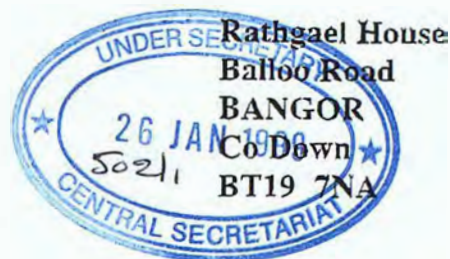




Minister of State



The Rt Hon David Trimble MP
First Minister (Designate)
NI Assembly
Parliament Buildings
BELFAST
BT4 3XX

cc Mr Ferguson
 Mr Sweeney
 Mr Lavery
 Mr Campbell
 Dr Gudgin

22 January 1999

Dear David,

COSTS OF NEW INSTITUTIONS

1. Your Private Secretary's minute of 7 January asked about:
 - a. the estimated additional costs of implementing the Good Friday Agreement; and
 - b. the likely quantum of in-year flexibility in 1999-2000.

2. It is very difficult to estimate with any accuracy the likely cost of agreement-related expenditure. While some elements are reasonably clear (eg the recurrent costs of the Assembly itself, which are likely to be in the order of £16m pa) the same cannot be said of the overheads associated with the creation of new Departments (where officials have only recently been able to start the process of working up organisational structures etc for the new Departmental arrangements agreed in December) nor of the North/South Implementation bodies (whose staffing and accommodation requirements remain to be determined). Something will also depend on the extent to which it proves feasible for the new Departments to share some common services: officials are currently working to see whether this could be a practicable way of reducing costs.

3. With all of these caveats, a very approximate estimate might be that:
 - a. the Assembly may cost £16m pa;
 - b. the new Departments (including the Offices of the First Minister and Deputy First Minister) and other additional administrative work associated with these developments may cost an additional £8m pa;
 - c. the NI share of the North/South bodies (including the North/South Ministerial Council) may cost in the order of £1.5m pa; *
 - d. one-off costs perhaps in the order of £5m will be required on a one-off basis for the initial set-up costs of all of these new bodies (IT equipment, accommodation, furniture etc). In addition, costs of over £2m have already been incurred on the various temporary expedients necessary to accommodate the staff displaced from the Stormont Estate to make room for the Assembly and or the Office of the First Minister and Deputy First Minister. In the longer term provision will also have to be made (perhaps in the order of £4m) for permanent accommodation for these staff. DFP will bring forward proposals for ways of bridging the gap.
4. These estimates suggest a total recurrent cost of about £25.5m, with one-off costs of about £5m in the short term (and a further £4m in the longer term). Against this sum specific provision of about £18m has been included in the expenditure plans announced in December: DFP will bring forward proposals for ways of bridging the gap.
5. Your minute asked about possible savings which would offset these costs. In some cases existing units will be incorporated into the new structures (eg Central Secretariat into the Office of the First Minister and Deputy First Minister) but this has been allowed for in the above estimates, which relate to the net additional costs of the new Departments etc. In other cases Departments will be expected to seek to absorb part of the costs within their existing budgets, though this does of course still represent an opportunity cost.
6. You also asked about in-year flexibility. Again this is difficult to forecast. If the new administration were to decide to adopt a less

* PROVISIONAL ESTIMATE FOR ADMINISTRATION,

centrally-driven approach, with less redistribution of budgets in year, then the amounts for reallocation would be markedly lower than the figures above. If the present systems and the pattern of behaviour of recent years was to continue, we would expect that room for manoeuvre would be of the order of £70-£75m a year, taking the four routine monitoring rounds together. A substantial proportion of this would probably be required for inescapable in-year pressures. If the new administration wished to increase that room for manoeuvre they could impose constraints on some programmes in order to benefit others. In practice the scope for doing this in the course of the 1999/2000 financial year would be limited (though by no means non-existent) but greater flexibility would be available in respect of subsequent years. Conversely, if the new administration were to decide to adopt a less centrally-driven approach, with less redistribution of budgets in-year, then the amount available for reallocation could be considerably lower.

7. Finally, you asked about likely short-term public expenditure pressures on the new administration. These will certainly be increased by the need to make provision for the costs set out above, most (though not all) of which were specifically provided for in CSR outcome. However, there is a range of possible pressures and easements which may emerge, and while it is rather too early to attempt to forecast these in any detail this subject is one on which it might be useful to arrange for officials to give a briefing. That would allow these specific issues to be set in the wider context of the CSR outcome generally and the overall arrangements for budget management. If such a discussion would be helpful (and I would strongly recommend that there should be such a briefing before you contemplate raising any of these issues at a political level) I would be happy to arrange it. The same briefing could be used to deal with the question of the scope for further local revenue raising (eg via Rates increases) and the approach to reviewing PE priorities, in which you have also expressed an interest.

8. I am copying this to the Deputy First Minister (Designate).



**THE RT HON PAUL MURPHY MP
MINISTER OF STATE**

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