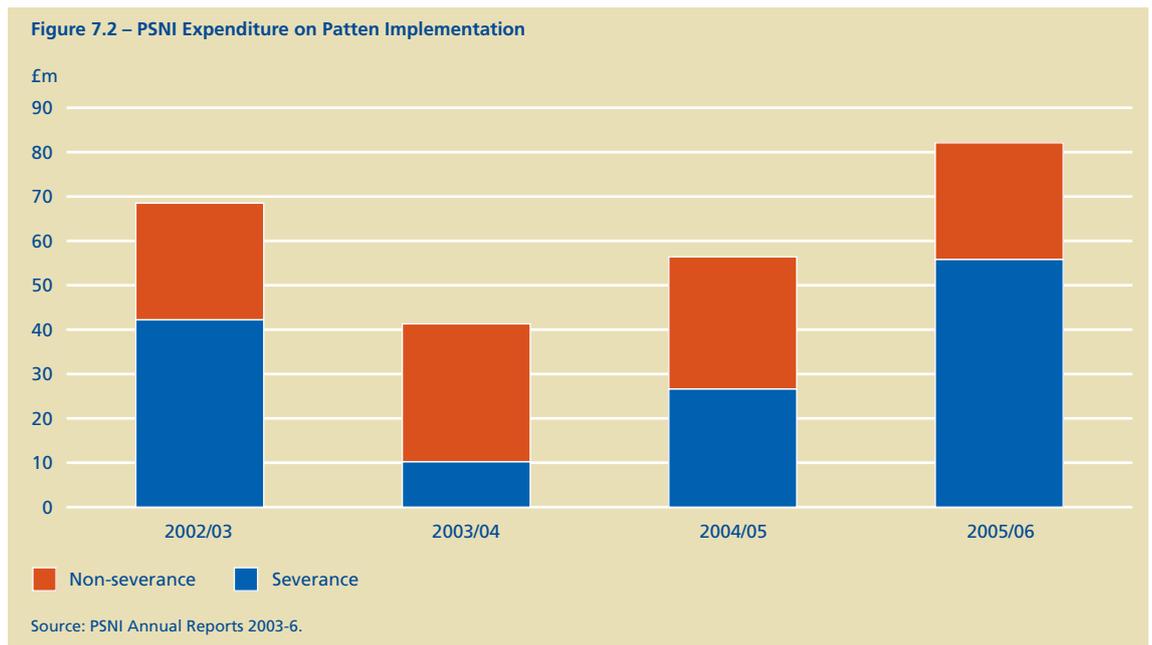
¹² National Statistics, Regional Trends 39 – 2004 mid-year population estimate is 1,710,000.

The analysis below presents our findings in each area based on the financial information available and discussions with officials in PSNI and NIO.

Costs Associated with Patten Recommendations

The Independent Commission on Policing chaired by Chris Patten was set up as part of the 1998 Belfast Agreement. Its report (published in September 1999) was the culmination of a fundamental review of policing in NI. It set out 175 recommendations for reform of the then RUC into a new police service that could attract and sustain the support of the whole community. Recommendations were made in every area of operations from the size and composition of the service, to the information technology it uses, how it is held accountable and its culture and ethos. The Patten report argued that the police focus has necessarily been on maintaining public order in NI and as a result there had been very limited investment in the force’s ‘infrastructure’ (e.g. IT, estates, HR management etc.). The programme of recommendations aimed to address this lack of investment and to facilitate movement into policing in a normalised situation. Since this expenditure arose as a result of political objectives, all costs associated with implementation of Patten are deemed to be direct costs as a result of the divide.

Implementation of Patten recommendations is accounted for separately by PSNI and in 2004/5 a total of £56.4m expenditure was incurred – £26.6m of which was associated with the severance programme and £29.8m of which related to other modernisation and cultural change projects (‘non-severance’). Figure 7.2 shows the amount of Patten expenditure per year from 2002/3 to 2005/6, with a breakdown between that associated with Severance and that associated with other ‘Non-Severance’ projects.



Force Size

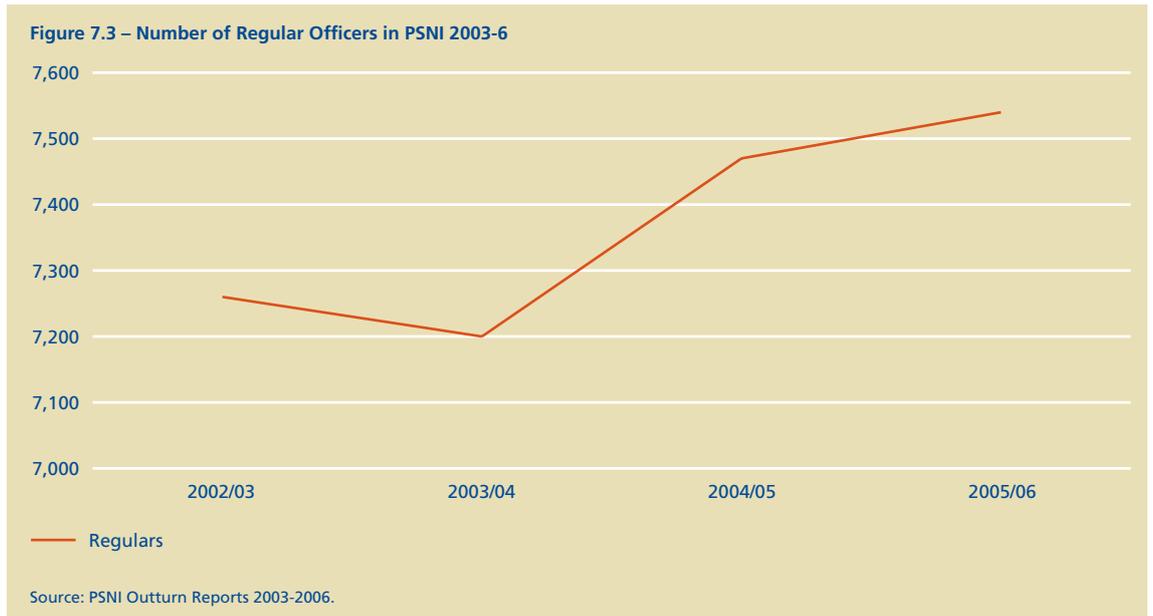
The benchmarking study undertaken by PSNI noted above (using CIPFA data on policing) found that historically PSNI has had a higher ratio of police officers per head of population than in England and Wales. It noted that this difference has reduced in recent years as police numbers in NI have decreased and numbers in England and Wales have increased, however in 2005/06 PSNI still had 1.9 officers for each officer in England and Wales.

It is argued that the higher number of officers in NI is a direct result of its unique location in UK terms (it is the only part of the UK with a land border with another country and its island location renders it remote from other UK police forces). In addition, the security situation has placed demands on the force that are not experienced elsewhere in the UK, for example:

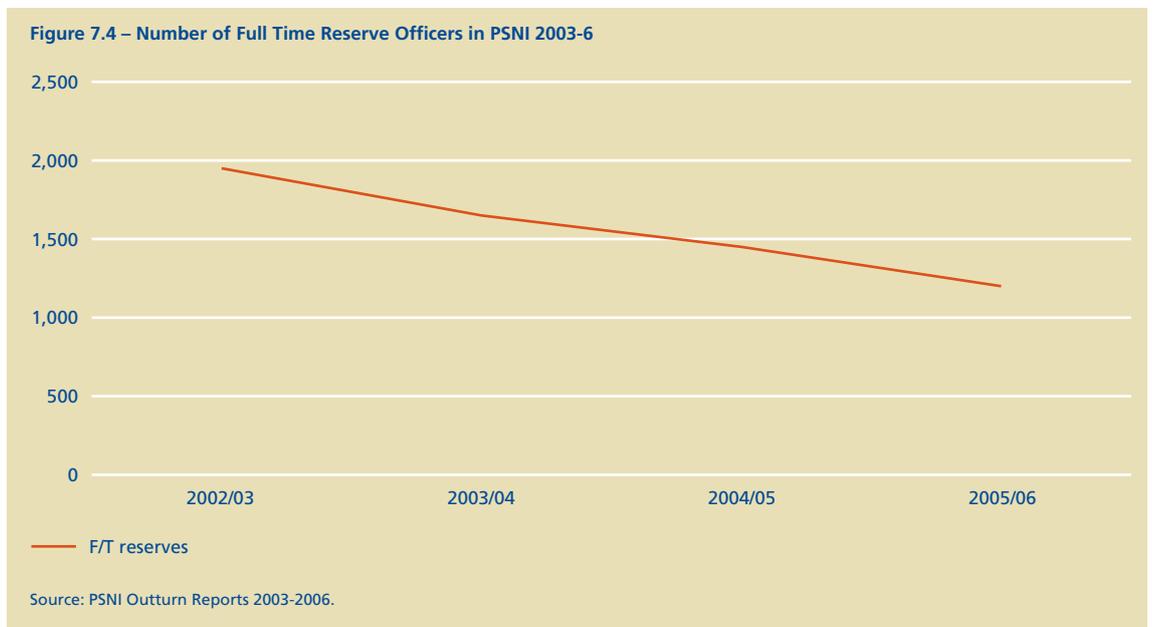
- the security situation has required a larger number of police to ensure that there is sufficient contingency to deal with public order incidents as they arise. Unlike GB forces, PSNI cannot benefit from mutual aid from neighbouring regions due its island location. Therefore the capacity to deal with unexpected incidents has to be built into base line police numbers;
- the security situation has led to the introduction of different practices to protect NI officers, for example, at least two vehicles will be involved in any patrol whereas one might be the norm in GB; and
- additional staff are needed to maintain the equipment and fortified estate in NI that does not exist in GB (e.g. armoured vehicles).

The Patten report specified that due to the security situation in NI there should be at least 7,500 officers in PSNI until such times as the security situation is deemed to be 'normal'. This is a higher number than the PSNI benchmarking study found existed in English and Welsh forces when compared on a per 1000 population basis.

Figure 7.3 shows the number of regular officers in PSNI between 2002 and 2006, illustrating that in order to meet this requirement the number of staff has increased in recent years. This increase is largely as a result of the recruitment campaign that aims to change the composition of the force in terms of community background. It operates in parallel with the voluntary severance programme under which 2,138 officers had left PSNI by the end of 2004/5.



PSNI is unusual in the UK in having a full time reserve (FTR) force that can be drawn upon to assist with the demands of the political situation in NI. Figure 7.4 shows the number of FTR between 2002 and 2006. A security review in 2004/05 recommended that the FTR be reduced to 680 over an 18 month period (i.e. by April 2007). Hence the number has been reducing annually and the target was achieved by September 2006. There were 1,191 FTR in 2004/5 with an associated cost of £63.6m including pay and allowances, overtime and travel and subsistence (based on PSNI Outturn report for 2005/6). A further security review will determine the ongoing requirement for the FTR force in September 2007.

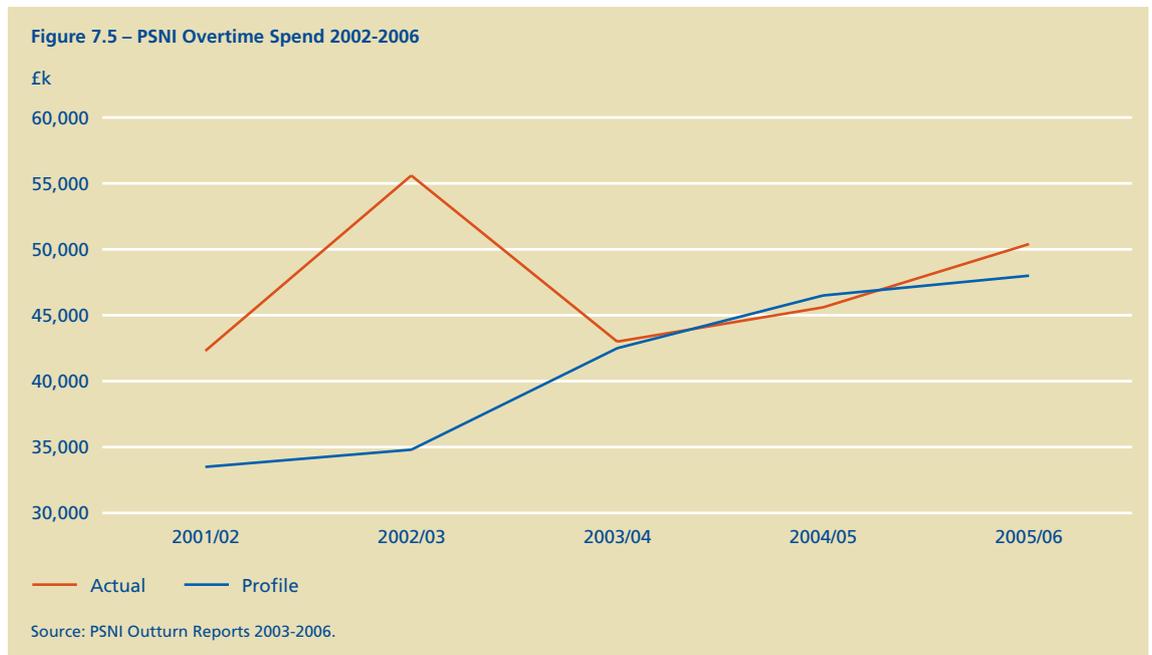


Policing Public Order

When public order incidents arise that require police intervention, additional personnel are often required and overtime incurred. Overtime is reported globally in PSNI management accounts and is not tied to particular events unless a specific costing exercise has been undertaken, but it might be expected that major incidents would be reflected in the overall figures and in a comparison of planned compared to actual overtime. However, in addition to public order incidents overtime may also be incurred as a result of the impact of reduced numbers due to the severance programme, long term sickness and operation of resource intensive investigations. Overtime analysis is also complicated by the fact that targets to reduce the average daily hours (ADH) reported by PSNI were set by Her Majesty’s Inspectorate of Constabulary (HMIC) in 2003 in light of the improving security situation and view that efficiencies could be realised.

Figure 7.5 shows the profile and actual overtime spend incurred by PSNI between 2001/2 and 2005/6. It illustrates a sharp peak in expenditure in 2002/3 and gradually rising expenditure broadly in line with profile in the last three years. In 2002/3 there was a 30 per cent increase in ADH compared to the previous year. PSNI attributed the overtime demand to operational pressures associated with the divide (e.g. policing disputed marches, interfaces, the loyalist feud, and the threat from dissident republicans) coupled with reduced numbers of police and a high level of long-term sickness. Incidents in the summer months of 2002/3 in interface areas of North and East Belfast led to the installation of CCTV systems to support policing at flashpoint areas, and there was serious disorder around Drumcree.

PSNI attributes the increase in overtime expenditure in the last three years to continued public order incidents. For example, policing the disputed Whiterock parade and associated civil unrest in late 2005 is estimated to have resulted in £2.2m overtime, £0.9m in damage to police vehicles and £0.2m spend on protective equipment required for officers. In total £2.8m additional funding was sought by PSNI in 2005/6 to support the cost of policing critical events including the rioting associated with Whiterock and the Northern Bank robbery. Compared to the costs of policing Drumcree some years ago (e.g. estimated at £11m in 1999) the actual spend on policing civil disorder has greatly reduced and incidents occur less frequently. Clearly though these are unexpected incidents and PSNI argues that it continues to be required to plan on a contingency basis so as to be prepared for such an eventuality.



Army Support for Policing

PSNI has historically had an arrangement with the army that allowed it to draw freely upon its expertise, manpower and equipment as required in the interests of maintaining public order. The Patten report stated that:

“the NI police should have the capacity within its own establishment to deal with public order emergencies without help from other police services and without more than the present level of support from the army”.

As a result of the improved security situation in NI and the cessation of supporting legislation this arrangement is due to cease as of 1st August 2007 at which point the number of military personnel in NI is due to reduce to no more than 5,000 (there were 10,780 active personnel committed to NI in 2004/5). This will largely be achieved through the phasing out of the three NI based RIR battalions.

The estimated cost of phasing out the RIR is £240m (comprising redundancy, pension and tax-free pay-off costs). PSNI will also incur costs associated with replacing services/equipment provided free of charge by the army either by providing them in-house (e.g. purchase of helicopters) or through the establishment of service level agreements. PSNI has analysed these costs and current estimates put the total projected spend at between £130m over a 3-4 year period.

Equipment & Estates

Policing in NI has required the purchase and maintenance of additional equipment not needed in other parts of the UK to the same extent, such as firearms and armoured vehicles. Patten expenditure has included the cost to replace and upgrade equipment. For example, in 2004/5 £4.8m of Patten Non-Severance expenditure related to the purchase of water cannon, new vehicles and a new helicopter. In addition, significant investment has been made in information technology which was deemed by Patten to have suffered from considerable under-investment.

The security situation has also resulted in the development of a police estate that was designed to withstand attacks, and which is costly to maintain or dismantle. A benchmarking report completed by PSNI Estate Services Business Unit in 2006 compared its estates expenditure with that of 38 other UK police forces. It found that based on 2004/5 data, PSNI estate costs were £1,872 per full time employee compared to an average of £1,400 for other forces. The key factor influencing this disparity is the much larger size of PSNI sites which were designed to enable secure parking inside and stand-off space to resist damage from bomb and mortar attacks. PSNI estate provides 75 per cent more space per person than the average of all other UK police services (31.8m² vs average of 13.7m²). In other forces the size of estate is generally closely correlated with population served but PSNI stands as a significant anomaly to this pattern.

Patten recommended that where possible PSNI estate should be ‘softened’ so that stations would have the appearance of ordinary buildings, be more accessible to callers and more pleasant for those working within them. An estates strategy has been developed that includes the ‘softening’ of PSNI estate (involving the costly dismantling of security features) and closure of underused stations. The cost of implementing the strategy to ‘normalise’ the police estate is estimated to be in excess of £50m per year (2005-2010).

Historical Enquiries

The Historical Enquiries Team (HET) was established in January 2006 with a remit to review all 3,268 deaths related to ‘the Troubles’. The HET involves two Review and one Investigation Team staffed by a combination of serving and retired officers from PSNI and other UK forces. The teams will review each case in chronological order and develop a consolidated database recording the steps taken in each. A ring-fenced budget totalling £30m over five years was made available by NIO for the HET.

7.3 Security Expenditure (Other than Policing)

In addition to its role in relation to PSNI, NIO’s Security and Policing Directorate is responsible for overseeing and funding other programmes that aim to promote effective and efficient policing, promote security and public order, and improve public confidence in the police. These activities can largely be attributed to the divide.

Consultation with NIO identified the following areas of expenditure:

- **Key Persons Protection Scheme** – this scheme covers the cost of personal security that may be required by people in public office or for whom a particular security risk has been identified. Costs relate to staffing, capital works, maintenance and running costs, removal costs and some costs relating to travel. In response to a Parliamentary Question NIO issued the expenditure figures for the scheme from 1998-2006 (provisional for 2006). These are shown in Table 7.2. The increased expenditure incurred in the period 2002-2005 relates to a security breach in 2001 that led to personal details of key persons being compromised.

Table 7.2 – Expenditure under the Key Persons Protection Scheme

Year	Expenditure (£m)
1998/9	5.2
1999/2000	6.6
2000/1	4.9
2001/2	4.9
2002/3	11
2003/4	13
2004/5	7.5
2005/6	(provisional) 4.6

Source: NIO (response to Parliamentary Question)

- **Independent Bodies** – NIO funds (wholly or in part) several bodies that provide an independent view on aspects of security and public order in NI. Key costs for 2004/5 were as follows:
 - Independent International Commission on Decommissioning – NIO funds 50 per cent of costs amounting to £376k in 2004/5. This cost is wholly attributable to the divide;
 - Parades Commission – £1.154m in 2004/5. The establishment of the Parades Commission was as a result of the divide although its role has since expanded to include all public demonstrations, not only disputed parades;
 - Independent Monitoring Commission – NIO funds 50 per cent of the costs amounting to £600k in 2004/5. This is wholly attributable to the divide;
 - Independent Assessor for Military Complaints Procedures – NIO funds totalled £161k in 2004/5. No such equivalent body exists in GB and this cost can be wholly attributed to the divide; and
- **Physical Security Measures** – NIO incurs costs for the maintenance and removal of security stock such as peacelines, barriers and gates. In 2004/5 costs were £122.3k but expenditure is highly variable, for example £350k was incurred in 2005/6. This cost can be wholly attributed to the divide.

The total expenditure on these other security and policing measures in 2004/5 was £9.91m.

7.4 Compensation for Terrorist Related Injuries & Damage

The Compensation Agency is an Executive Agency of the NIO, which was established in 1992 to process claims for compensation on behalf of the Secretary of State for NI. It is funded through the NIO Estimate and in 2004/5 had a resource outturn of £26.265m and a capital outturn of £0.59m (source: NIO Departmental Report 2006).

The Compensation Agency processes claims made under the following legislation:

- Criminal Injuries Compensation (NI) Order 2002 – commonly referred to as the ‘Tariff Scheme’ provides compensation to innocent victims of crime (including terrorist crime) based on a fixed tariff for specified physical injuries and losses;
- The Criminal Injuries (Compensation) (NI) Order 1988 – Provided compensation for pain, suffering, financial loss and loss of amenity to victims of violent crime (including terrorist crime) before May 2002 when the Tariff Scheme was introduced;
- The Criminal Damage (Compensation) (NI) Order 1977 – provides compensation for malicious damage to agricultural property and for damage to property as a result of terrorism or unlawful assembly of three or more people; and
- The Terrorism Act 2000 – provides compensation to those who have suffered a loss or damage from action taken under the Terrorism Act 2000.

With the exception of claims under the Terrorism Act 2000, the compensation schemes apply to victims of crime relating to terrorism as well as to non-terrorist criminal activity. The cost to process and settle claims made under the Terrorism Act 2000 and claims made to other schemes that related to terrorist activity can be directly attributed to the divide.

Information provided by the Compensation Agency estimates the following scale of costs in 2004/5 for claims relating to terrorist activity:

- Service Delivery Costs – 484 claims were processed that related to terrorist activity out of a total of 2,034 claims. The cost of service delivery is estimated to have totalled £227k;
- Cost of Claims – 102 claims for compensation under the Criminal Damages scheme and 382 claims under the Terrorism Act were cleared in 2004/05. The cost of payments made was £5.65m, of which £5.45m was incurred on Criminal Damage claims and £200k on Terrorism Act claims; and
- Key Incidents in 2004/5 – the Northern Bank Robbery led to a small number of claims for compensation following police searches of property. The police investigations after the robbery gave rise to six claims under the Terrorism Act, 5 of which led to awards totalling just over £6k.

The current Corporate and Business Plan for the Compensation Agency 2005-8 highlights that its work is dependent on the level of violence in NI. Changes to scheme policy and entitlement (e.g. the introduction of the new Tariff scheme) also impact on the number of claims that are made.

As shown in Table 7.3 the number of claims received under the Terrorism Act has decreased significantly in recent years. Prior to 2003, an average of 700 claims was made each month but by 2005/6 this had decreased to an average of 5 claims per month. The Agency also notes in its 2005/6 plan that an increasingly large proportion of the claims it receives under the criminal injuries schemes is in respect of non-paramilitary violence.

However, any upsurge in the levels of violence (whether terrorist related or not) resulting in criminal injuries will have an impact on the Agency's plans. Similarly, any rioting or terrorism that resulted in extensive criminal damage would impact on the assumptions made about running costs and payment of claims in the future. The Compensation Agency has reduced the number of staff involved in processing claims in recent years, but argues that it is required to retain sufficient resources to respond to any unforeseen increase in the number of claims being made.

Table 7.3 – Number of Claims for Compensation Received under the Terrorism Act 2000

Year	Number Claims Received	Cash Expenditure (£m)
2000/1	4,542	4.2
2001/2	6,338	2.5
2002/3	7,796	3.4
2003/4	1,633	1.6
2004/5	160	0.3
2005/6 (forecast)	180	0.1

Source: Compensation Agency Corporate Plan 2005-8

7.5 Supporting the Political Process

NIO comprises five core directorates, including the Political Directorate which has the following functions:

- to provide advice to Ministers on the political process in NI;
- to maintain relationships with the Irish Government, NI political parties, the devolved institutions and other relevant non-departmental public bodies; and
- to advise Ministers on matters relating to human rights, equality and victims.

7.5.1 Annual Expenditure

The Political Directorate had 124 staff in 2004/5 and its resource outturn was £22.885m – two per cent of the total outturn for NIO (Departmental Report 2006).

7.5.2 Comparative Expenditure

Due to the unique nature of the political situation in NI, there are no directly comparable expenditure figures available for delivery of the services provided by NIO's Political Directorate in other parts of the UK. Similarly, it is not possible at a macro-level to estimate what the counterfactual position might have been in expenditure terms if the political situation had been more 'normal'.

7.5.3 Expenditure Attributable to the Divide

Due to the difficulties in determining what the costs of the Political Directorate might be in absence of the divide, consultation with NIO resulted in the identification of specific areas of expenditure attributable to the divide:

- The cost of political negotiations – dedicated multi-party talks to support the peace process generate one-off costs for example, Leeds Castle in 2004/5, Weston Park in 2001 and St Andrews in 2006. Cost figures were not available for these events and it is difficult to predict whether similar costs will be incurred in the future; and
- Inquiries – a number of public inquiries have been established into particular incidents arising from NI's past including Bloody Sunday and allegations of collusion in connection with the murders of Rosemary Nelson, Robert Hamill, Pat Finucane and Billy Wright. These are at different stages, with the Bloody Sunday Inquiry being furthest advanced. It was established in 1998 and at the time of writing costs were estimated at £172m. It is difficult to determine what the total cost of such inquiries may be in the future.

7.6 Prisons

NIPS is an Executive Agency of the NIO established in 1995 and operating under the direction and control of the Secretary of State for NI. Its primary duty is to receive and keep in secure, safe and humane custody those committed by the courts. NIPS is funded through the NIO Estimate and in 2004/5 had a resource outturn of £114.2m and a capital outturn of £11.8m.

In consultation with NIPS and NIO, the following areas of expenditure related to the divide were explored:

- the average cost per prisoner place (CPPP) in NI compared to the rest of the UK (i.e. HM Prison Service or HMPS) and degree to which the divide impacts on those costs; and
- the additional capital and running costs involved in holding paramilitary prisoners.

NIPS has historically had a higher unit cost than HMPS and targets for reducing the CPPP have been agreed between HM Treasury and NIPS. In 2004/5 the target CPPP was £86,800 and the actual CPPP was £85,935. The cost differential is considered to relate largely to the lack of scale economies in the NI service and the different cost bases of the two services that make comparisons difficult. NIPS was not able to quantify to what degree the divide impacts on the overall CPPP nor to extract the cost per paramilitary prisoner place. Although separate facilities exist for paramilitary prisoners, these are part of larger establishments that house other prisoners and full cost information is not maintained for these facilities. However, the additional cost of staffing facilities that hold paramilitary prisoners were identified by NIPS and estimated at £4.4m in 2004/5.

In addition the security situation results in a requirement for a higher level of physical security at prison establishments and protection for staff outside of the prison environment. These costs were estimated by NIPS at £1m and £1.59m (£84k resource and £75k capital) respectively for 2004/5.

7.7 Summary

Significant elements of expenditure within the NIO policy remit are impacted by the divide. The range of expenditure identified includes the additional costs required to adapt policing in NI to the changing security situation while retaining appropriate capacity to respond to unexpected events. Costs are also incurred in facilitating the developing political situation, either directly (for example to support multi-party talks), to address the past (for example, public inquiries) and to improve confidence in security and policing for the future (for example, the costs of independent commissions overseeing the ceasefires and decommissioning). A summary of the quantified and other identified (but not quantified) costs is provided below.

7.7.1 Quantified Costs

The quantified costs are summarised in Table 7.4.

Category		Expenditure (£m)
Policing	Patten Programme (2004/5)	56.4
	Policing Public Order – Whiterock (2005/6)	3.3
	Normalising police estate – cost per annum (2004/5)	50
	Replacing RIR – total estimated cost (beginning 2006/7)	130
	HET – total (2006/7 – 2010/1)	30
Security	Key Persons Protection Scheme (2004/5)	7.5
	Independent commissions (2004/5)	2.29
	Peacelines etc (2004/5)	0.1
Compensation	Cost of claims for compensation related to terrorist related injuries (2004/5)	5.88
Political Process	Public Inquiries – Bloody Sunday (total cost to date)	172
Prison	Additional staffing, physical security measures & personnel protection (2004/5)	6.99

Source: Compensation Agency Corporate Plan 2005-8/NIO

7.7.2 Costs Identified but not Quantified

Additional policing and security costs that were identified but could not be quantified related to the element of normal running costs for PSNI and NIPS that are incurred as a result of the security situation in NI. For PSNI this relates to the size of the police force required to meet current security demands (including unexpected incidents that might occur) and the working practices related to the security situation (e.g. at least two vehicles used in any patrol whereas one might be the norm in GB) that have developed over the years. For NIPS the degree to which the security situation has contributed to higher unit costs for prison provision (as opposed to scale of provision in NI) could not be quantified.

7.7.3 Comparative Analysis of Policing Expenditure

Based on a comparative analysis of policing expenditure in 2004/05 the difference between policing expenditure in NI (£478,000) and England and Wales (£183,000) is £295,000 per 1000 people. Based on this, the upper limit of the cost of the divide on policing can be considered £295,000 per 1000 people. Scaling this up for the whole population of NI¹³, the maximum additional cost of policing in NI due to the sectarian divide is potentially £504 million per annum.

¹³ National Statistics, Regional Trends 39 – 2004 mid-year population estimate is 1,710,000.

8 Community Relations and Victims

8.1 Introduction

This section investigates costs relating to:

- overview of community relations policy area and expenditure; and
- expenditure on victims.

8.2 Community Relations – Policy Area and Service Delivery Responsibilities

Following the re-emergence of sectarian violence in NI in 1969, the Ministry for Community Relations (the Ministry) and the Community Relations Commission were established¹⁴ to promote policies and activities which would improve community relations. However, in 1974, the power-sharing Executive fell and in 1975 the Community Relations Commission was formally abolished.

Community relations re-emerged as a policy priority in the late 1980s. A community relations infrastructure was established to operationalise and deliver the policy. This included the establishment in 1987, of the CCRU¹⁵. Other major initiatives which followed included the establishment of the semi-autonomous CRC and a Community Relations Programme for NI's 26 District Councils. During the same period, the Department of Education (DE) also established a cross-community contact scheme for segregated schools and offered financial support for new planned integrated schools (Knox & Hughes, 1996).

A wide range of community relations projects have been supported through these interventions. CRC, for example, has supported work with interface communities, groups of former prisoners, church groups, government departments and quangos and trade unions on issues varying from urban planning, housing, community development, cultural diversity to local security and policing. Opportunities for dialogue, sharing and mediation have been steadily enhanced and qualitative evaluations have identified a range of good practice (Quirk et al 2001). The community relations agenda has, however, not been without detractors. It has been variously perceived to be assimilating one culture into another, a waste of money, political gimmickry, short-term and lacking strategic focus. More fundamentally, it has been criticised for attending to the symptoms of division (segregation) rather than its root causes (structural, political and social disadvantage, inequality and fractured relationships) (McVeigh, 2002; Hughes & Donnelly, 2002; Shirlow et al. 2005). CRC responded in the 1990s by redefining community relations as a search for public relationships based on equity, diversity and interdependence (CRC, 1998).

In the late 1990s, the signing of the Belfast/Good Friday Agreement and the establishment, albeit operational only briefly, of a devolved local Assembly, gave a renewed impetus to community relations. The interdependence of equality and good relations is recognised and enshrined in the NI Act (1998) which places a statutory obligation on all public authorities to promote equality of opportunity and to, 'have regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group' (NI Act, Section 75).

Reflecting these commitments, the First Programme for Government of the devolved Assembly (released by the OFMDFM, 2001) prioritised the promotion of greater equality and efforts to combat community division. Infrastructural developments at this time included the establishment within OFMDFM of a CRC (replacing CCRU) and an Equality Unit. The priority was underscored by the initiation of a comprehensive review of community relations policy. The review affirmed the problems of division and outlined a broad strategy for a more shared and pluralist society. Following an analysis of consultation (Darby & Knox, 2004) Government released the 'Shared Future' document (CRU, 2005). The Shared Future policy framework was summarised and discussed previously in Section 4.3.

¹⁴ Community Relations Act (Northern Ireland) 1969.

¹⁵ Renamed the Community Relations Unit in 2000.

8.3 Public Expenditure on Community Relations

The diverse nature of much community relations work makes it difficult to identify and collate the total resources that are being devoted to community relations. This section seeks to identify relevant expenditure of the Community Relations Council (CRU (formerly CCRU)), the Victims Unit, the DE, the CRC, the District Council Community Relations Programme (DCCRP), the Research Branch of the Equality Division (OFMDFM). Whilst we acknowledge EU Peace Programme funding has contributed significantly to community relations activity, Peace funding is not included in our costing exercise within this section. Peace programme funding is additional (a benefit to NI arising from the divide) and is addressed holistically in Section 4.

8.3.1 CRU

The CRU was created as a direct response to the societal divisions within NI. In 2004/05 the unit consisted of ten members of staff with an administrative expenditure of £200,000 and a programme expenditure of approximately £6.5m (excluding Peace Programme funding). To help promote community relations CRU formulates policy, provides advice to ministers, undertakes research and allocates funding. A breakdown of CRU's total expenditure is detailed in Table 8.1.

Table 8.1 – CRU 2004/05 Expenditure

CRU Identified Expenditure	Expenditure (£'000)
District Councils Community Relations Programme	1,856
Capital Grants	3
Community Action Group Projects	1,384
CRC	2,933
Co-operation Ireland	107
Glencree Centre for reconciliation	20
Maydown Ebrington – Messines	5
Washington Ireland Programme	22
Group for Catholic Education	5
CRU Payroll & Administration	205
Total	6,540

Source: OFMDFM

The CRU has a small capital programme which aims to support the provision of community based facilities accessible by both sides of the community. CRU provides substantial financial support for the CRC and the DCCRP. These strands are considered below.

CRC

The CRC was established in 1990 as an independent limited company with charitable status. CRC is the main channel for government funding and has become an established centre of expertise on community relations in NI. The CRC receives funding from the CRU (£3.1 million in 2004/05)¹⁶ and grant aid is allocated to:

- the Council's core expenditure;
- the Council's programme expenditure in grant aiding schemes;
- core funding of reconciliation bodies; and
- core funding of cultural traditions bodies.

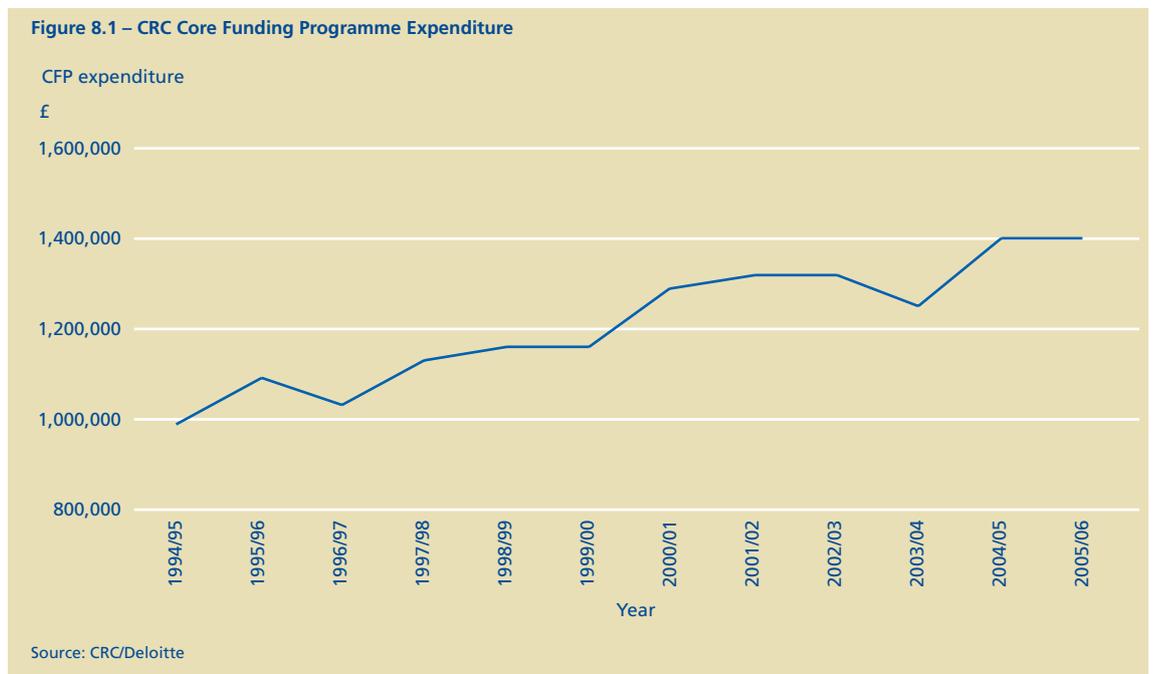
In 1994 the CRC took over responsibility for the Core Funding Programme (CFP) from government. The programme, as one component of the of the CRC's grant-in-aid, is funded through the CRU of OFMDFM (formerly the CCRU). The budget allocation for the programme in 2004/05 was £1.4 million. The 2004/05 CRC accounts indicate that the CFP programme amounts to almost 30 per cent of the £4.6 million that was allocated to their funding programmes during this time.

¹⁶ Please note that CRC received additional money from CRU core funding via Community Action Group Projects grants.

The CFP receives applications from community sector organisations throughout NI for grant assistance towards salaries and running costs. The organisations funded are “considered of strategic importance in promoting community relations or cultural diversity work in NI”. The criteria for the programme are:

- commitment to the principles of equity, respect for diversity and interdependence;
- capacity to enhance and sustain work of high quality in pursuit of these principles and a track record of engagement in community relations work;
- capacity to engage significant and diverse elements of NI society in the improvement and enhancement of community relations;
- capacity to contribute to the core purpose of the Council of mainstreaming community relations principles and practice in NI;
- capacity to work together with others in the promotion of community relations principles and practice;
- capacity to reach out to other traditions and constituencies, increase mutual understanding and promote good relations in NI society; and
- addressing a need or a gap in existing community relations provision.

Figure 8.1 illustrates the amount spent on this programme over the last 10 years.



During 2004/05, 36 organisations were funded under the Programme, with an average award of £38,752. An OFMDFM evaluation of the CRC CFP in 2005 indicated that a number of organisations benefited from a substantial amount of funding since the Programme’s inception.

The establishment of the Community Action Group (CAG) in 2002 led to an increased government interest in measures to prevent and control inter-community violence. As a result, CRC Pathfinder projects support community-based organisations operating at interface areas to help reduce tension, avert violence and dispel rumours. This is a reaction to local, often difficult situations but can also act to prevent conflict.

As recurrent issues such as parading, interface violence and sectarian and racist attacks came to the fore, the work of the CRC and its experience with funded groups, is focused upon alleviating tensions. Overall, £156,000 was allocated to Pathfinder projects in 2004/05. This money was spread amongst 34 initiatives, with the majority of funding being distributed within interface areas in Belfast. Amounts ranged from £250 for a youth diversionary programme to draw youths away from interface flashpoints and violence on the Lower Ormeau Road, to £24,000 for the employment of a community mediation worker in Portadown. During this time CRC continued to support organisations that co-ordinate the interface Mobile Phone Network in the Greater Belfast area.

These organisations aim to increase communication between communities, avert violence and to dispel rumours and they contributed to a reduction of violence during the summer months. In 2004/2005, almost £20,000 was allocated to this initiative. Other interface work included facilitated workshops and visits in exploration of historical awareness and cultural identity.

District Councils Community Relations Programme

Over the last thirty years government policy has suggested that the most effective way to address local Community Relations issues is at District Council level. In the 1970's Councils were encouraged to link Community Relations with wider community development work. The DCCRP was established in 1989 and the aims of the Programme are to:

- develop cross community contact and co-operation;
- promote greater mutual understanding; and
- increase respect for cultural traditions.

The CRU has invested around £1.9 million in the programme during 2004/05. To date, the DCCRP has been delivered through local councils employing one or more Community Relations Officers (CRO) to assess needs and co-ordinate the delivery of local initiatives. Councils have had a degree of autonomy in terms of the role such officer's play within Council and the wider community. However as a result it is widely thought that more guidance and commonality is needed in regard to the role and function of CRO.

8.3.2 Equality Unit Community Relations Research

The Research Branch has responsibility for a wide ranging programme of research on community relations. This aims to maintain an up-to-date body of information on the nature and effects of the major divisions in NI and evaluate, assess and report on the impact of Government's policies.

The Branch commissions policy relevant research in the following priority areas:

- community relations practice;
- post violence relationships;
- social and community impacts of inter-communal division;
- minority ethnic communities;
- monitoring and evaluation of projects and programmes; and
- dissemination.

In 2004/05 the Community Relations Research Branch budget was in the region of £370,000. This included programme expenditure of £275,000 and payroll and administrative costs of £95,000.



The Branch’s research expenditure covered a range of projects which support the wider policy agenda of A Shared Future. In 2004/05, research was commissioned to establish the extent and causes of Protestant alienation and migration in areas of Londonderry and to make recommendations to promote inclusion and reconciliation. The research identified the need for ‘comprehensive and collective planning to place the Protestant community on a more progressive and confident future’ and recommended the reclaiming of shared space, tackling the visible manifestations of sectarianism and racism, and the behaviour of young people.

The Flags and Emblems project was commissioned to assist with the future monitoring and evaluation of the impact of good relations and the promotion of shared spaces in NI. The research concentrates on disputes over the flying of official and popular flags but also, by association, relates to other practices such as the writing of graffiti, the painting of murals, the erection of arches and bonfires. The report concluded that the flying of flags plays a significant role in sustaining territorial divisions within NI and that the existence of sectarian territory has financial implications as it frequently demands duplication of services and makes the economic development of local areas and the region more problematic.

8.3.3 Education and Youth Community Relations Expenditure

Funding on community relations within includes programmes funded by the DE, a cultural traditions programme funded under the Arts Council of NI and a youth diversionary programme through CAG funded by OFMDFM. The supported programmes are:

- Community Relations Core Funding Scheme. The scheme is to support the development of community relations work in NI. The Scheme is administered by Community Relations Branch and is aimed at voluntary and non-profit making organisations that can identify how their proposed programme can contribute to the improvement of community relations between young people;
- School Community Relations Programme (SCRP). The SCRCP aims to encourage schools to bring together young people from across the community divide, through programmes of activity designed to promote community relations and assist in delivery of Education for Mutual Understanding and Cultural Heritage curriculum elements. SCRCP is administered by the ELBs;
- Community Relations Youth Service Schemes. This includes two schemes, the Youth Service Community Relations Support Scheme (YSCRSS) and Community Relations Youth Service Scheme (CRYSS);
- The Arts Council of NI funds a Cultural Traditions Programme. This supports projects seeking to enable young people to explore and understand more about their common cultural heritage and to gain a respect for cultural diversity; and
- OFMDFM through the CAG support the five Education Boards to run diversionary activities for young people living in interface areas.

Table 8.2 lists the programmes and summarises the annual expenditure on them. It is estimated that £4.85 million is spent on youth and educational community relations programmes per annum. It was noted in consultations that if the community divide did not require this attention some of this funding would be used on wider relational issues relating to youth and education, for example inter-ethnic relations.

Programme	Approximate Expenditure (£’000)
Community Relations Core Funding Scheme (DE)	£1, 800
School Community Relations Programme (DE)	£1,300
Community Relations Youth Service Schemes (DE)	£900
Cultural Traditions Programme (Arts Council)	£250
Diversionary Programme (OFMDFM) ¹	£600 ¹
TOTAL	£4,850

1. Diversionary expenditure already accounted for under CRU – so £4,250,000 will be brought forward to overall figure.
Source: Department of Education.

8.4 Supporting Victims

Simultaneous to the establishment of the CRU and Equality Unit, a Victims Unit was established within OFMDFM. This unit was set up to address the needs of victims of the conflict. A cross-departmental strategy was developed, whilst a range of domestic government and European funded programmes for victims have been implemented.

8.4.1 Victims Unit

In 2000 the Victims Unit was established within OFMDFM following the recognition that over the previous 30 years, the needs of the victims of the conflict had not been adequately addressed. A cross-departmental strategy was developed in order to address the needs of victims' groups and individuals and the resulting document, "Reshape, Rebuild, Achieve" was published in April 2002. The Victims Unit is the accountable body with overall responsibility for the Measure of the EU Programme for Peace and Reconciliation (Peace II) designed to assist with the reconciliation and integration of victims, particularly through retraining, re-skilling and re-employment. The Community Foundation for NI acts as Intermediary Funding Body responsible for the distribution of these funds. The Victim's Unit is also responsible for the management of the Victims and Survivors Groups Core Funding and Development Grant Schemes. The CRC operates the schemes and distributes these funds. Victims Unit expenditure during 2004/05 is set-out in Table 8.3.

Table 8.3 – Victims Unit 2004/05 Expenditure

Victim's Unit Identified Expenditure	Expenditure (£'000)
Victims Unit Programme	294
Community Foundation NI (contribution)	497
NI Memorial Fund	2,118
Victims/Survivors Groups Development Grant Scheme	782
Victims/Survivors Groups Core Funding Scheme	1,953
Strategy Implementation Fund	1,004
Victims Unit Payroll & Administration	227
TOTAL (Excluding CFNI Peace Funding)	6,875

Source: OFMDFM

8.5 Summary of Overall Expenditure on Community Relations and Supporting Victims

8.5.1 Quantified Costs

Table 8.4 provides an overview of identified and quantified Government expenditure on community relations.

Table 8.4 – Summary of Quantified Costs of the Divide on Community Relations and Supporting Victims (2004/05)

Community Relations	Community Relations	
	Division	Expenditure (£'000)
Community Relations	CR Research	370
	CRU	6,540
	Co-operative Bodies	2,153
	Education	4,250
	Total	13,313
Supporting Victims	Victims Unit	6,875
	Total	6,875

Source: Deloitte.

In summary we have identified a range of funding streams that supports community relations activity that would not have otherwise occurred in the absence of the NI divide. We estimate that, excluding European Peace programme funding, over £13 million of Government funding per annum is used for improving community relations. The expenditure on supporting victims is almost £7 million.

8.5.2 Costs Identified but not Quantified

There are many public expenditure resource allocations attributable to community relations and victims issues which have impacted policy and public service delivery models across the other sectors. Where identifiable these have been captured in the relevant section of this report.

9 Education

This section explores costs in the education sector that can be attributed to the divide. It is set out as follows:

- overview of the education system and current policy context;
- summary of education expenditure and exploration of comparative cost data for other parts of the UK;
- analysis of cost areas impacted by the divide – schools provision, administration of the schools system, Initial Teacher Education (ITE) and schools community relations; and
- summary and conclusions.

The issue of educational outcomes as they relate to the divide is addressed in Section 5.

9.1 Policy Area & Service Delivery Responsibilities

NI’s education system has a complex structure, with numerous official bodies involved in the management and administration of the system, and a range of school sectors that can be defined by the community background of their pupils and the management arrangements in place.

The DE oversees the central administration of education in NI. It has lead responsibility for policy and strategic planning in relation to schools and youth provision, manages schools capital expenditure, and allocates funding to the ELBs and other service delivery bodies. Table 9.1 summarises the role of the key organisations involved in the management and administration of education in NI.

DE’s overall aim is “To educate and develop the young people of NI to the highest possible standards, providing equality of access to all”. (Strategic Plan for Education 2006-8)

To meet this aim DE has the following two Public Service Agreement objectives:

PSA 1. Ensuring that all young people, through participation at school, reach the highest possible standards of educational achievement, that will give them a secure foundation for lifelong learning and employment; and develop the values and attitudes appropriate to citizenship in an inclusive society, and

PSA 2. Promoting, through the youth service, the personal and social development of children and young people and assisting them to gain knowledge, skills and experience to reach their full potential as valued individuals; and, through community relations measures for young people, encouraging the development of mutual understanding and promoting recognition of and respect for cultural diversity.

Table 9.1 – Management and Administration Bodies in Education

Body	Responsibilities
DE	Policy setting Resource management
5 x ELBs	Securing provision for primary, secondary and special education; Securing provision of youth and library services; Providing school meals and transport services; and Making awards for educational purposes;
Council for Catholic Maintained Schools (CCMS)	Representing trustees, schools and governors within the Catholic sector on issues such as raising standards, the school estate and teacher employment
Comhairle na Gaelscolaíochta (CnaG)	Promotion of Irish Language schools
Northern Ireland Council for Integrated education (NICIE)	Promotion of integrated education and assistance to parent groups in opening new integrated schools
Northern Ireland Council for the Curriculum, Examinations and Assessment (CCEA)	Advising government on the curriculum Monitoring standards Awarding qualifications
Education and Training Inspectorate (ETI)	Monitor, inspect and report on standards of teaching

Source: DE Website

Across the pre-school, primary and post-primary elements of the education system there are five 'sectors':

- **Controlled** – Controlled schools (at nursery, primary and post-primary level including special schools) are owned and funded by the five ELBs, which delegate certain responsibilities to school boards of governors. The ELB employs teaching and non-teaching staff, plans provisions for schools, and meets recurrent costs. The pupils and staff at these schools are mainly Protestant and the three main churches (Church of Ireland, Presbyterian and Methodist) are often represented on the board of governors. However there are also Controlled Integrated Schools;
- **Maintained** – these schools (at nursery, primary and post-primary level including special schools) are owned through a system of trustees and managed by boards of governors. Running costs are met by the ELBs, which are also responsible for employing non-teaching staff. Capital costs are funded directly by DE. This sector can be further subdivided into Catholic and Other Maintained schools. Catholic Maintained schools comprise by far the largest share of maintained schools. They are in Catholic trusteeship and their teachers are employed by the CCMS – staff and pupils are mainly Catholic. There is also a small number of "other" maintained schools;
- **Voluntary Grammar (VG)** – VG schools are owned by the school trustees, and are managed by boards of governors, who employ all the staff. These schools are funded directly by DE.
- **Grant Maintained Integrated** – Grant maintained integrated schools are owned by the school trustees, managed by Boards of Governors, and funded directly by DE; and
- **Irish-medium Schools** – Teaching in these schools is through the medium of the Irish language. Almost all these schools are owned by the school trustees and managed by boards of governors. Running costs are met by the ELBs. When schools are recognised for capital funding, capital costs are funded according to whether a school is a controlled or maintained school.

The NI schools system offers an element of choice on the basis of religious denomination (within the limits placed by academic selection at the post primary level). In line with domestic legislation and international and European human rights instruments, DE policy supports parents' right to choose the school they consider best meets their child's needs including their religious needs. The Strategic Plan for Education 2006-2008 sets out the following objective:

"to ensure equality of access to education and youth service provision and to facilitate parental choice as far as possible."

There is also a legislative duty on DE to encourage and facilitate integrated and Irish-medium education.

Funding and decision-making is given to schools (other than special schools) across all sectors under the Local Management of Schools (LMS) scheme. The funding formula, set by DE, is based on factors such as pupil numbers, size of school and social and educational needs and is designed to ensure that schools with similar characteristics receive similar funding, regardless of their sector or geographic location. The ELBs also distributes specific grants to schools like those required under the School Improvement Programme.

Secondary education is largely selective with pupils going to grammar schools or non-grammar schools according to academic ability.

9.1.1 Recent Reform

This research takes place in a period of unprecedented change in the NI education system, both as a result of policy developments specific to education and as a result of wider public sector reform. Key policy and strategic drivers are:

- **Major capital investment** – the SIB's Investment Strategy for NI, published in December 2005, included plans for £3.4 billion of investment over the next ten years in schools and youth facilities. In March 2006 the current Education Minister, Maria Eagle, announced a £380 million Schools Modernisation programme – this is the largest ever single investment in new schools, and will benefit more than 22,000 pupils. The objective is to provide sufficient school places to meet demand through the right mix of schools of the right size in the right places;
- **New curriculum and post primary arrangements** – The Education (NI) Order 2006 became law in July 2006. The Order provides the broad legislative framework to implement a revised statutory curriculum, and to give effect to new arrangements for post-primary education, including the curricular Entitlement Framework and powers to introduce new admissions arrangements. The Order also includes the abolition of academic selection, but makes it subject to a vote in the NIA if the Assembly is restored by 28 March 2007;

- **Social/demographic changes** – A DE report completed by Pricewaterhousecoopers in March 2005 stated that due to population changes there are nearly 50,000 surplus school places. It also predicted that pupil numbers will fall by a further nine per cent over the next 10 years. It was reported that over the review period (1991/2 to 2005/6) the number of active primary schools had dropped by nine per cent and post primary schools had dropped by 2.5 per cent;
- **RPA** – the implementation of the RPA proposals announced by the Secretary of State and endorsed by the Minister for Education on 22 November 2005 will have a profound effect on the way that education policy is formed and delivered within NI (details of the proposals provided in Section 9.4);
- **Strategic Review of Education** – this review (led by Professor Sir George Bain) was set up to examine the funding of the education system in the context of falling pupil numbers and the introduction of a revised curriculum (the review's findings are discussed in Section 9.3); and
- **Improved governance and accountability** – there is a heightened awareness of the need for effective governance and accountability at every level, particularly at school level. Within that context, there is a need for all education related spending to demonstrably meet the core requirements of propriety, regularity and value for money; and
- **Review of Special Educational Needs and Inclusion** – Special educational needs in NI is undergoing a comprehensive review to reduce bureaucracy and improve consistency of provision and access to support.

9.2 Expenditure Analysis

9.2.1 Annual Expenditure

For the year ended 31 March 2005 education spending amounted to £1,628.2m, of which £1,593.2m related to schools and £35.0m related to youth and community relations provision (Source: DE).

9.2.2 Comparative Analysis of Expenditure

Deriving useful comparisons of expenditure on education across the UK countries is particularly difficult. There is a high degree of variability between the areas in terms of:

- **relative need** – the number and age profile of pupils, population distribution and deprivation varies across the UK. For example, NI has a disproportionately higher share of the school age population than other UK countries and a more dispersed population than many parts of England;
- **accounting** – there are differences between countries as to which resources are delegated and which are held centrally so expenditure figures do not always compare like with like;
- **education policy** – there are different systems in place in each area, for example, Wales and NI have non-English medium schools and NI has an earlier school-starting age; and
- **efficiency** – some areas may use their education expenditure more efficiently providing services of the same quality for less expenditure.

The summary below describes comparative analysis of schools expenditure based on existing research studies. However, due to the factors described above, firm conclusions cannot be drawn from comparisons of relative spend.

DE published a study in 2003 that compared education provision in NI with that in other parts of the UK across a range of effectiveness factors (The Effectiveness Evaluation: Education Service, DE 2003). The research included comparison of costs per pupil in each UK country (using 2001 data). It found that the cost per pupil in NI ranged from two per cent lower (comparing NI to Wales at primary level) to 17 per cent higher (comparing NI to England at post primary level). The report stressed the variability in terms of education systems, policies and need and therefore the need to treat these comparisons with some caution.

As part of the Strategic Review of Education (see Section 1.4.1) further attempts were made to refine these comparisons by adjusting published figures for NI and Wales to improve the comparability of data between countries (by selecting the most closely comparable spend categories). Even with these adjustments, the review team recommended caution in drawing any conclusions from the comparative data. Table 9.2 shows the expenditure per pupil in NI and Wales for 2004/5 produced by the Strategic Review team. It indicates that at primary level NI expenditure is 17 per cent lower than in Wales and at post-primary level NI is marginally higher than in Wales (0.6 per cent).

Table 9.2 – Comparative Expenditure per Pupil in NI and Wales, 2004/5 (£)

	Primary	Post Primary
NI	2,398	3,615
Wales	2,898	3,595

Source: Report of the Independent Strategic Review of Education (2006).

The difficulties in comparing education expenditure across regions have been acknowledged in a range of sources (for example, see forthcoming research on public spending on children across the UK completed by Economic Research Institute of Northern Ireland (ERINI) on behalf of Northern Ireland Commissioner for Children and Young People (NICCY). No robust conclusions can be drawn on relative spend. Therefore, our analysis seeks to determine the degree to which efficiency within NI spend has been impacted by the divide.

9.3 Expenditure Attributable to the Divide

Four areas of education expenditure that are impacted by the divide were identified; namely schools provision, education administration, youth community relations and initial teacher training. These areas are discussed below.

9.3.1 Schools Provision

Limited research has been conducted as to the financial impact of denominational split in NI's schools. What research exists serves to illustrate the complexity of this analysis, and the difficulty in isolating the impact of division on schools costs from the impacts of rurality, population distribution, academic selection and changing population. While it may not be possible to accurately quantify the impact in terms of education expenditure, research suggests that the divide has resulted in inefficiencies in the system.

Our assessment was chiefly based on analysis of:

- The Strategic Review of Education – DE recently published the report of the Strategic Review of Education. It was led by Professor Sir George Bain and it examined the funding of the education system in the current context of falling pupil numbers and the introduction of a revised curriculum. It was also asked to look at how best to encourage and support cross-sector collaboration which will promote greater integrating of education and sharing of resources. The team was specifically asked to:

“Assess the costs associated with multi-sector provision in a divided society, the impact of school size and the impact of the rural nature of much of NI”; and

- DE's Effectiveness Evaluation which compared the relative size and number of schools in NI and their costs with those in other UK regions.

The key factors considered were the multi-sector school system, the management of declining pupil numbers and the distribution of school places in terms of size and number of schools.

The Multi-Sector Schools System

As described above, the schools system in NI comprises five different sectors – controlled (including controlled integrated), maintained (Catholic and other), VG, grant maintained integrated and Irish-medium.

The largest proportion of schools is within the controlled and Catholic maintained sectors. These account for 88 per cent of primary and post-primary schools according to the 2005/6 NI School Census, compared with integrated and Irish-medium schools which account for five per cent and two per cent respectively. Therefore the majority of schools in NI are largely segregated along religious lines. 'State' schools in the controlled sector mostly accommodate Protestant children, and maintained schools mostly accommodate Catholic children. Figures from DE show that in 2005/6, 95 per cent of controlled schools and 99 per cent of Catholic maintained schools had at least 90 per cent of pupils from the 'dominant' community.

Declining Pupil Numbers

There is currently a significant surplus position in the NI schools system due to demographic change. DE estimates that there are currently 53,000 surplus places and that this number is due to rise to more than 80,000 over the next ten years as a result of population change (source: Independent Strategic Review of Education). Figures from the School Census indicate that:

- in 1996/7 there were 184,638 primary pupils. This has steadily decreased to 161,143 in 2005/6 – a reduction of 12.7 per cent;

- over the same period, the post primary numbers increased from 152,743 in 1996/7 to 155,747 in 2002/3 but since then have also begun to fall as the impact of the falling primary school numbers noted above began to work its way through the system. Post primary pupil numbers stood at 151,840 in 2005/6; and
- population projections from NISRA indicate that between 2004 and 2017 the number of children aged between four and 10 will decrease by 9.7 per cent and the number between 11 and 15 will decrease by 14.6 per cent.

Current surplus capacity (53,000 places) was estimated in the Independent Strategic Review of Education as equivalent to 15 per cent of the total capacity within the estate. The Review recommended that no more than a 10 per cent surplus should exist across the school system. This suggests the potential for savings associated with costs for 5 per cent of the schools estate.

The Review draws a causal link between the current surplus position and the multi-sector schools system, asserting that there has been a lack of any integrated or consistent planning of pupil places across the various school sectors. For example, while controlled schools plan pupil places on the basis of population projections, CCMS uses baptismal records to predict future demand, assuming that all those baptised in the Catholic Church will attend a Catholic school. Integrated and Irish-medium schools plan on the basis of demonstrated parental demand. This inconsistency makes it almost impossible to eliminate double-counting between the sectors and thus systematically results in oversupply of places.

Distribution of School Places

DE's Effectiveness Evaluation referenced above, compared the relative size and number of schools in NI and their costs with those in other UK regions. It found that on average schools in NI are more expensive in unit cost terms. At primary level, schools were found to be within the size range of demographically similar parts of the UK and the number of schools provided was also similar. However at secondary level, schools in NI were found to be smaller and the level of provision is higher than in the comparator areas.

The Independent Strategic Review concluded that the NI school estate has too many schools and that relative to other parts of the UK it has too many small schools in the post primary sector. It also highlighted that with the continuing decline in enrolments this situation will be exacerbated over time. Evidence was provided to suggest that smaller schools incur higher costs per pupil and face challenges in providing a comprehensive curriculum for their pupils. Therefore, recommendations were made as to the minimum enrolment schools should have in order to ensure at least satisfactory education experiences in an efficient manner. A large proportion of the current school estate does not meet the suggested enrolment levels:

- at primary level, 40 per cent of schools are below the minimum enrolment for rural schools of 105 (urban schools should meet a threshold of 140);
- at post primary level, 37 per cent of schools have an enrolment below the recommended minimum of 500; and
- among post-primary schools with a sixth form, 40 per cent have a sixth form element of below the minimum of 100 recommended in the Review.

Managing the current estate to meet these recommended enrolment levels would necessarily produce efficiencies in the system.

Conclusions & Potential Savings

The NI divide has led to the development of a multi-sector school system that essentially involves providing a choice of schools on a denominational basis. This necessarily makes matching supply and demand more difficult compared with, for example, a spatially organised school system where all pupils in a certain locality attend the same primary or secondary school. The situation is compounded by academic selection and the existence of single-sex schools which further expand the diversity of school types; and by NI's relatively rural population distribution which is linked to the provision of a large number of small schools. The careful and coherent strategic planning approach that would be required to minimise surplus places across a multi-sector system like this has not existed.

On the issue of the costs associated with multi-sector provision the Strategic Review of Education concluded that:

"The diversity of school types coupled with the relatively high proportion of small schools, inevitably results in a less than optimum use of the finance available for education";

and

"Supporting five sectors (i.e. controlled, maintained, VG, Integrated and Irish-Medium schools) incurs significant costs".

It argued that there is an economic, social and educational case for integrating education in NI and improving sharing and collaboration in line with the objectives of A Shared Future. It strongly recommended integration across the education system in NI and an area based approach to strategic planning.

It seems clear that the divide has resulted in an inefficient schools system that has been insufficiently flexible to respond to changing demographics. However it is difficult to quantify the additional cost of the multi-sector schools system. The following suggests the types of savings that might be realised:

- The Strategic Review of Education recommends the introduction of collaborative models for education that involve consolidation of premises, facilities and services. One such model is that implemented in North Lanarkshire where shared campus schools have been built. These involve Catholic and non-denominational schools sharing administration, sports and library facilities while retaining separate teaching, pupil and community facilities. Building a shared campus school has been shown to cost 30 per cent less than building two individual schools and 10 per cent more than a single school. Property running costs are lower than for two separate schools and opportunity costs are realised through release of existing sites; and
- as described above, the Strategic Review recommended there should be a surplus of no more than 10 per cent of school places i.e. the costs associated with five per cent of the schools estate could be saved. In addition 40 per cent of primary and 37 per cent of post primary schools have enrolments below the recommended levels suggesting further savings through consolidation of schools. Data does not yet exist to enable accurate estimate of the savings that might result from action taken to address the surplus and meet recommended enrolment levels. Considering a scale of savings:
 - a one per cent reduction in DE's Objective 1 (Schools) expenditure would equate to £15.9m;
 - two per cent would equate to £31.9m;
 - 3 per cent would equate to £47.8m;
 - 4 per cent would equate to £63.7m; and
 - 5 per cent would equate to £79.6m.

The efficiency with which school places have been provided in NI has been directly impacted by societal division in so much as it has sustained the multi-sector schools system and an inefficient approach to demand planning. While it is not possible to estimate the direct costs of education that are associated with the divide, the assessment above indicates the potential for significant savings.

9.3.2 Managing the Multi-Sector Schools System

As shown in Figure 9.1, the schools system in NI involves a range of organisations that manage and administer the different school sectors. RPA plans to make fundamental changes to the way in which education is administered. Post RPA implementation, DE will focus entirely on policy formulation and a new ESA will be established to replace the ELBs, CCEA and Regional Training Unit, and take over some functions of CCMS, NICIE and CnaG.

To contribute to the decisions on reorganisation of public sector administration, the RPA team commissioned analysis of the potential savings associated with a range of different management models. If it is assumed that at least some of the inefficiencies in the system can be attributed to the divide then at least part of the estimated savings are relevant.

The RPA analysis conducted for the education sector (the most up to date cost estimates that exist) reached the following conclusions:

- the administration bodies in the education system in NI employ approximately 38,500 non-teaching and 28,500 teaching staff, including nine Chief Executives, 31 Executive Directors and approximately 300 board members;
- the revenue budget of the education sector for 2005/6 is £1.6bn; and
- based on the plans set out at that time for the management bodies that would be included in the ESA, governance cost savings including staff and board were estimated at £6.4m.

While the exact configuration of the management structures and thus the realised savings may change, it is likely that a new management model for education will result in significant cost savings.

9.3.3 Community Relations

Details of the community relations programmes delivered through DE are provided in Section 8. The 2006/7 budget for schools community relations was £4.25m (included in Section 8 Summary).

9.3.4 Teacher Education

ITE in NI is provided by five institutions which have a variable focus in terms of the sector they cater for. The provision is as follows:

- St Mary's University College – primarily catering for the primary sector and with a particular focus on schools within the Catholic tradition;
- Stranmillis University College – primarily catering for the non-Catholic elements of the primary sector;
- The Queen's University Belfast – providing for post-primary level teacher education;
- The University of Ulster – providing both primary and post-primary level education; and
- The Open University – providing post primary education by distance learning with a focus on shortage subjects in England.

The Strategic Review of Education reported that all of the current courses are regularly over-subscribed with up to eight times more applicants than there are places available. In 2004/05 there were 2,034 students in initial teacher training courses (this does not include Open University students). This comprised 1,575 at undergraduate level (studying at either Stranmillis College or St Mary's College) and 459 at post-graduate level. Between 2001/02 and 2004/05 the number of students in initial teacher training courses increased by some nine per cent (from 1,862 in 2001-02 to 2,045 in 2004/05). However, numbers have since fallen to 1,901 in 2006/07 (a decrease of seven per cent on the 2004/05 figure of 2,045) and there will be a further reduction in numbers in 2007/08. The recurrent grant¹⁷ to the four main providers of initial teacher training from the Department for Employment and Learning totalled approximately £10.86m in the 2004/5 academic year. Grants payable to each provider were:

- QUB – £0.94m;
- UU – £0.85m;
- Stranmillis – £4.59m; and
- St Mary's – £4.48m.

(Source: Department for Employment and Learning)

Various studies into teacher education in NI have been completed recently on behalf of the Department for Employment and Learning and DE. Of relevance to this study is a project by Taylor and Usher (November 2004, Aspects of Initial Teacher Training in NI) which examined costs, and a policy paper by Osler (June 2005, Policy Review of Teacher Education in NI) that drew upon the key findings of various papers (including Taylor and Usher) to make recommendations on the future model of provision.

Taylor and Usher quoted various unit cost figures from the providers in NI and comparisons with other parts of the UK from the Higher Education Statistics Agency (2001/2 data). However, their consultation with the teacher education sector led to the conclusion that due to the different systems of provision and accounting methods used by the institutions that cost comparisons are "more likely to be misleading than helpful".

Osler concurred that the evidence available did not facilitate robust comparisons:

"there is no evidence to suggest that training a teacher in NI costs more, or less, than in any other part of the UK after a range of variables are taken into account".

However, Osler highlighted the potential inefficiencies associated with providing ITE from multiple institutions. It noted that:

"multi-provision of ITE will, always, be the expensive option to be justified on policy grounds other than simple financial efficiency".

¹⁷ Note that this is not the full cost of ITT provision in each institution and additional expenditure may exist from other sources of income. Additional grants were also made available by DEL to Stranmillis and St Mary's for specific projects.

The study recommended a review of ITE provision arguing for a system that balances a degree of competition with provision that it describes as having been inherited and maintained for political purposes i.e. as a result of the divide. If the number of providers of ITE was reduced and this resulted in savings of one per cent of current administration costs this would equate to £108.6k. Savings of 5 per cent would equate to £543k.

9.4 Summary

Ni's education system has a complex structure with numerous administrative bodies and multiple school sectors that can be defined by the community background of their pupils and the management arrangement in place. Education is facing a period of unprecedented change with policy developments currently or recently taking place across a wide range of areas. In addition, demographic change has resulted in continued reduction in size of the pupil population.

Comparative analysis of education expenditure across the UK countries is extremely complex and no reliable conclusions can be drawn as to the impact of the divide on education spend in NI at a macro-level. However, there is evidence that the divide has perpetuated the existence of a multi-sector system which is costly to administer and train for, and ineffective at managing supply of pupil places.

9.4.1 Quantified Costs

Costs within the education system that were attributed to the divide and which could be quantified are shown in Table 9.3.

Table 9.3 – Summary of Quantified Costs of the Divide for Education

	Cost (£m)
Management of the multi-sector schools system (RPA identified potential saving)	£6.4
Community relations ¹⁸ (2006/7 budget for schools)	£4.25
Total	£10.65

Source: Report of the Independent Strategic Review of Education (2006).

9.4.2 Costs Identified but not Quantified

The divide was identified as having an impact on the efficiency with which schools and ITE are provided. A number of potential savings was identified:

- schools provision – greater collaboration across the schools sectors and consolidation within the schools estate could result in savings. If these were of the order of one to five per cent savings would be between £15.9m and £79.6m; and
- teacher education – If the number of providers of ITE was reduced and this resulted in savings of between one and five per cent of current administration costs this would equate to between £108.6k and £543k.

¹⁸ It is noted this community relations budget is also acknowledged in Section 8, dealing specifically with community relations.

10 Health

10.1 Policy Overview and Service Delivery Responsibilities

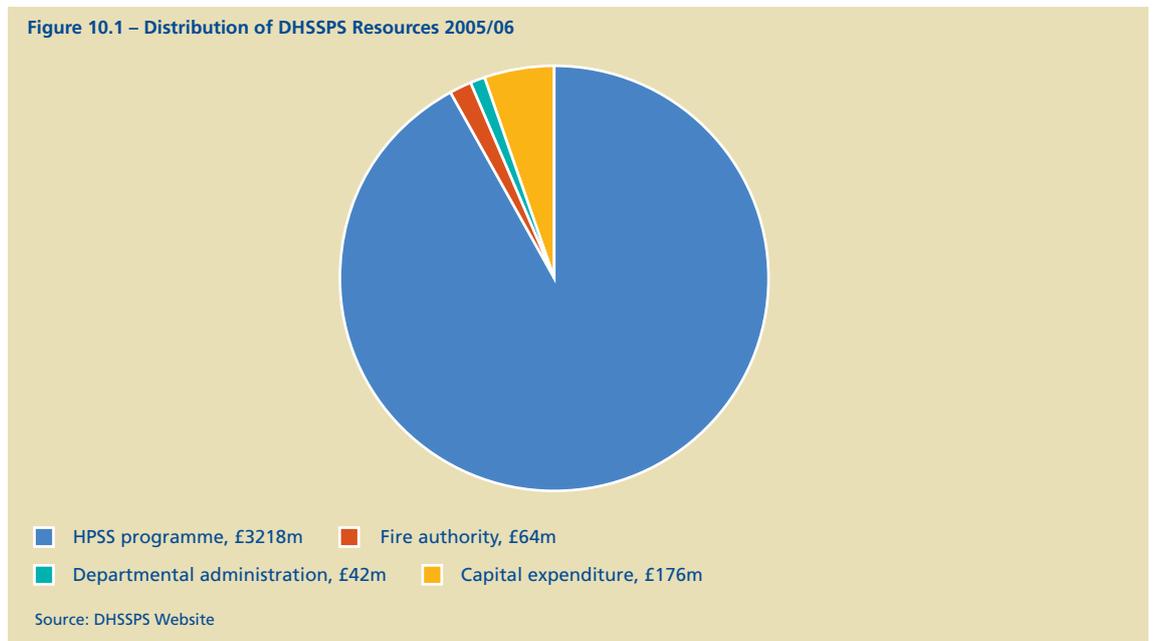
The Department of Health, Social Services and Public Safety (DHSSPS) was established by the Departments (NI) Order 1999. The Department administers the business of:

- Health and Personal Social Services (HPSS), which includes policy and legislation for hospitals, family practitioner services, community HPSS;
- Public Health, which covers responsibility for policy and legislation to promote and protect the health and well-being of the population of NI; and
- Public Safety, which encompasses responsibility for the policy and legislation for the Fire Authority, food safety and emergency planning.

Within the HPSS in NI, there are currently four HSSBs (responsible for the commissioning of services) and 19 HSS Trusts (responsible for the provision of services).

The number of staff employed by the HPSS is approximately 65,000, including 23 Chief Executives, 84 Executive Directors and 121 Board Members. DHSSPS is the largest NI department, with a 2005-06 baseline of £3.5 billion, or two-fifths of the NI Assigned Budget.

These resources are broadly distributed in Figure 10.1 as follows:



With regard to resource allocation, DHSSPS employs a capitation formula. This provides the means by which to judge whether HPSS resources are distributed in line with the population's need for services. The capitation formula takes account of such relevant factors as population size, the age/sex profile of each Board area and the level of additional, largely deprivation-related, need.

The financial impact of societal divide on fire and ambulance services within NI is considered in Section 10.4.

10.2 Research on Impact of Conflict on Health Needs

Equality and Inequalities in Health and Social Care in NI (DHSSPS, 2004) included a section considering the impact of the NI conflict on health and well-being.

The immediate impact of violence on health needs has reduced in line with reduced civil violence. For this research the most relevant costs are those associated with longer term health impacts for which services are still required. The DHSSPS report highlights that isolating the impact of the Troubles on health is complex and problematic. Difficulties include the range of factors that need to be taken into account, namely the level of violence that occur over location and time, differences in people's experiences of violence and factors relating to the individual such as age, gender, social class, religious affiliation and minority group status.

DHSSPS has developed formulae to allocate resources to the four HSSBs. The formula is applied to each census super output area and aggregated up to board level. An element of the formula is related to the relative need in a particular area.

The needs formula takes account of deprivation and it is likely that any costs related to the troubles are entangled within these deprivation variables due to the high correlation between areas that are socially disadvantaged and those that, historically, have been most affected by the troubles. DHSSPS has however concluded it is not possible to determine the cost of the troubles separately from deprivation.

Children

A review of studies on the impact on children highlighted that the "consequences of the Troubles on young people's psychological wellbeing and social and school life are not clear, and that understanding the long-term effects of such violence is very poor". The report noted the findings of a study on the impact of the car bomb that exploded in Omagh town centre in August 1998. This found that as the degree of exposure to the bomb increased, so did the levels of reported symptoms of Post Traumatic Stress Disorder (PTSD), depression and anxiety among children.

Adults

The Cost of the Troubles Survey (1999) classified electoral wards into high, medium or low intensity based on numbers of people from those wards that had been killed in the Troubles. Approximately a quarter of those living in high intensity wards did report Troubles related factors as affecting their health over the previous decade, compared to much smaller percentages in areas of medium or low intensity. A similar proportion in high intensity areas (22 per cent) reported the Troubles as causing distress or emotional upset. Again this was significantly higher than in medium and low intensity wards (10 and nine per cent respectively).

NIO commissioned research in 2001 considered self-assessed victimhood and the Troubles. The findings of the research showed that either being a victim of the Troubles, or thinking of one's self as a victim, is associated with poorer levels of mental health. The research concluded that political violence had impacted mental health levels of some, but not all individuals in NI. The research considers that the most significant impact is confined to victims and those more directly involved in the violence. The reason for this is that studies, pre- and post- ceasefire, have not found any notable level of change in overall levels of psychological well-being in NI suggesting that mental health is determined by a number of factors of which the impact of the Troubles is just one.

The 1997 NI Health and Social Wellbeing Survey indicated that people in poorer households were more likely to suffer health stresses and were more likely to have been affected by the Troubles in their area or lives. Again this highlights close links between deprivation, the Troubles and health. Secondary analysis of this research (O'Reilly and Stevenson, 2002) found that the likelihood of psychological morbidity increased the greater the extent to which the Troubles affected the respondent's area or life, the connection with life being stronger. O'Reilly and Stevenson conclude that it is "probable that the mental health of the population of NI has been significantly affected by the Troubles". They suggest it is unclear as to whether this is due to violence itself or to other aspects of the Troubles and that further research is required.

Looking at statistics for anti-depressant prescriptions there does not appear to be any significant higher level of usage in NI. Table 10.1 compares anti-depressant prescriptions made in Wales and NI during 2004/05. This shows an extremely similar level, with no notable higher level of anti-depressant prescriptions in NI.

Table 10.1 – Anti-depressant Prescriptions Comparison between NI and Wales, 2004/05

	Number of Anti-Depressant ¹ Prescriptions	Population (Mid-Year Estimate 2005)	Prescriptions per Person
NI	1,724,400	1,356,284	1.27
Wales	2,958,000	2,306,183	1.28

1. Anti-depressant drugs – British National Formulary Chapter 4, Section 3

Source: Prescription Cost Analysis, Wales and NI and National Statistics, Mid-year population Statistics.

Overall Conclusion of Research into Impact of Troubles on Health

The evidence suggests that the Troubles have had an impact on the general and mental health of children and adults in NI. The research also suggests that this is a differential impact, with the clearest impact on those who have borne the brunt of the Troubles. However these are also the people who are most likely to experience a range of deprivation issues. All research however notes the need for more evidence before more confident conclusions can be made.

10.3 Direct/Indirect Cost Issues

Within the research we explored a number of core issues with regard to health:

- the costs to the health system of treating and managing those whose health has been directly or indirectly impacted by conflict, and the extent to which the poorer health profile in NI is in part attributable to 30 years of conflict; and
- the efficiency of the health service delivery model and potential for service duplication.

Research by Smyth, Morrissey et al in 2001 investigated the impact of the troubles and the potential additional cost associated with the delivery of health and social care in North and West Belfast. As has been noted previously, 75 per cent of deaths in Belfast due to the troubles occurred in North and West Belfast. In terms of health impact, the study concluded that there was a much greater need for health and social care amongst residents of North and West Belfast and a positive correlation between those with poor/poorest health and experience of the troubles. However whilst the research concluded that health need is greater in NI due to conflict, it was unable to quantify the additional resource consequence.

Direct Costs to the Health System

Whilst the direct costs to the health system of managing conflict related trauma have reduced significantly post ceasefires, our research identified the continued existence of related issues including, for example, the health response to paramilitary punishment activities and the mental health costs across both the acute, community and primary health care sectors. In addition there is also a direct cost to the system of managing the consequence of in-community feuds.

A key difficulty for the research has been the quantification of health cost, as HSS Trust financial systems do not code and capture data relating to such patient treatment and care packages in this way.

Research has highlighted that the conflict has likely affected mental health amongst some people in NI.

Efficiency in Service Delivery

Within Section 6 we explored at a macro level, and in the context of RPA, the potential inefficiency within the HPSS service delivery model. As has been previously rehearsed, on 22 November 2005, the Minister for Health, Shaun Woodward, announced the re-organisation of NI's HPSS as part of the RPA. At a summary level, the key changes will be:

- a HSSA will be set up in place of the existing four HSSBs. Seven primary-care led Local Commissioning Groups will also be established as local offices of the HSSA;
- five new integrated Health and Social Service Trusts will replace the 18 existing Trusts; and
- DHSSPS will become smaller.

According to the 2005 Deloitte research, the total potential efficiency that could be realised through rationalisation of governance arrangements, implementation of shared services and streamlining of front-line administrative processes was estimated to be between £25m and £58m of resources. These could be released and returned to front line service delivery.

Location of Facilities

With regard to the efficiency of the service delivery model, issues exist with regard to the location of health facilities and possible duplication of health service facilities to address the health needs of separate communities. Within the acute sector there exists a question mark over the strategic location of certain acute facilities and the balance of community influence within decision making surrounding original siting. In addition, over time several acute facilities are recognised as offering greater accessibility to one element of the community over the other, a good example within Belfast being the flow between the Belfast City Hospital HSS Trust, the Royal Group of Hospitals HSS Trust and the Mater Hospital HSS Trust.

Within the community health sector, issues of conflict and community divide have had a significant impact and influence on the location of community health facilities. A good example being the development in Belfast over the past few years of Health and Well Being Centres, the new model of community health service delivery from which 80 per cent of community health services will be offered/delivered.

North and West Belfast HSS Trust commissioned research¹⁹ to align its service delivery models and physical location of service delivery to a strategy that is person centred, meets the needs of its population and addresses health inequalities. In particular the research was undertaken to assist in the identification of locations for the Health and Well Being Centres.

The research concluded that Trust facilities are frequently accessed in the context of religious segregation within North and West Belfast and that the most important deciding factor in terms of service usage is the perception of religious or territorial 'ownership' of the facility location. The Trust has accepted the recommendations of the research to locate the Centres in locations that would be acceptable and accessible by separate communities and is now developing four Health and Well Being Centres within the Trust locality, Grove; Shankill; Lincoln Avenue; and West Belfast. The Trust recognises that were this factor not taken into consideration, on the basis of the population, deprivation and patterns of service provision it would have developed two to three such centres.

It is interesting to compare and contrast the experience in South and East Belfast HSS Trust where three such centres have been developed, located at Foster Green, Dunluce and Holywood Arches with location decisions being made on the basis of population, deprivation and patterns of service provision.

10.4 Fire and Ambulance Services

The Fire and Ambulance services were considered as part of the research.

With regard to the Northern Ireland Fire and Rescue Service (NIF&RS) some research has been undertaken with regard to attending bonfire sites and dealing with consequent fire situations. A Report by the Interagency Working Group on Bonfires (2004) highlighted that the peak periods for callouts are between June and August. They note that significant number of bonfires are held on 11th of July in Protestant areas to celebrate the Battle of the Boyne and 9th of August in Catholic areas to mark the anniversary of Internment. The Interagency Working Group Report highlighted that the cost for (the then) NI Fire Brigade attending bonfires was between £200,000 to £250,000 per annum between 2000 and 2003. In 2003 the figure was £232,000 of which approximately £120,000 was incurred between June and August.

For both Fire and Ambulance services there has been some additional cost incurred due to damage to vehicles and injury to staff in providing services in civil unrest circumstances.

Overall it became apparent in this research that any significant costs incurred due to societal divide, in particular costs incurred through servicing significant events such as bombings, bomb alerts or civil unrest, are largely historic in nature.

10.5 Summary

Analysis of the attributable health cost of conflict has proved particularly difficult to identify and quantify. DHSSPS allocates the resources to the HSS Boards on the basis of a capitation formula. Board allocations are made on the basis of a range of indicators of population Health need.

Costs Quantified

The only quantifiable costs identified during the course of the research were costs of the NIF&RS attending bonfires. The total costs of attending bonfires came to £232,000 during 2003.

¹⁹ RPD Partnership 2001.

Costs Identified but not Quantified

Evidence suggests that NI continues to have a greater health need due to the impact of 30 years of conflict. The research also suggests that there is a differential impact, with the clearest impact on those who have had greatest exposure to the Troubles. However these are also the people who are most likely to experience a range of deprivation issues.

It has not been possible to quantify these costs as:

- it is very difficult to disentangle impacts that are due to the Troubles rather than deprivation; and
- whilst the system continues to manage and treat conflict related health issues it has proved impossible to capture or analyse such costs on a system wide basis.

DHSSPS Capitation Formula Review Group analysed the possibility of separately quantifying the impact of conflict related health need and applying this factor within the capitation formula. The Group concluded it is not possible to disentangle this impact.

In terms of efficiency of service delivery, at a macro level RPA has considered the efficiency to be delivered from rationalisation of health service structures and the implementation of front office and back office administrative efficiency. This has been estimated as a potential release to front line service of between £25 million to £58 million. We understand the Department are currently developing a more detailed business case further pinning down the efficiency potential. Whilst not an insubstantial amount, it is not significant (less than two per cent) compared to overall Departmental budget.

Finally research has identified efficiency issues related to the location of facilities, particularly within the community setting where discussions continue to be made to duplicate services in certain areas in response to issues of community conflict and segregation.



11 Housing & Physical Environment

11.1 Policy Area and Service Delivery Responsibilities

Housing is a significant policy area directly affected by the NI divide. This section will present how the divide has had an impact on the shape of the administrative structures in place, how it continues to have a financial impact and thirdly how segregation creates costs through an inefficient housing market.

In addition to housing, the Neighbourhood Renewal initiative will be considered for evidence of additional costs due to societal division. Both themes fall within DSD's policy remit.

11.2 Housing – Administration Structures

In 1945 the NI Housing Trust was established to work in tandem with the local authorities and the private sector to meet housing need in NI. During the 1960s there was increasing concern that there was religious discrimination in the administration of housing. In particular there were allegations that councils were discriminating on the grounds of religion in the allocation of public housing. A number of high profile disputes occurred, most notably the "Caledon affair" in which Austin Currie, a Nationalist Member of Parliament at Stormont, squatted in a house to draw attention to alleged discrimination in respect of housing allocation policy by councils. In addition, the context at the end of the 1960s and early 1970s was significant civil unrest which led to extensive population movement, accompanied by issues of squatting and safety.

It was in this context that the NIHE was established as the single regional housing authority in 1971. NIHE took central responsibility for building, management and allocation of public housing from the Housing Trust and councils. Commentators noted that "the violence can be said to have been an important factor in many initiatives in housing policy, of which the decision to establish the NI Housing Executive was the most radical" (Kennedy and Birrell 1978²⁰). In establishing a single organisation, it was expected to keep political interference away from delivery mechanisms and to develop consistent systems and processes based on housing need.

It is widely accepted that the NIHE has been successful in remaining politically neutral in fulfilling its responsibilities. In a recent NIHE press statement it was noted, that in 35 years of operation, not a single case of discrimination had been found against the organisation and noted that the RPA consultation report had highlighted NIHE as a single purpose body which had worked effectively (**Housing Executive to Remain Strategic Housing Authority**, press release March 2006).

11.3 Current Financial Impacts

The historical context highlights housing as being heavily impacted by conflict and civil unrest. Literature review and discussion with NIHE officials identified a number of functional areas that remain subject to direct additional costs due to the NI divide. These are considered below.

As noted in the historical context and discussion of segregation, there has been significant movement of people due to intimidation and civil unrest. This forced movement of people can create a range costs to NIHE. These include costs of assessing the household's homelessness status, finding and allocating an available dwelling, sorting out temporary accommodation if required, repairing damage to housing stock and purchase of private dwellings in exceptional circumstances.

Table 11.1 presents the costs incurred by NIHE in dealing with households who become homeless due to intimidation or civil unrest. These range from over £600,000 in 2002/03 to below £450,000 in 2004/05. It is noted that the intimidation can be through either inter- or intra- community dimensions. The intra-community dimension was highlighted by the Loyalist feud. For example in 2000/01 NIHE reported 238 cases of intimidation compared to a total of 12 in the previous two years combined.

20 Birrell, D. and Kennedy, S. (1978) "Housing", in Darby, J. and Williamson, A. *Violence and the Social Services in Northern Ireland: Lessons of Devolution*. Dublin, Gill. and Macmillan.

Table 11.1 – Costs Resulting from Homelessness due to Intimidation/Civil Unrest

	2002/03 £	2003/04 £	2004/05 £
Programme	485,000	402,000	310,000
Administration	127,000	152,000	124,000

Source: NIHE.

Table 11.2 presents the cost of damage to housing stock due to civil unrest or intimidation. This could be due to a number of reasons including fires caused by petrol bomb attacks, windows being smashed, or graffiti being put onto doors and walls. The totals vary between £130,000 in 2002/03 down to £15,000 in 2004/05.

Table 11.2 – Cost of Damage to Housing Stock due to Civil Unrest/Intimidation

	2002/03 £	2003/04 £	2004/05 £
Programme	123,548	65,455	12,759
Administration	6,958	1,490	1,639

Source: NIHE.

Table 11.3 presents the expenditure in purchasing dwellings through the Special Purchase of Evacuated Dwelling (SPED) programme. NIHE only purchases a property under SPED where the Chief Constable (PSNI) has issued a Certificate confirming that the applicant is in acute physical danger. The SPED scheme allows for the purchase of an Owner/Occupied property where that owner has been intimidated or threatened. An applicant must satisfy specific criteria to qualify for the scheme. There has been a reduction in the scale of the scheme since 2002/03. In a NIHE press release on the SPED scheme, the reduction was welcomed and it was hoped that the scheme would not be required at all in the future.

Table 11.3 – SPED Programme

	2000/01	2001/02	2002/03	2003/04	2004/05
Programme Expenditure (£)	£6.5 m	£10.7 m	£33 m	£43.7 m	£7 m
Administration (£)	N/A	N/A	73,000	103,000	135,000
Number of SPED Applications Received	176	250	689	261	123
Number of Completed House Purchases	93	133	292	385	58

Source: NIHE.

All houses (with the exception of a very small number which are held for NIHE stock) bought under the SPED Scheme are to be re-sold by NIHE on the open market. The re-sale income in a particular year is not a direct reflection of houses purchased in that year (and therefore not a reflection on expenditure in a particular year). Analysis undertaken by NIHE considering re-sale income and administration costs is shown in Table 11.4. This highlights the overall net cost of houses re-sold through the programme in 2004/05 to be £1,247,053. Administration costs were available per year. Therefore taking the net cost of houses re-sold per year plus administration costs for the same year (although not directly related as re-sold houses may have been purchased in a separate year) the overall net cost of the scheme can be estimated. In 2004/05 this cost was £1,382,053.

Table 11.4 – SPED Programme – Net Cost

	2002/03	2003/04	2004/05
Number of houses re-sold	119	359	207
Purchase price of the re-sold dwellings (£)	13,945,550	40,932,875	25,100,095
Value of Re-sales (£)	13,160,400	39,301,119	23,853,042
Net Cost following Purchase and Resale (£)	785,150	1,631,756	1,247,053
Administration ¹ (£)	73,000	103,000	135,000
Overall Net Cost of SPED Programme (£)	858,150	1,734,756	1,382,053

1. Administration costs include costs of administering purchase and re-sale.

2. Overall Net Cost of Programme includes purchase cost, re-sale income and administration costs. This can only be considered an estimate as administration costs are per annum (e.g. 2004/05) whilst others costs are net purchase and re-sale costs of houses sold, but not necessarily purchased in a particular year (e.g. net cost of houses re-sold in 2004/05).

Source: NIHE.

NIHE has funded a programme delivered by NIACRO entitled Base 2 since 2003/04. This programme seeks to confirm that there is in fact a real threat and clarify its nature and extent, as well as finding ways of resolving the situation. This information can help determine the need for emergency accommodation. If the threat is real and requires relocation outside of NI, the Base 2 workers seek to assist in finding accommodation in Republic of Ireland or Great Britain. Table 11.5 shows the level of funding provided.

Table 11.5 – Cost of Base 2 Programme

	2003/04	2004/05
NIHE funding to Base 2 Programme (£)	86,000	88,500

Source: NIHE.

Another area of additional costs is the cost of implementing security works to housing on interface sites or requiring additional security, for example window grills, solid doors, oil tank protection measures for conflict related reasons. The expenditure on this is presented in Table 11.6.

Table 11.6 – Cost of Additional Security Works for Housing

	2002/03	2003/04	2004/05
Programme (£)	74,807	4,474	4,861
Administration	1,889	1,500	1,500

Source: NIHE.

NIHE also provide security features for private housing. The Protection of Private Property at Interfaces (POPPI) scheme is designed to ensure that private sector properties at interface areas have the same level of safety as that provided to the social housing sector. The number of private properties receiving additional protective features since 2002/03, and associated cost is presented in Table 11.7.

Table 11.7 – Protection of Private Property at Interfaces

	2002/03	2003/04	2004/05	2005/06
Number of Properties	228	44	15	37
Cost	£249,410	£53,479	£7,243	£47,455

Source: NIHE.

11.4 Segregation and Associated Housing Costs

The divided society in NI manifests itself in various forms including the physical segregation of where people live. As mentioned previously, NIHE was formed during a period of significant population movement that was largely driven by civil unrest. For example during the months of August and September of 1969 over 3,500 families were forced to leave their homes, whilst between 1969 and 1974 an estimated 60,000 people, or nearly one-quarter of all households in Belfast moved house (Tomlinson 1980²¹). As people were moving due to reasons of fear or intimidation they generally moved to areas where they felt they would be free of this. As a result housing estates and areas became more polarised.

Shirlow (2004²²) noted that NIHE estimated an increase in segregation linked to an increase in intimidation between 1998 and 2001. An analysis of segregation (Shuttleworth and Lloyd²³) based on census data between 1971 and 2001, concluded that “in 2001 we were living in a more residentially-segregated society than in 1971 but not markedly more segregated than in 1991”.

There are many impacts of physical segregation. In this instance we will consider the impact on the public housing “market”. The result of segregation is that areas become marked as belonging to the Protestant community or Catholic community. This “marking” can take a physical form through painting murals and kerbstones and the flying of flags and emblems. Therefore it becomes acceptable for only one tradition to live in this area, regardless of demand within that area by the residing population or of demand in surrounding areas. Secondly, an area becoming marked, as one side or the other, inevitably leads to interfaces where another area starts. In some areas there are multiple interfaces, for example in North Belfast there are 15 interfaces. Tension and civil unrest at these interface areas has also created difficulties for housing.

The result is that there are a number of areas that have been blighted by civil unrest. NIHE have recorded the number of properties that have been left empty due to this blighting and the lost revenue resulting from lack of occupation. The end result may be that void properties are demolished. This causes capital value to be lost. In addition it is striking that while houses are being knocked down NIHE is faced with a significant waiting list for houses in other areas. This highlights how the segregated nature of the housing market creates significant inefficiencies within public housing in NI. The figures relating to these issues are presented in Table 11.8. The cost in 2004/05 due to rental value lost and demolition of 18 houses exceeded £1million.

	2002/03	2003/04	2004/05
Number of Void Properties	262	238	231
Rental value lost (£)	£0.61 m	£0.6 m	£0.6 m
Number of Demolished Properties	5	6	18
Capital Value of Demolished Properties (£)	£125,000	£150,000	£450,000

Source: NIHE.

A further consequence is that additional properties are being built whilst other properties lie vacant. In recent years the new social housing stock has been developed through Registered Housing Associations rather than by NIHE. In 2003/04 the development of 1,140 new dwellings was started and in 2004/05 1,029 new dwellings were started (NI Housing Statistics 2004/05, DSD). Therefore a proxy for the cost of divide with regard to development of new social housing could be the cost of developing replacement dwellings for the number of void properties blighted by civil unrest (for example 231 in 2004/05).

Based on analysis of historic costs, the cost of developing a five person, three bed house (an “average house” in a mixed house type development) in Belfast in Spring 2006 was £130,000 (DSD Housing Association Branch). This was the “all-in” cost including cost of land, legal fees, planning fees and building costs. Approximately 70 per cent (£91,000) of this is government grant. Taking this as an average unit cost, we estimate the additional cost incurred by the development programme due to community divide was £21,021,000 in 2004/05 (231*£91,000).

21 Tomlinson, M. (1980) "Housing, the State and the Politics of Segregation", in O'Dowd, L., Rolston, B., and Tomlinson, M., *Between Civil Rights and Civil War*. Belfast, CSE Books.

22 Shirlow, P (2004) *Moving from Segregation to Integration – Focus on Housing*.

23 Shuttleworth I and Lloyd C (2005) Are Northern Ireland's Two Communities Dividing?: Evidence from the census population 1971 – 2001 from *Shared Space: A research journal on peace, conflict and community relations in Northern Ireland*.



We would note that this cost can only be considered a proxy for inefficiency in the housing market due to the divided society. Firstly it can be considered an upper estimate, as some of the costs involved, for example land prices, have increased since 2004/05. Secondly there will not be perfect mobility with regard to the housing market regardless of societal divide issues. Thirdly it would not be a recurring cost as a proportion of the houses lying void due to civil unrest will remain void for more than one year.

11.5 Neighbourhood Renewal

In June 2003 Government launched “People and Place – A strategy for Neighbourhood Renewal”. This strategy seeks to target those communities throughout NI who are suffering the highest levels of deprivation. The top 10 per cent of deprived neighbourhoods across NI were identified using the New Noble Multiple Deprivation Measure. Following a period of consultation, a total of 36 areas were targeted for action. The areas include:

- fifteen in Belfast;
- six in Londonderry; and
- fifteen in other towns and cities across NI.

One question we tested was whether the wards targeted (n=50) allowed for a “backfilling” of Protestant wards (Protestant communities perceived to be less likely to be among most deprived). Of the 50 wards, 16 had majority Protestant communities – seven of these were in the 25 most deprived areas and nine in the 26-50th most deprived areas. This does not appear to show any deliberate skewing to allow for greater representation of majority Protestant areas. The equality impact assessment stated the programme is consistent with Government’s TSN policy. The areas are driven by clear policy of targeting the top 10 per cent of deprived neighbourhoods.

The second question asked is whether there is a need for 36 separate areas. As 15 are in towns and cities outside of Belfast and Londonderry there will be no issue of duplication amongst them. Belfast and Londonderry, however, have 15 and six separate areas respectively. Looking at these urban areas, there a number that include areas perceived to be both predominantly Protestant and areas perceived to be predominantly Catholic. Examples of such neighbourhood renewal areas include Inner East (covering largely Protestant Lower Newtownards Road and Albertbridge Road, as well as largely Catholic Short Strand), Inner South (covering largely Catholic Markets and Lower Ormeau Road and largely Protestant Donegall Pass) in Belfast and Cityside (including largely Catholic Bogside, Brandywell and Creggan areas and largely Protestant Fountain area). While for other neighbourhood renewal areas, for example Lenadoon, Colin Glen, Rathcoole and Tullycarnet in Belfast and Outer North in Londonderry, the local demographics are such that neighbourhood renewal areas would be expected to be largely single identity as there are no significant populations of the other community in close proximity.

This leaves a small number of areas, where community divides may have played some role in identifying these areas. Often these areas have developed boundaries according to such a divide, for example between the Greater Shankill and Lower Falls or Upper Ardoyne/Ligoniel and Crumlin/Ardoyne Neighbourhood Renewal areas. Arguably considering the scale of these areas and populations it may be valid to have two separate renewal areas in considering what make-up would most likely bring success to the initiative. As a result the argument that there is duplication of resources in implementing neighbourhood renewal processes in two areas rather than one is limited. Additionally, if this duplication argument was correct any additional costs would be marginal.

11.6 Summary

Our analysis shows that the NI divide has had a significant impact on housing policy. We have not, however, uncovered evidence of significant additional costs for Neighbourhood Renewal due to the NI divide. The divide has influenced the structure of housing administration and was an underlying factor in the establishment of a single regional authority (NIHE).

Quantified Costs

In 2004/05 there was an additional financial cost to NIHE due to the divide of approximately £3 million. These are direct quantifiable costs due to the delivery of services and management of housing and homelessness situations arising from civil unrest.

The divided society has also led to significant residential segregation, particularly in public housing estates. The marking of territories according to tradition has led to inefficiencies in meeting housing need. In particular there are a significant number of additional social housing units developed through the social housing development programme whilst other social housing lies vacant for reasons related to societal divide. For 2004/05 we estimated this opportunity cost of segregation to be approximately £21 million.

These quantified costs of division are summarised in Table 11.9.

	2004/05
NIHE Direct Costs (Including net cost of SPED, homelessness due to civil unrest/intimidation, damage to housing stock due to civil unrest/ intimidation, Base 2, additional security works and protection of private property at interfaces)	£3 million
Costs of Housing Inefficiencies due to Segregation and Interfaces	£21 million
Total	£24 million

Source: NIHE/DSD.

Costs Identified but not Quantified

There were no substantial costs identified that were not capable of quantification in this policy area.

12 Transport & Infrastructure

12.1 Policy Area and Service Delivery Responsibilities

The Department for Regional Development (DRD) has responsibility for strategic planning, transportation strategy, ports and public transport, roads policy and providing and maintaining roads. The Department oversees the Roads Service Executive Agency and the public port authorities. In addition the Northern Ireland Transport Holding Company (NITHC) is a public corporation set up under the Transport Act (NI) 1967 and the parent company of the publicly owned bus and rail companies in NI (Northern Ireland Railways (NIR), Metro and Ulsterbus, all operating as Translink). The NITHC statutory duties are to manage public transport properties and to oversee the activities of Translink.

12.2 Expenditure on Roads and Public Transport

The Public Expenditure Statistical Analysis (PESA, 2006) presents data on public expenditure on transport across the UK. In NI in 2004/05 government current expenditure on transport services was £214 million and capital expenditure on transport was £130 million (PESA 2006, Table 7.9a and 7.9b). This equates to approximately £201 per person (PESA 2006, Table 2.11).

Table 12.1 extracts indexed per capita transport expenditure data to compare with other UK jurisdictions. This highlights that with the exception of 2000/01 NI per capita expenditure on transport and roads was lower than the UK average. There is evidence that historically during the Troubles, transport and roads expenditure was low. Therefore recent expenditure has been starting from “a low base”, albeit there was a temporary boost following devolution (during which period new trains and new buses were purchased) (see Table 12.1). Therefore it does not appear that any additional financial cost on transport due to a divided society has been sufficient to create visible additional expenditure on transport and roads at the macro-level. That said, as our analysis below shows, this does not mean there is no additional expenditure due to societal division. Rather, it could just mean that other wider contextual issues (e.g. car use, size of the country, scale of rail infrastructure) have been of more significance with regard to overall expenditure.

Table 12.1 – UK Identifiable Expenditure on Transport Services per Head Indexed 2000/01 to 2005/06

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
NI	105	90	87	75	77	82
England	98	99	100	99	99	97
Scotland	118	109	108	130	126	140
Wales	106	100	87	84	90	88
UK	100	100	100	100	100	100

PESA guidance explains that the “Transport” function covers expenditure on roads and public transport services (including rail and bus services).

Source: PESA 2006 – Table 7.12.

12.3 Impact of NI Divide on Public Transport and Roads Expenditure

Literature review and consultations identified a number of areas within this policy area that have been and are impacted by the divide in NI. These include:

- direct costs due to damage to roads, railways and buses as a result of conflict related civil unrest. Direct costs have also been incurred in relation to the administration of European Peace II funds;
- duplication costs due to additional school bus runs; and
- discussion as to changes in public transport patterns due to the conflict, including the introduction of black taxi services on some major arterial roads in Belfast.

Each of these areas will be considered in turn.

Roads

Roads Service is responsible for the maintenance of public roads, bridges, streetlights, car parks and traffic signs. They can be involved in the removal of bonfire material from the public road network and subsequent disposal of that material. In addition there will be damage, for example to streetlights and road surfaces that will require repair.

Table 12.2 presents an overall estimate of the additional cost to Roads Service associated with clearing up bonfires and undertaking repairs to carriageways, footways, traffic signs and street lighting due to bonfires and civil unrest. The Roads Service notes that, as well as variation year to year, there will be variation between council areas.

Year	2001/02	2002/03*	2003/04	2004/05*	2005/06	2006/07
Cost	£250,000	£80,000	£100,000	£80,000	£218,000	£63,000

*It was not possible to abstract figures for 2002/03 & 2004/05. The estimated cost of £80k for those years is based on information abstracted from the report ' Bonfires – A Report by the Interagency Working Group On Bonfires'.

Source: Roads Service.

In the last couple of years Roads Service has been working in partnership with the PSNI in getting local community agreement to remove unwanted flags from lampposts through providing the necessary support facilities. In 2005/06 the cost of this work amounted to approximately £4,000.

Rail Services

NIR is responsible for the rail stock and infrastructure within NI. It has incurred a number of direct costs due to the conflict. Table 12.3 highlights three areas of cost.

Firstly there is general damage for example due to stones being thrown or via graffiti. These are often directly attributable to the conflict as public transport is seen to be government property. In addition the timing of the incidents, observation of recreational rioting in certain areas and nature of political graffiti can indicate the damage is conflict related.

Bus substitution in Table 12.3 refers to the additional cost of hiring buses and drivers to transport rail passengers when bomb alerts or other conflict related damage to tracks has not allowed trains to run. This has been a particular issue for the cross-border rail service between Belfast and Dublin which was subject to numerous bomb scares. This has undoubtedly led to lost revenue for NIR as a result of passengers not being able to travel by rail or choosing to make alternative arrangements, particularly on the cross-border line. There is also potential damage to the company's reputation, which has probably had a negative impact on passenger's confidence in rail services, particularly in the short term. Lost patronage is an issue which is also considered in regard to buses.

The reference to Lurgan re-signalling between 2001/02 to 2004/05 in Table 12.3 relates to a project undertaken to reposition the signalling relay rooms away from their original location to a safer site. This was undertaken in direct response to repeated damage caused to the signalling systems by civil unrest in the Lurgan area over a number of years.

Cost	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Total
Damage (£)	66,834	14,750	64,177	98,431	13,600	–	10,916	–	268,709
Bus Substitution (£)				121,258	169,204	80,660	65,389	67,291	503,802
Lurgan Re-signalling (£)				7,408	96,616	1,429,300	37,650		1,570,974
Total (£)	66,834	14,750	64,177	227,097	279,420	1,509,960	113,955	67,291	2,343,485

Source: Translink.

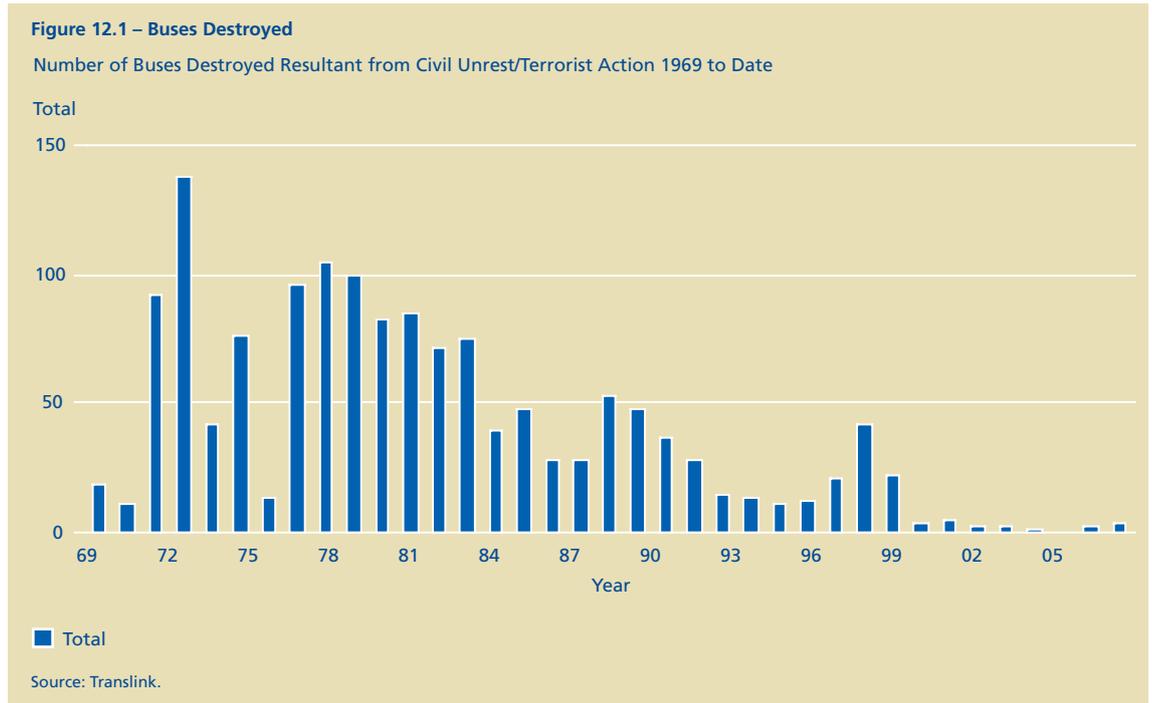
In 1997/98 (the year before the data recorded in the Table above) NIR recorded cost of damage to be approximately £2.5 million. This is more than the subsequent eight years combined. This exceptionally high figure was as a result of a train and relay rooms at Lake Street and Bells Row in Lurgan, being destroyed during disturbances in July of that year.

Historically, NIR also noted that there would have been some track replacement work undertaken at the height of the troubles, due to sections of 'strail' units being burned, however this cannot be readily identified as these costs were subsumed within the infrastructure maintenance costs.

Bus Services

Historically bus services in NI have often been at the forefront of civil unrest in NI, literally, as they have been used as barricades and burnt out in disturbances. Consultations and literature review have highlighted how significantly the bus services and their staff have been impacted by civil unrest. Indeed, between 1972 and 1982 twelve “busmen” were killed in conflict related deaths, including four in the Oxford Street Bus station in 1972 and numerous others injured (Buses Under Fire, NI’s Buses in the Troubles, Michael Collins, 2006).

Figure 12.1 presents graphically how many buses were destroyed each year since 1969. This also shows that the number of buses destroyed has generally been declining since highs of over 100 in the 1970s.



This violence has had a financial cost impact for public bus services in a number of ways including:

- counselling services for drivers recovering after a traumatic incident;
- an assault pay scheme was implemented. This meant that drivers were not put on sick pay if they were recovering from an assault. This ensured the employees would not lose out financially due to the assault; and
- cost of getting replacement buses. Drivers would have travelled to England in order to drive old buses from various places back to NI to replace buses lost due to being bombed or burnt out.

A Translink official described the peak of the Troubles as the “years of survival” for bus services. He added that costs associated with the issues listed above have all largely disappeared.

Current Direct Costs

As Figure 12.1 demonstrates, there are still a small number of buses being destroyed due to civil unrest. In 2004/05 the cost of an average aged bus was approximately £54,500. Between 2000 and 2005 a total of 13 buses were destroyed. Therefore the additional cost due to replacing buses was in the region of £700,000. In 2004 three buses were destroyed costing £163,500.

Buses used in NI may have an additional £2,500 of security related features included reinforced windows and windscreen. The number of buses purchased with such features varies and not all buses purchased will have such features. In 2003/04 Translink purchased 118 buses with security features. In 2004/05, however, only 10 buses with additional security features were purchased, resulting in a total additional cost of £25,000.

Aside from buses being destroyed, buses are often damaged by stones being thrown (breaking windows) and vandalism. It was estimated that broken windows damage costs Translink in the region of £500,000 per annum, with damage to seats adding a further £230,000 per year. A breakdown of incidents for 2005 was provided. Based on records of incidents, Translink estimated the proportion of damage that was related to civil unrest:

- ninety per cent of broken windows to be due to civil unrest, resulting in a cost of £450,000; and
- twenty per cent of seat damage due to civil unrest, resulting in a cost of £46,000.

These costs include all costs (staff time, replacement windows etc.).

Therefore total direct costs for 2004/05 are estimated to be cost of bus replacements (£163,500), security features (£25,000) plus broken windows (£450,000) and seat damage (£46,000) totalling £684,500.

School Buses – Duplication Issue?

Consultations highlighted that the school bus service in NI should be considered within this study, the perceived issue being one of potential duplication. Historically it had been normal practice for the vast bulk of children to travel on scheduled services. Over time, this practice became unacceptable or dangerous due to the crossing of interface areas and in general created a reluctance to use the normal scheduled bus route, especially in the Belfast and Londonderry areas.

In this context, additional school bus services were created to provide safer travel to and from school for children. For example, buses are put on for children from the Short Strand area, which has a predominantly Catholic community, in inner East Belfast to get to a school on the upper part of the Ravenhill Road. The bus goes via an indirect route over the Albert Bridge and up the Ormeau Road rather than directly up the Ravenhill Road (which has a predominantly Protestant community). There is a regular Metro bus service that runs up the Ravenhill Road and which has capacity for additional passengers. In other cities in the UK the children would get the regular bus.

Overall, there are 75 school bus runs in the morning and 90 in the afternoon in NI which would not occur in the rest of the UK. Not all of these are additional as there would not be capacity for transporting all children on current services. When capacity in normal routes is taken into account, however, a Translink official estimated that approximately 50 per cent of dedicated school bus runs are additional. Thus there are duplication costs with regard to bus stock, drivers' salaries and lengthening of journeys. An implication of the duplication within the bus stock is that a number of school buses return to sit in the depot unused at 4.30pm, after the school run, but during rush hour when in other cities bus stock is generally fully utilised.

Taking the additional bus stock required for special bus services as an approximation of the additional cost to be 45 (50 per cent of 90, the number of additional buses required at peak demand), the additional cost can be estimated to be $45 * £54,500$ (cost of bus in 2004/05) which equals £2,452,500. It is noted that this is not a recurring cost but rather a capital cost for the life duration of a bus.



Lost Patronage?

As in the case of bomb scares on the rail network, there is a possibility that the Troubles has affected how people in NI, and particularly in Belfast, use bus services. Advocates of this view highlight the strong and well used public transport network within Belfast pre-Troubles, with buses "every five or six minutes on the main routes", compared to "buses once an hour on the hour" during the height of the conflict so that staff "could count them out and count them in". The closing down of the city centre in the evening time resulted in much lower demand. The targeting of buses in civil disturbances (government property, seen as easy targets and useful barricades) led to bus users being diverted off their route or buses not turning up, leaving people stranded. Such experiences potentially turned the public to alternative forms of transport. In a consultation, a Translink official noted that bus journeys per head of population for Belfast are considerably less than Glasgow and Dublin. Pre-1969 Belfast was considered to be on a par with these cities for bus use (however the evidence for this is largely anecdotal as detailed data on Citybus /Ulsterbus use is only available from 1978 onward). This viewpoint suggests the Troubles have contributed to the changing of transport habits in NI and particularly Belfast to some degree. It is outside the scope of this study to attempt to verify or quantify this, other than to highlight it as an issue.

A second reason for lost patronage has been the substitution of taxi services in place of bus services on arterial routes in North and West Belfast. The origins of the black taxi services can be traced to the early 1970s. Periods of civil unrest forced operators to suspend services from certain routes for periods of several days. When services did operate "the combined effect of shortage of buses, driver intimidation, frequent re-routing and schedule disruptions ensured that services were unreliable" (**The Black Taxis**, Lavery, Buses, Volume 38 1986). In these areas semi-organised taxi services evolved, which was initially known as "People's Taxis". The Falls Taxi Association forming in 1971, and the

Shankill Taxis in 1972. Lavery goes on to estimate that during the mid-80s approximately one quarter of “public transport” journeys in Belfast are by shared taxi, concluding that whilst local areas benefit from competition between buses and taxis this had had a financial impact to conventional bus operations.

As suggested, these black taxi services are perceived by local residents to be part of the public transport system. In addition the black taxi operators also align themselves with public transport. For example they have recently been investigating the possibility of introducing concessionary fares for young, old and disabled in line with those offered by Translink bus services.

12.4 Summary

The PESA report shows that NI expenditure on transport is lower at a per capita level than for other regions of the UK. Whilst this may be due to a range of factors, it does suggest that the additional cost of the divide on public transport and roads has not been the main driver in overall public expenditure on transport patterns.

Quantified Costs

Our analysis has, however, highlighted that there have been direct costs due to societal division incurred with regard to roads and transport. At times these direct costs have been significant, however the costs have generally been declining in recent years. In 2004/05 we estimate the direct costs of division for roads and public transport to total £878,500 (£80,000 for roads, £114,000 for rail services and £684,500 for bus services).

Analysis has highlighted the need for school bus services as being related to conflict and has resulted in duplication of bus services in Belfast and Londonderry. This has created duplication with regard to service provision by Translink. We estimate the capital cost of this duplication, based on additional bus stock to be almost £2,500,000.

These quantified costs of division are summarised in Table 12.4.

	2004/05 £'000
Roads and Public Transport Direct Costs (Includes costs relating to bonfires and damage to stock due to civil unrest).	£878
Duplication within school bus stock	£2,500
Total	£3,378

Source: Roads Service, Translink and DRD.

Costs Identified but not Quantified

It was noted in consultations and through literature review that the conflict has likely had a negative impact on people's inclination to use train and bus services. It has not been possible, however, to quantify the scale of this impact within this research.

13 Community & Voluntary Sector

13.1 Voluntary and Community Policy

The Voluntary and Community Unit (VCU) within DSD provides a focus within government on the voluntary and community sector (VCS). The VCS in NI is estimated to employ approximately 30,000 people and is made up of over 5000 organisations.

13.2 Comparative Analysis of Expenditure

Government expenditure on the VCS relates to its own work in supporting and developing the VCS and in funding it provides for the sector. A report entitled **Central Government Funding of voluntary and community organisations 1982/83 – 2001/02** by the Charities Aid Foundation and the Home Office presented data on funding of VCS across a number years and regions. This provides a high level picture of government funding of the VCS sector in NI.

Table 13.1 shows that on a per capita basis government expenditure in NI on the VCS is the highest in the UK. There has been significant equalisation with regard to levels of poverty and deprivation between NI and other parts of the UK (see Section 4). In 2001/02 based on high level analysis it appears the divide increases expenditure in NI by approximately £15 per head (or £26 million based on a population of 1.7 million) compared to the nearest comparator, Scotland.

Table 13.1 – Total Per Capita Central Government Funding of Voluntary and Community Organisations

	2000/01			2001/02		
	Non-association funding (£)	Housing association funding	Total funding	Non-association funding (£)	Housing association funding	Total funding
NI	31.73	40.04	71.77	49.76	37.94	87.70
Scotland	27.21	34.15	61.36	34.17	35.03	69.20
England	18.27	19.75	38.02	24.52	19.78	44.30
Wales	18.16	22.86	41.02	33.56	24.35	57.91

NB – Housing association funding is considered anomalous as it is for capital purposes rather than for projects or programmes. In addition it is also the largest portion of government expenditure in this area. Therefore figures are presented to distinguish housing association funding and non-housing association funding.

Source: Central Government Funding of voluntary and community organisations 1982/83 – 2001/02 Home Office and CAF.

Through consultation and literature review a number of potential sources of additional costs due to political divide have been identified within the VCS. These are considered below.

13.3 Duplication within the VCS

There are over 5000 groups and organisations within the VCS, and over 200 organisations providing support services to the sector. Work by the Taskforce on Resourcing the VCS has highlighted the view that there is duplication within the sector across a range of areas. For example the Taskforce’s Infrastructure Working Group (2003) paper stated “there is organisational messiness resulting from the organic growth of the sector. Evidence exists of overlap, duplication and overcrowding”. Reasons given for duplication include the overlap of aims amongst programmes and funders, organic growth within the sector, low level capacity amongst some elements of the community (including an inability to optimise use of government investment) and sectarian division.

It is understood that, given the sectarian divide, in order to ensure support was provided to disadvantaged communities some duplication was considered necessary. Looking forward however, duplication within the sector will be challenged as the funding climate changes, especially reduction in European funding, through the changing nature of relations between the sector and Government and through measures such as the current ‘review of support services’.

In this research evidence of duplication due to sectarian division is relevant. NICVA’s Viewfinder in February 2004 surveyed members of the VCS. Forty per cent of survey respondents felt that there was duplication of resources within the sector as a result of organisations developing in Protestant or Catholic areas. More recently, Voluntary Action and Community Relations in NI, A Report of a Research Project funded by the CRC and OFMDFM (2006)

found that the sector “remains embedded to a significant extent in each of the two communities”. For example almost three-quarters of organisations had management committees that were either wholly or mainly from one community. Seventy per cent had not changed in this respect since their inception. The research, however, did find that the organisations were able to build cross-community coalitions around cross-cutting themes.

Taking this evidence of duplication within the VCS, it is highly likely that government funding has been allocated to organisations that are duplicated due to societal division. Interrogation of the government’s database of VCS funding (which at the time of research includes data from the majority of central departments, but not other government bodies) indicates a number of examples of this. For example funding has been granted to community support organisations in Suffolk and Upper Andersonstown, whilst previously there has been government funding for festivals in West Belfast and Shankill, areas that are neighbouring but divided by community background.

Research and evidence of duplication to date has not gone as far as quantifying it. Therefore for the purpose of this study, whilst concluding duplication within the sector due to societal divide has almost definitely created a greater draw on government resources, it is unclear as to the degree of expenditure involved.

13.4 Initiatives Responding to Differential Development

A second potential source of additional expenditure due to the societal divide identified in our research has been initiatives that have been orientated, or perceived to have been orientated, around one community rather than the other. In some instances commentators have challenged whether these have fitted with strategic policy towards the VCS.

An evaluation of VCU in 2000 recommended VCU focus on policy issues for the sector. Since then however VCU has also become involved in delivery of a number of programmes. As noted above, a number of programmes have been perceived to have been designed for one side of the community rather than the other. This is arguably a rational response to different levels of development in the two communities and perceived difficulties in accessing funding. Some non-government commentators have, however, suggested that initiatives have to be considered within the wider political environment.

Perceived examples of such funding include:

- i. there is a perception that the Catholic community has historically had a greater capacity to avail of funding, for example this question has been raised with regard to Peace funding²⁴;
- ii. there has been a perceived bias towards the Catholic/Nationalist Community through the funding of festivals. A review of Parliamentary Questions highlights a number of Unionist politicians asking for details of funding of Catholic festivals (e.g. West Belfast Festival) compared to Protestant festivals (e.g. Twelfth Orange Celebrations). Other unionist politicians have stated “the unionist community had been locked out of festival funding for many years”²⁵;
- iii. funding for the development stage of a Conflict Transformation Initiative in loyalist areas, a project proposed by the Ulster Political Research Group. This funding (£135,000) sits outside existing Department programmes and was implemented under the direction of the Secretary of State;
- iv. the Local Community Fund (LCF) was announced in February 2003 with an annual £3 million budget aimed at developing community capacity and leadership. In launching the fund, the Secretary of State said “Many of those in this category are from the Loyalist community”, and noted that leaders in this community “have pressed on us the need to address their community’s alienation urgently”. There have been perceptions that the LCF favoured the Protestant, Unionist and Loyalist community. Despite perceptions of sectarian bias the fund was available to the top 10 per cent of most deprived wards. Financial allocations were based on population figures and programmes designed in consultation with local communities. The fund was re-launched in April 2006 as a strand of Capacity Building in Disadvantaged Communities Programme and now targets the 11-20 per cent most deprived Super Output Areas. The programme supports activity around the five programme objectives relating to needs of local communities from across the traditional divide. There are various examples of this objective being achieved through partnership working between communities;

²⁴ For example *Fairness for All, The Future of Peace Funding*, a paper by Jim Allister MEP of the DUP party, claims that the Catholic community has received a disproportionately high level of Peace I and II funding. Research commissioned by SEUPB found a shift of 4.4 percentage points towards the Protestant community in Peace II in comparison to its share of uptake under the PEACE I Programme. The Catholic share of approved funding under PEACE II is now estimated at 51.4 per cent of the total, compared with a Protestant share of 48.6 per cent. Under PEACE I these figures were 55.8 per cent and 44.2 per cent respectively (*Value of PEACE II funding receives cross community recognition – SEUPB press release*, 13.6.05).

²⁵ Diane Dodds MLA, Northern Ireland Assembly debates, Tuesday, 26 September 2006 (see <http://www.theyworkforyou.com/ni/?gid=2006-09-26.4.78>).

- v. in 2004 a grant was given to Greater Shankill Partnership (£33,000) to cover the costs of the Shankill Community Convention. The community convention proposal came from elected representatives and community leaders and is part of a wider process of transformation within Protestant working class areas. This was the first of four government funded pilot conventions to take place in Protestant working class communities. Community Convention work is currently being evaluated by the Department. A decision on the future of community conventions, or any similar initiatives will be taken in light of the evaluation of this pilot and the circumstances facing any specific community.

The recently launched Renewing Communities programme has also come under the microscope on this matter. An action plan of 60 programmes was published in response to the report of a taskforce on Protestant working class communities. A significant number of the actions, however, are to be implemented across both communities. Significant elements of the response are accounted for by existing programmes. DSD advised that the additional monies under "Renewing Communities" amount to £33 million. There are perceived concerns (e.g. Scope social affairs magazine, June 2006) about the degree to which the programme is based on objective need and the equality impact assessment processes undertaken. The Department has responded to these concerns and has stated that that this initiative is a response to a real need due to differential development between the Protestant community and Catholic community.

Overall it is difficult to quantify how much of the funding for these various programmes and initiatives have been driven by politics of division or the different needs of particular communities. Both motivations can be attributable, to differing degrees, to the divided society. It does appear, therefore, that there are additional costs for government in serving a sector that is split across two communities with different needs, within a wider political arena.

13.5 Summary

From a high level expenditure analysis, government spend on the VCS in NI is high relative to other parts of the UK (£26 million higher in 2001/02 based on per capita data).

Costs Identified but not Quantified

We conclude that sectarian duplication in the sector and the need to serve two communities with differential development issues, whilst operating within a wider political context have resulted in increased government expenditure within this policy area. The VCS in NI may also have been inflated for other reasons, for example the different structure of administration in NI, with central government using VCS to deliver services rather than the historically comparatively weak local government.

Based on these findings it is difficult to determine the extent to which additional expenditure (e.g. £26 million in 2001/02) has been driven by societal divisions. However, even if between 10 and 25 per cent is due to societal division, which does not seem unreasonable, this equates to additional costs of between £2.6 million and £6.5 million.

14 Agriculture & Rural Development

14.1 Policy Area and Service Delivery Responsibilities

The Department of Agriculture and Rural Development (DARD) has responsibility for food, farming, and environmental policy and the development of the rural sector in NI. It provides a business development service for farmers and growers, and a veterinary service with administration of animal health and welfare. It is responsible to the Department of the Environment, Food and Rural Affairs (Defra) in Great Britain for the administration in NI of schemes affecting the whole of the United Kingdom. The Department also oversees the application of European Union agricultural and rural development policy to NI.

14.2 Macro Expenditure Analysis

The Public Expenditure Statistical Analysis (PESA, 2006) presents data on public expenditure on agriculture across the UK. In NI in 2004/05 government current expenditure on agriculture, fisheries and forestry services was £371 million and capital expenditure was £25 million (PESA 2006, Table 7.9a and 7.9b). This equates to approximately £232 per person (PESA 2006, Table 7.11).

Between 2000/01 and 2005/06 public expenditure on agriculture, fisheries and forestry was consistently higher than Wales in absolute terms (PESA 2006 Tables 7.5 – 7.11). NI was also consistently the highest of the four jurisdictions within the UK on a per capita basis (PESA 2006 Table 7.12). Officials stated the high figure per head for NI for identifiable expenditure on agriculture, fisheries and forestry reflects the fact that this sector is much more important in NI relative to the rest of the UK. This is reflected by the fact that the proportional contribution NI makes to aggregate UK income in this sector is several times the proportion of the UK population that is resident in NI.

Therefore at a high level accepting the Agriculture, Fisheries and Forestry data from PESA as being broadly in line with agriculture and rural development theme, NI has a relatively high level of public expenditure in this sector. As noted, this will be partly due to the relatively high importance of agriculture, fisheries and forestry to NI. The rest of this section will attempt to determine if the divide in NI has created an additional cost with respect to public expenditure within this sector.

14.3 Impact of the NI Divide on Agriculture and Rural Development

Based on a review of literature²⁶ and consultations with DARD officials, it was clear that the conflict has had an impact on agriculture and rural development. It is also apparent that there are a range of issues challenging the broad agriculture and rural development sector which are common across the UK and Ireland – these include challenges around income, diversification, depopulation and the balance of environmental stewardship versus productivity. Therefore whilst we identify a range of social and economic impacts of the divide in NI they should be considered as occurring in the context of wider rural societal pressures. The impacts identified are as follows²⁷:

- land is designated as belonging to one side or the other “**It definitely is Catholic land**” (Report of Catholic Workshops, RCN, 2002).
- re-sale of land to “own-side” only creating a sub-optimal market in rural land sales. A participant in the RCN research noted an example of land sale in which ‘**several Protestants bought it, so it wouldn’t go to Catholic neighbours**’, the rationale being ‘**It’s such a tight community, it would all be changed if somebody moved in.**’ (page 81, Protestant Communities in Border Areas Research Report, RCN). It is noted that the volume of land sales has been declining (e.g. in 1999 there were 163 sales covering 1,672 hectares compared to 40 sales in 2004 covering 9,153 hectares – **Land and Valuation Agency**) and the bigger issue may now be “who do you let your land to”. A DARD official noted that this issue may have hindered the restructuring of the industry;
- some land abandoned or not fully utilised on the border, or because of the border – albeit this is likely to be relatively small in absolute terms. Also linked with the distorted selling practices noted above a participant in the RCN research stated ‘**We would have land in the South, hilly rough land, but we still wouldn’t sell it.**’ (page 81, Protestant Communities in Border Areas Research Report, RCN);

²⁶ <http://pub.ruralcommunitynetwork.org/files/pdf/Protestant%20Communities%20in%20Border%20Area.doc>
http://pub.ruralcommunitynetwork.org/files/pdf/RDC_RCN%20Report.pdf
<http://pub.ruralcommunitynetwork.org/files/pdf/Border%20Protestants%20and%20Community%20Development.pdf>
<http://pub.ruralcommunitynetwork.org/files/pdf/Protestant%20Communities%20in%20Border%20Area.doc>
<http://pub.ruralcommunitynetwork.org/files/pdf/Report%20on%20Catholic%20Workshops.doc>

²⁷ It is noted that this section focuses on rural Northern Ireland. It may be the case that some or all of the impacts listed are applicable to urban Northern Ireland as well.

- communities cut-off from settlements, services and people across the border – both through cross-border road closure and issues of fear;
- rural population movement – in particular, there is evidence of Protestants moving away from border areas; 'It's (the population decline) something you can do nothing about, you do miss them – on the road we live on – a dead end road, there were 27 of them, going out to school in the morning, now there's none. It's the same thing going to church on a Sunday morning...now there's only a couple, the population is just gone. You do wonder where they're all gone to and what has happened, but it's just one of these things.' (page 80, Protestant Communities in Border Areas Research Report, RCN);
- support of "own side" businesses regardless of what business is closest, most economic etc. RCN research identified mixed attitudes with regards to this amongst both Catholic and Protestant communities with some evidence of loyalty to "own side" businesses occurring for example due to reasons of perceived safety or community relations attitudes (e.g. a local parade ban), but with others shopping based on reasons of choice and finding a "bargain"; and
- there is evidence of duplication of facilities in some areas due to the divided nature of the local community. "The fact is that for the most part, the two communities in these areas do not interact. There is no tradition of either working together on joint ventures of attending events in each others' halls. There would appear to be no 'neutral' venues." ("You feel you'd have no say" Border Protestants and Community Development, RCN, 2003).

It is not clear how substantial these impacts are in practice, or to what extent the impacts are perceived, or to what extent the impacts are due to reasons other than community divide and conflict. It has not been within the scope of this research to substantiate them. We have, however, discussed them with DARD, with regard to whether public policies or expenditure have been skewed as a result. Potential costs of this are highlighted below.

Peace II Funds

European Peace funding brings a net benefit to rural society (see Section 4). DARD funding, however, will be skewed to provide match funding for Peace measures and in administering Peace II funds. This is attributable to Peace funding, which would not have existed without the conflict. These are considered within a NI wide perspective in section 4. Across Peace funded activity, attempts have been made to bring farmers and their families together in ways that they would not have done before, to explore common problems, goals and opportunities with a view to breaking down barriers and division.

Direct and Indirect Support for Primary Production

The vast proportion of DARD expenditure is on direct and indirect support for primary production (beef, dairy, sheep, crops etc.). This is administered by DARD but driven by EU regulations, with support given to beef, dairy, sheep and crops producers according to regulations that do not take into consideration community background. Therefore the policies relating to production expenditure are considered to be blind to "green – orange" issues.

Rural Development Programme

A smaller proportion of DARD expenditure goes towards the Rural Development Programme (RDP). The current 2001-2006 programme has a budget of approximately £80 million and is co-financed by DARD and EU structural funds (BSP, Peace II) and community initiatives (Interreg IIIA and Leader +). Three organisations, DARD, Rural Development Council (RDC) and Rural Community Network (RCN) deliver the RDP. Table 14.1 presents the activity areas funded through the RDP.

Table 14.1 – NI Rural Development Programme 2001-2006

Element	Value (million)
Strengthening rural communities – including support for the RDC and RCN	£15
Local regeneration/sectoral Programmes and Projects	£28
Micro-business development	£20
Natural Resource Rural Tourism	£11
INTERREG Cross-border activity	£6
TOTAL	£80

Source: DARD website.

The RDP was established to help rural communities meet the needs of a changing economic environment, in so doing helping to improve the economic, environmental, and social opportunities available to rural people living in rural areas. The RDP targeted disadvantaged communities in helping address issues of poverty and deprivation.

Discussions with DARD officials highlighted that there was some flexibility to tailor the RDP to address local needs. The vast proportion of the funding came through the BSP, Interreg IIIA and Leader + European programmes. A DARD official noted these are more about “addressing the crisis facing NI agriculture and implications for the rural economy and social structures, than the legacy of the conflict”. Ultimately, these “non-conflict” related programmes will contribute to the creation of a more vibrant NI economy, which will help build a stable and inclusive society; but they are also the standard building blocks of agricultural programmes in other member states. Whilst the other elements of the RDP may indirectly address issues related to the NI conflict, the Peace II element of the RDP can be considered to be specific to the conflict in NI. This is additional non-domestic funding. There are however match funding and administration costs to take into account. As noted, consideration of Peace funding in relation to this research is addressed in Section 4 of this report.

Renewing Communities

The “Renewing Communities” initiative has been identified as having been influenced by the differential development between certain Catholic and Protestant communities. The initiative was the Government’s response to the Report of the Taskforce on Protestant Working Class Communities. Within it DARD has been given responsibility for implementing and administering a programme supporting isolated Protestant communities close to the Border. The programme will support development workers for Protestant community organisations over a two year period. There will be a cost to DARD through implementation and administration of this programme which is to run from 2006 to 2008.

14.4 Summary

At a high level, PESA data indicated that public expenditure funding on agriculture, fisheries and forestry in NI is higher on a per capita basis than in other UK regions. In recognising this could be due to a range of factors, including the relatively high importance of the sector to NI, we set out to determine if the divide in NI has created additional public expenditure on the sector.

The vast proportion of DARD expenditure is on direct and indirect support for primary production, administered under European rather than local regulations and hence is not impacted by the divide. Overall we have found no evidence that the divide in NI has been a significant reason for the higher expenditure per capita on agriculture, forestry and fisheries in NI as presented in the PESA data.

Costs Identified but not Quantified

Our research has highlighted that the RDP in NI has likely been tailored, to a small extent, in order to address the consequences of the divide on rural issues. We conclude that the element of the RDP which is funded by Peace II funding (a benefit rather than a cost) can be considered to be the element specific to the NI divide.

Our analysis has found that the conflict has had an impact on rural communities across many aspects of life. Many of the costs incurred have been social, for example with regard to population movement and communities feeling isolated. There is also evidence that sale of land and business practices have been affected. It is difficult to assess the extent of this practice, as much of the evidence is anecdotal. The extent to which the conflict has created these costs is also difficult to isolate due to wider pressures on rural society.

15 Case Study – Whiterock

15.1 Introduction

The purpose of this section is to demonstrate the broad range of impacts and associated expenditure that can be triggered by unexpected incidents associated with the divide. A brief chronology of the events that surrounded the contentious Orange Order parade at Whiterock in 2005 is provided below. This is followed by a summary of the immediate impacts and response made, and the wider 'ripple' effect of this serious event.

15.2 Chronology of Events

An Orange Order parade was scheduled to pass through the Whiterock area of West Belfast on 25th June 2005. The Parades Commission imposed restrictions on the parade to curb what it termed "a possible adverse effect on community relations". The parade was restricted from passing through Workman Avenue (off the predominantly nationalist Springfield Road) and re-routed through the former Mackies factory site. In addition, the Parades Commission banned paramilitary flags at the parade and bands were restricted to playing hymns as they passed the controversial part of the route. On 24th June 2005 the Orange Order decided to postpone the parade as a result of these restrictions.

On 7th September 2005 loyalists commenced road blocks in Belfast to protest against the re-routing of the Whiterock parade. The Parades Commission stated on 8th September 2005 that it would not review its decision as no new information had come to light. Road blocks continued at various locations until 10th September 2005 when rioting broke out at the end of Whiterock Parade. Between 10th and 12th of September 2005 some of the most serious public disorder in NI since the ceasefires continued across Belfast and emerged in other towns including Ballymena, Carrickfergus, Larne, Ballyclare and Glengormley.

In the aftermath of the violence, the Orange Order was accused by PSNI of having encouraged protests against the re-routing decision; the PSNI Chief Constable declared that the UVF had broken its ceasefire by orchestrating rioting; unionist politicians blamed the Parades Commission for not allowing them to put forward a case in defence of the parade; and the Orange Order accused the Commission of holding a 'cultural veto' on behalf of the nationalist community.

15.3 The 'Ripple' Effect

Figure 15.1 overleaf summarises the events of the weekend of violence that surrounded Whiterock and shows the 'ripple' effect across a range of public service areas. Where information is available, the impacts are quantified.

Figure 15.1 – The 'Ripple' Effect of Whiterock Violence September 2005



16 Summary of Findings

16.1 Overview

The overall aim of this research has been to conduct a thorough assessment of the financial costs of the NI divide. We have undertaken a detailed analysis of the potential costs of division embedded within the system of public expenditure at both a macro and sector by sector level however, this has proven to be particularly complex. The difficulties experienced in identifying, analysing and reporting data have been explored in Section 2.4, and these relate to issues such as disentanglement of policy and resource allocation decisions, and the impact of that in clearly defining the extent to which conflict and societal division has been a significant causal factor.

Whilst quantification of the costs of division has proved difficult, the research has highlighted significant evidence that issues of segregation and conflict continue to influence policy decisions, public service provision and hence resource allocations.

At a macro level, the research has compared the extent to which the NI public expenditure allocation differs from that of comparable regions and has identified the amount of additional spend on a per capita basis in the range of £1.5 billion per annum. Whilst a wide range of factors can be identified as potentially influencing the differential, the analysis reveals NI spends an additional £1.5 billion per annum on its public services and this could be considered to be the upper limit of the cost of the divide in NI.

Whilst issues of disentanglement, consistency of base period, resource definitions etc. mean that a comprehensive aggregation on a bottom up basis is not possible nor meaningful, the research has clearly identified the following:

- **Quantified Costs** – financial costs due to the divide that have been identified and quantified. This includes direct costs and costs arising from duplication;
- **Costs Identified But Not Quantified** – financial costs due to the divide that have been identified but for which we have been unable to quantify for various reasons. Possible and probable extent of the impact is considered as allowed. This category includes very long-term inter-generational impacts of the divide that are extremely difficult to measure; and
- **Economic Lost Opportunities** – the cost the impact of the Troubles has had on tourism, FDI and the labour market.

It may be that at some stage in the future, or with additional information the costs not quantified could be further considered. At this stage however, it is relevant and useful to highlight them as costs of the divide, despite the inability to be confident as to the amount of cost incurred. Each of the categories noted above are explored in further detail in the following sub-sections.

16.2 Quantified Costs

Our research has identified a range of costs attributable to societal divide that were capable of quantification. These provide an indication of the nature and type of public expenditure identified as attributable to segregation or conflict. The quantified costs are presented sectorally below:

- **Policing, Security and the Political Process:** a summary of the costs identified is detailed below:
 - there is a significant cost to ‘normalising’ policing in NI whilst continuing to ensure that resources exist to cope with unexpected security incidents. This includes approximately £56m in 2004/05 on the Patten programme, an estimated £50m per year to normalise the estate, £130m over 3-4 years to replace the services provided by the army, £30m for the HET, ongoing costs of the force size required to deal with the security situation and the cost of policing unexpected civil disorder such as Whiterock which cost an estimated £3m;
 - almost £10 million on security issues, including £7.5 million on the key persons protection scheme (2004/05) and £2.29 million on independent commissions (2004/05);
 - just under £6 million on compensation claims related to terrorist related injuries (2004/05);
 - £172 million on the Bloody Sunday Inquiry to date;
 - almost £7 million additional expenditure on prisons (2004/05);

- **Community Relations and Victims:** Government expenditure related to community relations efforts are estimated to total over £13m per annum and the support to Victims approximately £7m per annum;
- **Education:** quantification of conflict related costs within the education sector was particularly problematic. Those identified related to RPA related structural re-organisation which, together with the community relations spend (also included in community relations and victims analysis), totalled approximately £10 million;
- **Health:** cost of the NIF&RS attending Bonfires of £232,000;
- **Housing:** Government expenditure on social housing is inflated by £24 million due to societal divide. A large proportion of this is due to the development of new social housing whilst other housing lies vacant due to reasons associated with divide (for example houses located on an community interface vulnerable to civil unrest);
- **Transport and Infrastructure:** we estimate that an absence of civil unrest could realise in excess of £3.378 million in savings on Government expenditure on roads and public transport; and
- **Community and Voluntary Sector:** Government expenditure on VCS in NI is approximately £26m higher than other parts of the UK.

It is also noted that alongside costs of division, there a number of financial “benefits”. For example EU Peace Funding, IFI and Atlantic have brought substantial financial resources into NI and would not have done so in the absence of societal division. The net additional monies coming into NI from these sources peaked at over £80 million per annum. Recently the overall inflow of such funds is reducing and will continue to do so in years ahead.

16.3 Costs Identified

In certain incidences the research has provided evidence that a level of public expenditure has become embedded within service delivery models. However, primarily due to issues of disentanglement, it has not proved possible to clearly extrapolate conflict related costs.

Sector specific findings include:

- **Policing, Security and the Political Process:** As highlighted in Section 7; additional policing and security costs that were identified but could not be quantified related to the element of normal running costs for PSNI and NIPS that are incurred as a result of the security situation in NI. For PSNI this relates to the size of the police force required to meet current security demands (including unexpected incidents that might occur) and the working practices that have developed over the years. For NIPS the degree to which the security situation has contributed to higher unit costs for prison provision (as opposed to scale of provision in NI) could not be quantified.

In addition, based on a comparative analysis of policing expenditure in 2004/05 the difference between policing expenditure in NI per 1000 head of population (£478,000) and England and Wales (£183,000) is £295,000. Based on this, the upper limit of the cost of the divide on policing can be considered to be £295,000 per 1000 people. Scaling this up for the whole population of NI²⁸, the maximum additional cost of policing in NI due to the sectarian divide is potentially £504 million per annum;

- **Education:** The divide was identified as having an impact on the efficiency with which schools and ITE is provided. A range of potential savings was identified:
 - schools provision – greater collaboration across the schools sectors and consolidation within the schools estate could result in savings. If these were of the order of one to five per cent savings would be between £15.9m and £79.6m;
 - teacher education – If the number of providers of ITE was reduced and this resulted in savings of between one and five per cent of current administration costs this would equate to between £108.6k and £543k;

²⁸ National Statistics, Regional Trends 39 – 2004 mid-year population estimate is 1,710,000.

- **Health:** during the Troubles there were clearly direct costs to the health system of managing conflict related trauma across the acute, community and primary care sectors. Research indicates that NI continues to have a greater health need due to the impact of 30 years of conflict. It is however difficult to disentangle health impacts that are due to the Troubles as opposed to deprivation. Ultimately, quantification of direct health cost due to societal divide has not been possible as Trust financial systems do not code and capture data patient treatment in this way. Research has also highlighted evidence of health facilities being located by factoring in community accessibility considerations rather than purely on the basis of population, deprivation and patterns of service provision;
- **Public Transport:** It was noted in consultations, and through literature review, that the conflict has likely had a negative impact on people's inclination to use train and bus services. It has not been possible, however, to quantify the scale of this impact within this research;
- **Voluntary and Community Sector:** expenditure on VCS has been significantly heightened due to sectarian duplication within the sector and differential development needs. It has not been possible to quantify this; and
- **Agriculture and Rural Development:** Our research has highlighted that the RDP in NI has likely been tailored to a small extent in order to address the consequences of the divide on rural issues.

Our analysis has found that conflict has had an impact on rural communities across many aspects of life. Many of the costs incurred have been social, for example with regard to population movement and communities feeling isolated. There is also evidence that sale of land and business practices have been affected. It is difficult to assess the extent of this practice, as much of the evidence is anecdotal. The extent to which the conflict has created these costs is also difficult to isolate due to wider pressures on rural society.

16.4 Economic Lost Opportunities

In terms of lost opportunity we have explored the potential impact on the economy the conflict has had in terms of lost jobs (27,600 from 1983 – 2000), investment (£225 million GVA) and tourism (£1,461 million 2006 prices). However it is important to recognise that this analysis sets out an estimation of what has not been achieved due to the prevailing circumstances or alternatively what could have been achieved had circumstances been different. In this context the estimation of lost opportunity should be considered a sunk cost of the conflict.

16.5 Looking Forward

Looking to the future, research indicates that the likelihood is that NI will remain a deeply segregated society in terms of where people live, work or are educated. However, the continued absence of violence coupled with an increased policy driven focus through Shared Future may increase confidence, mobility and a willingness to access shared facilities. While there may be more mixing and sharing of facilities and public services, significant challenges will remain with regard to changing housing patterns, mixing or integration of education or changes in employment patterns, despite the aspirations of many expressed in surveys that they want to mix more.

In this context, whilst we recognise the potential to respond positively to the challenge of Shared Future and to re-define service delivery, it must be recognised that the timeline for change and benefit realisation is not insignificant.

Appendix 1 – Reference Group

Reference Group Member	Department/Organisation
Billy Gamble	OFMDFM
Fiona Hepper	DETI
Dave Wall	DSD
Damien Prince	DCAL
Eddie Rooney	DE
Greg McConnell	DEL
Doreen Brown	DRD
Lian Patterson	NIO
Assistant Chief Constable McCausland	PSNI
David Thomson	DFP
Noel McCann	DHSSPS
Pauline Keegan	DARD

Appendix 2 – List of Departments and Organisations Provided with Information Requests

Departments/Organisations that were provided with information requests

OFMDFM

DETI

DSD

DCAL

DE

DEL

DRD

NIO

DFP

DHSSPS

DARD

PSNI

NIHE

SSA

Invest NI

Translink

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Appendix 4 – Lost Opportunity – Econometric Models and Data Tables

Model of estimated impact of terrorist-related activity on industrial development activity and tourism

There is a clear causal connection between industrial development and terrorist violence and also a similar relation between tourism activity and terrorism. In terms of industrial development, a range of variants on the basic model was estimated using deaths, shootings, bombings and the total number of incidents as explanatory variables. In all variants of the model the “terrorism” variable was significant. The model with deaths as the most appropriate explanatory variable was selected for 2 reasons; first because it was the most highly significant of the terrorism proxy variables; and second because deaths due to terrorism were usually associated with high profile incidents (e.g. Lord Mountbatten’s assassination, Narrow Water ambush, Droppin Well, Teebane ambush etc) which drew world wide publicity and adverse comment and therefore depicted NI in the worst possible light. The implicit view is that these deterred FDI more than any other dimension of the troubles. If it had been possible to access industrial development data on a monthly or quarterly basis then a more accurate causal model could have estimated but official data are only produced annually by IDB and only since 1983.

In terms of tourism the “best” model is the variant that uses shootings. Deaths, shootings and incidents are also significant in this model but shootings seem to be the most significant determinant of variation in tourism spend. If all the variants of the tourism model are examined, there is a common look and feel but statistically shootings are strongest in explanatory power. This finding can be rationalised by arguing that tourists are deterred by terrorism in general and shootings in particular because of their relatively greater frequency and randomness.

1. Model of estimated impact of civil unrest on industrial development

Theoretical Model:

$$\text{Log}(\text{Jobs promoted})_t = a_0 + a_1 \text{Log}(\text{deaths due to terrorism})_t + \mu_t$$

where a_1 is the elasticity (or responsiveness) of jobs promoted to the level of violence.

Estimated Model:

The estimated model for the period 1983-2000 is as follows:

$$\text{Estimated Jobs promoted} = 6973.5 - 35.5559 (\text{deaths due to terrorism})$$

(12.9802) (-4.2551)

(figures in parentheses are t-ratios)

$$R^2=0.53$$

Standard error of the regression = 1019.7

Mean of the dependent variable = 4929.1

Durbin Watson statistic = 1.58.

Diagnostic Tests

Functional Form (Ramsey’s RESET test) : Chi Square(1) = 0.4893

Normality Test : Chi Square(1) = 0.3996

Serial Correlation Test : Chi Square(1) = 0.6202

Data Set

Job Promotion data were derived from IDB Annual Reports from 1983 to 2001.

Deaths due to terrorism data were sourced from the Northern Ireland Abstract of Statistics 2001.

Table 1a – Estimated Jobs Promoted and GVA Lost due to Terrorist Violence (1983-2000)

Year	Job loss	GVA equivalent loss (£ million)
1983	2,741	9.405
1984	2,278	8.451
1985	1,922	7.697
1986	2,171	9.711
1987	3,310	15.862
1988	3,310	17.580
1989	2,207	13.007
1990	2,705	17.045
1991	3,346	22.712
1992	3,026	21.908
1993	2,990	23.038
1994	2,207	18.127
1995	320	2.810
1996	534	4.869
1997	783	7.701
1998	1,174	12.053
1999	1,566	16.923
2000	249	2.822
Total	36,846	231.725
Jobs Conversion Factor (0.75)	27,635	173.794

**Table 2 – Northern Ireland and Republic of Ireland
Tourist Revenues (£mn, constant 1985 prices)
1976 – 2005**

	Northern Ireland	Republic of Ireland
1976	66.746	483.970
1977	74.385	554.414
1978	82.955	610.656
1979	95.492	635.734
1980	101.697	597.616
1981	75.980	559.777
1982	79.162	545.728
1983	112.249	541.367
1984	109.756	564.848
1985	109.900	621.429
1986	105.222	566.967
1987	118.849	619.049
1988	114.159	697.545
1989	115.764	789.419
1990	114.779	878.203
1991	114.812	909.289
1992	110.656	890.836
1993	116.342	977.002
1994	120.079	1046.010
1995	135.787	1143.621
1996	127.633	1265.295
1997	124.925	1390.810
1998	126.016	1470.114
1999	151.602	1555.682
2000	147.222	1720.689
2001	153.930	1775.223
2002	147.075	1719.796
2003	148.148	1690.205
2004	158.561	1657.342
2005	175.949	1700.336

Source: ONS, CSO Dublin and NI Annual Abstract of Statistics.

Table 3 – Northern Ireland Actual Tourism Revenues and Recalculated Revenues at the Republic of Ireland's Growth Rate (1977 – 2005)

	Actual Revenue (£m)	Projected Revenue (£m) (at 4.76%)	Difference (£m)
	(1)	(2)	(2) – (1)
1977	74.385	69.923	-4.462
1978	82.955	73.251	-9.703
1979	95.492	76.738	-18.754
1980	101.697	80.391	-21.307
1981	75.980	84.217	8.238
1982	79.162	88.226	9.064
1983	112.249	92.426	-19.824
1984	109.756	96.825	-12.931
1985	109.900	101.434	-8.466
1986	105.222	106.262	1.040
1987	118.849	111.320	-7.528
1988	114.159	116.619	2.460
1989	115.764	122.170	6.407
1990	114.779	127.986	13.207
1991	114.812	134.078	19.266
1992	110.656	140.460	29.804
1993	116.342	147.146	30.804
1994	120.079	154.150	34.071
1995	135.787	161.487	25.701
1996	127.633	169.174	41.541
1997	124.925	177.227	52.302
1998	126.016	185.663	59.647
1999	151.602	194.500	42.899
2000	147.222	203.759	56.536
2001	153.930	213.458	59.527
2002	147.075	223.618	76.543
2003	148.148	234.262	86.114
2004	158.561	245.413	86.852
2005	175.949	257.095	81.146
Cumulative difference at constant 1985 prices			£720.193mn
Cumulative difference at current prices			£1,461.271mn

Table 4 – Northern Ireland Tourist Numbers and Terrorist-Related Shootings (1969 – 2005)

	Tourists (,000s)	Shootings
1969	1029	73
1970	947	213
1971	643	1756
1972	435	10631
1973	487	5019
1974	487	3206
1975	530	1803
1976	432	1908
1977	503	1081
1978	628	755
1979	728	728
1980	710	642
1981	588	1142
1982	712	547
1983	865	424
1984	908	334
1985	870	237
1986	824	392
1987	875	674
1988	930	537
1989	1090	566
1990	1152	559
1991	1186	499
1992	1254	506
1993	1262	476
1994	1294	348
1995	1557	50
1996	1436	125
1997	1415	235
1998	1477	187
1999	1655	131
2000	1672	331
2001	1676	358
2002	1741	348
2003	1896	207
2004	1985	167
2005	1972	156

Sources: NI Annual Abstract of Statistics, NI Digest of Statistics.

Model of estimated impact of civil unrest on tourism

Theoretical Model:

$$\text{Log}(\text{tourism numbers})_t = \beta_0 + \beta_1 \text{Log}(\text{terrorist-related shootings})_t + \mu_t$$

Where β_1 is the elasticity (or responsiveness) of tourism to the level of violence.

Estimated Model:

$$\text{Log}(\text{tourism numbers})_t = 9.1289 - 0.1507 \text{Log}(\text{terrorist-related shootings})_t$$

(2.48) (-7.21)

$R^2 = 0.97$ St. Error of regression = 0.0892

Mean of Dependent Variable = 6.8827

Durbin Watson Statistic = 1.60

$F(2,33) = 465.94$

