1.0 SUMMARY

The terms of reference for the report for the Joint Committee on the Implementation of the Good Friday Agreement included an analysis of the impact on Brexit on Northern Ireland and what Ireland should seek to have in the final agreement between the EU and the UK regarding Northern Ireland. It is clear from all the reports written on the issue of Brexit that its effect on Northern Ireland will be significant. In February 2016 research commissioned by the UK Department of Enterprise, Trade and Investment on the economic implications of a UK exit from the EU showed that Northern Ireland is more vulnerable to Brexit that Britain. The loss to Northern Ireland of EU membership, and funding will be significant, the subsequent effect on the economy and the potential to destabilise the peace process is a central concern.

That is why the key recommendation of the report is that all current and future EU programmes & funding, in the absence of alternative arrangements for Northern Ireland, should continue to be supported by HM Treasury. Ireland believes that in relation to BREXIT Northern Ireland is a special case and its Peace Process is worthy of on-going support from the EU and Britain.

For this research paper we have included information on some of the EU programmes that HM Treasury would have to continue funding. Member of the European Parliament Brian Crowley provided information in relation to the EU Funding programmes 2014 - 2020.

This report looks at the difficulties of predicting the impact of BREXIT. To highlight this challenge, we reproduce the divergence of estimates by various organisations who tried to predict the impact of the World Trade Organisation rules being imposed on the UK. The difficulty of predicting the impact of BREXIT on Northern Ireland is further compounded by the lack of reliable data and accurate statistics for Northern Ireland. Such a ‘data deficit’ needs to be addressed in order for the Irish Government to produce a coherent long term policy in relation to Northern Ireland.

Congressman Brendan Boyle commissioned research from the United States House of Representatives Congressional Research Service specifically for this report for the Committee on the Implementation of the Good Friday Agreement. Congressman

Boyle's report outlines the data deficit for Northern Ireland, in particular the difficulty in accurately determining the actual income and the fiscal deficit in Northern Ireland. This report also commissioned research on the rationalisation of the large public sector in Northern Ireland, the findings of the Oireachtas Library and Research is included in the appendix of this section. The Report on the All-Ireland Economy (Joint Oireachtas Committee on Jobs, Enterprise and Innovation complied by Deputy Peadar Toibin TD) is reproduced here in the appendix. We recommend that in the light of Brexit a second report should be commissioned on the All Island Economy. We are conscious of the recent hearings and report by the Committee Jobs, Enterprise and Innovation on Brexit.

We have reproduced some sections of reports from the Nevin Economic Research Institute (NERI) and the OXFORD Economics which, despite the data deficit, have attempted to analyse and highlight the potential impact of Brexit on Northern Ireland.

One key concern of the Irish Government and the Irish people is the return of the border. It is feared that a 'Hard BREXIT' will mean a 'Hard Border'. Again the lack of accurate data is highlighted by the difficulty in terms of determining how many people cross the border every day for work and study. Former Taoiseach Bertie Ahern has made a submission to the committee on the return of the border between the North and the South.

Former Irish Ambassador to Canada Ray Bassett's submission on Irexit is included. The solution to the problem of creating a border on the old partition lines between north and south is for the border to be in the Irish Sea between the island of Ireland and Britain as was the case from 1939 to 1952. This was highlighted in the House of Lords: European Union Committee report entitled 'Brexit :UK-Irish relations' which we quote and analyse. This report is available in full in the appendix to this chapter. The issue around the common travel area is also examined.

The reports looks at a neglected topic on the BREXIT discussion, that being the effects on women. For this report we commissioned a research paper from the Library and Research Service of the House of the Oireachtas to give an overview of the responses to BREXIT of the British and Irish governments and the legislature in each jurisdiction. The Library and Research service of the Oireachtas were also commissioned to provide an updated report on The Good Friday Agreement, the Peace Process and the Institutions; the report provides a background on a range of issues which feature a specific cross-border dimension. The theme of the paper was 'the Impact of Brexit on Cross border activities'

In compiling this section of the report we reproduced the findings of the Library & Research Service of the Houses of the Oireachtas.

The briefing paper provided information on a range of topics;

Policing and Justice	Finance and Funding
Business and Trade	Agriculture
Labour Market and Skills Tourism	Energy and Environment
Health	Education

The paper looked at the impact which 'BREXIT' may have on these and other issues across Ireland. The range of impact on Ireland, both north and south, cannot properly be assessed until such time as the terms of the withdrawal agreement from the EU are known.

Therefore it should be noted that the list of issues discussed here is not exhaustive.

1.1 RECOMMENDATIONS

The Irish government must negotiate for Northern Ireland to be designated with a special status within the EU and for the whole island of Ireland to remain within the EU together.

All current and future EU programmes & funding for Northern Ireland, in the absence of alternative arrangements for Northern Ireland, should continue to be funded by HM Treasury.

The Report on the All-Ireland Economy: compiled in 2016 by Peadar Toibin TD for the Joint Oireachtas Committee on Jobs, Enterprise and Innovation in the light of Brexit should be updated.

Any passport controls between Ireland and the UK should be along the same basis as for people traveling between these islands from 1939 to 1952. There should not be a return to passport controls on the borders between the North and South of Ireland.

A detailed analysis of the impact of Brexit on Women, programmes to mitigate these impacts should be implemented

Research into the actual income and expenditure for Northern Ireland should be carried out by the Government.

1.2 CALCULATING WHAT THE HM TREASURY WOULD NEED TO CONTRIBUTE TO CONTINUE EU PROGRAMMES AND FUNDING TO NORTHERN IRELAND

To calculate what HM Treasury would need to contribute to continue EU programmes and Funds to Northern Ireland we republished a section from the Nevin Economic Research Institute (NERI) paper on 'The Economic Implication of Brexit for Northern Ireland'. The report looks at a number of issues including Northern Ireland's 'notional EU contribution', that is, as a stand alone state how much would Northern Ireland contribute to the EU budget. This figure is clearly hypothetical. What Northern Ireland receives is difficult to determine due to the multi annual, regional and transnational nature of funding. Brian Crowley MEP provided information in relation to the EU Funding elements of this report.

1.3 BREXIT AND EU FUNDING IN NORTHERN IRELAND

"Much of the debate on BREXIT at the national level in the UK has focused on how much the country would lose or gain financially from either decision. Once again it is not possible to be definitive on this matter. The ambiguity arises in attempting to calculate what Northern Ireland's notional 'EU contribution' is and matching that against what it actually receives. A further ambiguity arrives in deciding how much the UK Treasury will benefit from no longer being a member of the EU because most post-BREXIT scenarios posit some form of close relationship with the single market, and that relationship is not without cost.

It is possible to ascertain how much the UK government pays to the EU each year and to work out a notional 'Northern Ireland Contribution' from that. In 2015 the UK paid £17.6bn to the EU, however this was automatically reduced by £4.9bn which is the rebate which the UK has negotiated since 1985, bringing its total contribution down to £12.9bn. This is up from the £8.7bn paid in 2009 and it is forecast to rise to £15.2bn by 2020. Using Northern Ireland's share of UK population it is possible to calculate a hypothetical Northern Ireland total contribution of £366m (2.9 per cent of the total figure)."[1]

"However Northern Ireland's hypothetical contribution could also be more accurately calculated. There is no particular reason to use a population based percentage to account for Northern Ireland's share. Given that the contributions to the EU are funded through revenue raised by the UK exchequer it may be more accurate to calculate Northern Ireland's contribution on the basis of its share of UK tax revenues. The Net Fiscal Balance report produced by the Department of 27 Finance and Personnel estimates that Northern Ireland produces 2.5 per cent of the UK's tax revenue meaning that NI's hypothetical contribution could be as low as £322.5m. It could be even lower if the HMRC Disaggregated Receipts figure of 2.1 per cent is used which would bring Northern Ireland's contribution to as low as £270.9m. Treasury figures estimate that UK public sector institution received approximately £4.4bn back from the EU which was then disbursed to the private sector. This leaves the UK's net contribution at £8.5bn in 2015. This does not count EU money paid directly to the private sector which was thought to be in the region of £1.3bn in 2013. If we take a simple population based Northern Ireland estimate for public sector receipts from the EU then Northern Ireland technically received only £124.9m in EU funds in 2015. However, this introduces another problem with using population based estimates, because it is also possible to examine the individual EU funds that are paid into Northern Ireland each year. Looking only at the Common Agriculture Fund, the Common Fisheries Fund and the Investment for Growth and Jobs Initiative, Northern Ireland received £320m in 2015 (DFP, 2016), £200m more than the population based estimate. Special EU funds such as the PEACE IV initiative and the INTERREG fund could add another £50m annually, but these funds are set to be phased out after 2020. In the next five years Northern Ireland would on conservative estimates only 'break even' in the event of a BREXIT.

All of the above discussion is clearly hypothetical. The information on what Northern Ireland receives is more complete, but even if there were an agreed figure on what Northern Ireland contributes, this sum of money may not return to Northern Ireland in its entirety in the event of a BREXIT. This money is in the gift of the Treasury and part of it may need to be spent on establishing a trade relationship with the EU. Norway is currently a member of European Economic Area which keeps it outside the EU but which grants it access to the Single Market. Norway has agreed to pay on average €866m or roughly £680m annually for the period 2014- 20212. Norway has a GDP per capita roughly 1.6 times that of the UK so adjusting for the size of the economy as a whole (rather than on population measures), the UK would pay roughly £4.97bn for the same arrangement. This would amount to nearly one third of the UK's existing total EU contribution and would significantly reduce any net gain for Northern Ireland. However if the UK decides only to apply for entry to the European Free Trade Area, this payment would significantly reduce, but this would leave Northern Ireland with no access to the Single Market.

Depending on exactly how Northern Ireland's contribution is calculated it would fair to suggest that the best Northern Ireland could hope for would be to break even in the event of a BREXIT. It would also be fair to say that there are a range of more negative outcomes for Northern Ireland which are not beyond the bounds of reasonable expectation."[2]

"The theoretical question of the Northern Ireland contribution to the EU through the UK annual contribution and a subsequent financial benefit from ending those contributions is a moot one. The deficit in Northern Ireland is such that any theoretical contribution is in fact made with money borrowed from central government. The Northern Ireland deficit (confining the spending definition rather generously as identifiable spending under the block DEL grants plus Annual Managed Expenditure) is 15% of GVA versus a UK budget deficit of 3.4% (in 2016). Given the UK Treasury intends to have a surplus in the next parliament, along with the potential for a large final exit bill and the threat to tax revenues, should Brexit cause an economic slowdown any benefit from ending the UK contributions to the EU is likely to be small if at all and for Northern Ireland will be irrelevant. Therefore, for Northern Ireland to be net neutral after Brexit the UK government will have to sponsor all current EU programmes. Furthermore, it will need to have financial support ready to cushion the blow from the loss of major export markets if Brexit results in the UK leaving the Customs Union thereby subjecting sectors such as agriculture and fisheries to the standard EU external tariffs."[3]

1.4 EU FUNDED PROGRAMMES WITHIN NORTHERN IRELAND 2014-2020

MEP Brian Crowley provided the following information for the report by the Joint Committee on the Implementation of the Good Friday Agreement which outlines some of the EU funding programmes within Northern Ireland 2014-2020.

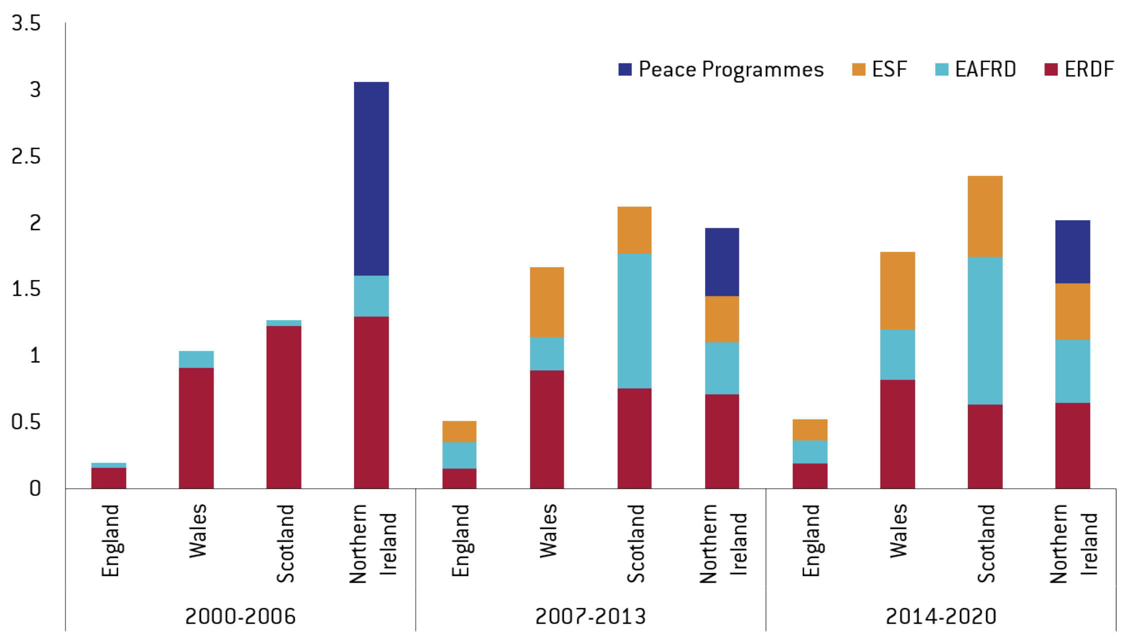
EU funding programmes within Northern Ireland 2014-2020:

The main EU funding programmes for NI for 2014-2020 are:	Budget for each programme	
2014 - 2020 ERDF Investment for Growth & Jobs Programme for Northern Ireland	€308 million	This programme aims to promote investment in the development of a knowledge-based, innovative and business-friendly region with a highly skilled workforce supporting a high quality of life
2014 - 2020 ESF Investment for Growth & Jobs Programme for Northern Ireland	€206 million	The European Social Fund Programme will contribute to reducing the productivity gap in Northern Ireland by helping to reduce the level of economic inactivity and increasing workforce skills
PEACE IV Programme	€229 million	The PEACE IV Programme's goal is to reinforce progress towards a peaceful and stable society and to promote reconciliation in Northern Ireland and the border regions, by supporting projects that bring communities together
INTERREG VA Programme	€204 million	Northern Ireland including Belfast, the border counties of Ireland and parts of western Scotland and Western Scottish Island will benefit from a seven-year cross-border INTERREG programme. The programme will focus on developing a dynamic economy, supporting infrastructure and promoting innovative ways of addressing specific cross-border problems
Northern Ireland Rural Development Programme 2014-20	€623 million	This programme aims to boost the competitiveness of agriculture and forestry, improve the environment and countryside and improve the quality of life in rural areas. European Fisheries Fund The European Fisheries Fund (EFF) will continue to provide support for the fisheries sector, including adaptation of the fleet, processing and marketing of fishery products and the development of sustainable fisheries; however, the priorities of the programmes have not as yet been agreed

Continued ..

The North West Europe Programme 2014-20 (Competitive)	€396 million	INTERREG North-West Europe (NWE) is a European Territorial Cooperation Programme funded by the European Commission with the ambition to make the North-West Europe area a key economic player and an attractive place to work and live, with high levels of innovation, sustainability and cohesion
The Northern Periphery and Arctic Programme 2014-20 (Competitive)	€56 million	The programme aims to help peripheral and remote communities on the northern margins of Europe to develop their economic, social and environmental potential. The success of the programme will be built on joint projects creating innovative products and services for the benefit of the programme partner countries and Europe as a whole
The Atlantic Area Programme 2014-20 (Competitive)	€140 million	The current aim of the Atlantic Area Programme is to achieve significant and tangible progress in transnational cooperation geared towards cohesive, sustainable and balanced territorial development of the Atlantic Area and its maritime heritage
Horizon 2020 (Competitive)	€80 billion	Horizon 2020 is the main EU research and innovation programme with €80 billion of funding is available over seven years (2014 to 2020) – in addition to the private and national public investment that this money will attract. The goal is to ensure Europe produces world-class science and technology, removes barriers to innovation and makes it easier for the public and private sectors to work together in delivering solutions to big challenges facing our society
Competitiveness and Innovation Framework Programme (Competitive)	€2.5 billion	The Competitiveness and Innovation Framework Programme (CIP) aims to encourage the competitiveness of European enterprises. With small and medium-sized enterprises as its main target, the programme will support innovation activities, provide better access to finance and deliver business support services in the regions. It will encourage a better take-up and use of information and communications technologies and help to develop the information society.

EU funds broken down by UK region



1.5 DIFFICULTY IN PERDICTING THE IMPACT OF BREXIT

The difficulty with predicting the economic impact on Northern Ireland of Brexit can be seen in the example show in a research paper in November 2016 by the Economic and Social Research Institute

“Modelling the Medium to Long Term Potential Macroeconomic Impact of Brexit on Ireland” This research paper tabulated the various results by International Institutions for the UKs GDP as a result of Brexit and showed wide divergences of predicted outcomes in the event of the World Trade organisation rules being imposed. The inability of such institutions to predict the impact of Brexit, on the UK is even more pronounced for Northern Ireland, given the low volume of information and quality of data available for Northern Ireland. Hence any kind of rigorous analysis and/or prediction is especially challenging. The case of the impact of Brexit on Northern Ireland by the incomplete data set out in the next section

-Prior to the referendum, a number of UK and International agencies attempted to model scenarios on the economic consequences of the UK voting to leave the EU. These include the UK Treasury, the UK National Institute of Economic and Social Research (NIESR), the European Commission (EC), the Organisation for Economic Cooperation and Development (OECD), International Monetary Fund (IMF), The Centre for Economic Performance at the London School of Economics (LSE-CEP), Oxford Economics, PWC, and the Bertelsmann Foundation.”[4]

1.6 BORDERS MATTER

Table 1: UK and International Institutions Scenario impacts of a vote to leave the EU on the UK

Study	Scenario	GDP % change relative to base
NIESR	WTO (short-term)	-2.3%
HM Treasury	(short-term)	-3.6%
OECD	(short-term)	-3.3%
IMF	Downside (short-term)	-0.9%
European Commission	Mild (short-term)	-1.0%
	Severe (short-term)	-2.7%
NIESR	EEA	-1.8%
	FTA	-2.1%
	WTO	-3.2%
	WTO+	-7.8%
HM Treasury	EEA	-3.8%
	FTA	-6.2%
	WTO	-7.5%
OECD	WTO/FTA	-2.7%
		-5.1%
		-7.7%
LSE/CEP	EEA/FTA	-7.9%
PWC	FTA	-3.0%
	WTO	-5.5%
Oxford Economics	Liberal Customs Union	-0.1%
	FTA	-2.8%
	WTO	-3.9%
Bertelsmann Foundation	EEA	-0.6%
	WTO	-3.0%

1.7 LACK OF RELIABLE ECONOMIC DATA; A CHALLENGE AND CONCERN

"The contributions of the 5 political representatives illustrated how very difficult it is for them to agree any economic facts or strategies in Northern Ireland. Where everything is disputed or contested, no progress can be made."[5]
John Bradley speaking on the theme of 'Towards an All-Ireland Economy: the business opportunities and political obstacles' at the Irish Association conference at Queens University Belfast in 2014.

With this quote Bradley pointed out that in the constantly contested politics of Northern Ireland were even, the Economic facts are disputed, this lack of reliable economic data helps to fuel dispute and in the case of BREXIT gives a poor basis on which to plan a response. As Bradley also points out 'Policy errors or policy neglect seldom goes unpunished'.[6] In his opinion, policy decisions are based on the data and the facts available. To that end if the economic facts are unreliable or disputed then the likelihood of policy errors increase. This is a very concerning backdrop to the prospect of Brexit as it provides a very poor basis on which to plan a response.

United States Congressman Brendan Boyle commissioned research from the Congressional Research office to assist in the compilation of this report for the Joint Committee for the Implementation of the Good Friday Agreement. It demonstrated the very different figures being portrayed for Northern Ireland's deficit and the unreliable way its income and tax take is calculated.

Even on data such as the numbers who cross the border every day to work and study is disputed. The last census results in 2011 stated it was 14,751. However, the joint research paper by the Research and Information Service of the Northern Ireland Assembly and of the Library & Research Service of the Houses of the Oireachtas for the North/South Inter-Parliamentary Association quoted that '23,000 to 30,000 people are cross-border workers', an estimate which came from the Centre for Cross Border Studies. The British Irish Chamber of Commerce has also quoted a figure of 30,000 a day commuting across the border. The research by the Oireachtas Library and Research Service showed that the 5,722 people a day travel between Ireland and the UK every day.

The Nevin Economic Research Institute (NERI) produced a working paper prior to Brexit in April 2016 entitled ‘The Economic Implications of Brexit for Northern Ireland’. Time and again the report refers to the lack of accurate figures and incomplete data sets. This is of concern to any policy maker trying to make policy decisions and base economic plans. Without a full set of the current economic facts it is very problematic in arriving at correct decisions, especially when incorrect decisions can come at such a high political price.

1.6.1 NORTHERN IRELAND INCOMPLETE DATA

In April 2016 The Nevin Economic Research Institute (NERI) produced a working paper entitled ‘The Economic Implications of Brexit for Northern Ireland’. The reference to ‘lack of figures’, ‘patchy figure’, ‘in-complete data sets’ is of concern as stated earlier.

BREXIT AND NORTHERN IRELAND TRADE-NORTHERN IRELAND INCOMPLETE DATA

-The existing dataset for Northern Ireland’s trade is somewhat incomplete. For tradeable goods there are reliable statistics from Her Majesty’s Revenue and Customs. The figures on service exports are less conclusive. The new Broad Economy Sales and Exports Survey (NISRA, 2015) estimates that total exports (goods and services) from Northern Ireland in 2014 were £9.7bn1. Of this, 60 per cent is accounted for by goods and services in the Manufacturing sector. Overall 56 per cent of goods and services exports go to the EU and two thirds of all EU exports are bound for the Republic of Ireland. Table 1.1 shows the broad outline of industries by exports and their destination; however figures for the EU and the rest of the world are patchy in areas.[7]

-NI INCOMPLETE DATA: Services

-“Looking at Service sector exports, the statistics are still quite primitive in Northern Ireland. The latest estimates for Northern Ireland indicate that total exports of goods and services were in the region of £9.7bn in 2014. HMRC figures for goods exports in 2014 account for £6bn of this figure. This leaves a gap of £3.7bn from the BESES data.”[8]

NI INCOMPLETE DATA: Services

-"Previous research has identified that EU membership enhances the trade volumes across many sectors but in particular the areas of agriculture, textiles, trade services and transport equipment (Nahuis, 2004). The dearth of data on services exports exposes a key challenge in estimating the impact of a BREXIT on the Northern Ireland economy"[9]

NI INCOMPETE DATA: Manufacturing

-"Unfortunately the data at present don't provide a breakdown of manufacturing subsector exports by destination."[10]

-NI INCOMPLETE DATA: Retail

-"retail jobs are spread across Northern Ireland, with South Belfast

containing the largest proportion of Northern Ireland Retail sector employment. Unfortunately the data at present do not show where Retail businesses with large external sales are located within Northern Ireland, but Figure 18 gives some idea as to where the impacts of any possible disruption to jobs may be felt. Newry & Armagh and Fermanagh & South Tyrone Could face a disproportionate hit as they are border constituencies."[11]

NI INCOMPLETE DATA: Tourism

"statistics indicate that 9 per cent of overnight visitors were from the Republic of Ireland but there are no indications of where the remaining 13 per cent of tourists originated from." [12]

NI INCOMPLETE DATA: Brexit and EU Funding in Northern Ireland

"Much of the debate on BREXIT at the national level in the UK has focused on how much the country would lose or gain financially from either decision. Once again it is not possible to be definitive on this matter. The ambiguity arises in attempting to calculate what Northern Ireland's notional 'EU contribution' is and matching that against what it actually receives. A further ambiguity arrives in deciding how much the UK Treasury will benefit from no longer being a member of the EU because most post-BREXIT scenarios posit some form of close relationship with the single market, and that relationship is not without cost."[13]

1.7 UNITED STATES OF AMERICA, CONGRESSIONAL RESEARCH OFFICE REPORT COMMISSIONED BY CONGRESSMAN BRENDAN BOYLE'S OFFICE

Northern Irelands Deficit

United States Congressman Brendan Boyle's specifically commissioned a report for the Committee on the Implementation of the Good Friday Agreement from the U.S. House of Representatives Congressional Research office regarding the deficit in Northern Ireland. The finding of the US Congressional Research office highlights the difficulty in getting the accurate figure in relation to the often quoted subvention for the British Treasurer to make up the difference in the Northern Economy income and expenditure.

The British treasury has stated the deficit for the Northern Ireland economy is £9.1bn. This is compared to the deficit of £5.1bn as highlighted by Congressman Boyle's report which removes, the allocation of billions of sterling of global British military spending, UK debt repayment and other Non-Identifiable Expenditure allocated to Northern Irelands expenditure.

Congressman Boyle's office also highlighted that as well as no accurate figure for expenditure in Northern Ireland there is also no accurate figure for income raised in Northern Ireland. There is no entirely accurate figure for a wide range of taxes collected in Northern Ireland including Corporations Tax. There are figures apportioned to Northern Ireland based on formulas of HM Revenue. Northern Ireland's share of corporation tax is taken to be its share of profits of all public and private corporations in the UK. The Capital Gains tax figure, is apportioned to Northern Ireland according to Northern Ireland's share of UK GAV (NI Net Fiscal Balance Report 2015)

The need for accurate and reliable data on which to base a response to BREXIT become obvious.

1.8 CONGRESSIONAL REPORT ON NORTHERN IRELANDS INCOME & EXPENDITURE

Congressional Research Service
Informing the legislative debate since 1914

MEMORANDUM December 20, 2016

To: Rep. Brendan Boyle
Attention: Carly Frame

From: Kristin Archick, Specialist in European Affairs (x7-2668, karchick@crs.loc.gov)
Foreign Affairs, Defense, and Trade Division

Subject: **Northern Ireland Budgetary Issues**

This memorandum responds to your request for information on Northern Ireland budgetary issues. Material in this memorandum may be used in other CRS products. For additional background, see CRS Report RS21333, *Northern Ireland: The Peace Process*.

Background: Northern Ireland's Political and Economic Situation

Northern Ireland (along with England, Scotland, and Wales) is one of the four component "nations" that make up the United Kingdom (UK). Between 1969 and 1999, almost 3,500 people died as a result of political violence in Northern Ireland. The conflict, which has its origins in the 1921 division of Ireland and is often referred to as "the Troubles," has reflected a struggle between different national, cultural, and religious identities. Protestants in Northern Ireland (48%) largely define themselves as British and support remaining part of the UK (*unionists*). Catholics in Northern Ireland (45%) consider themselves Irish, and many Catholics desire a united Ireland (*nationalists*).

Despite many ups and downs, Northern Ireland has made considerable political and economic progress since the 1998 peace agreement (the so-called Good Friday Agreement) providing for a devolved government in which unionist and nationalist parties share power. Nevertheless, challenges remain in Northern Ireland's search for peace and reconciliation. These include ongoing tensions and sectarian strife between the unionist and nationalist communities, lingering concerns about paramilitary and dissident activity, fully grappling with Northern Ireland's legacy of violence (often termed "dealing with the past"), and promoting further economic development.

Improving Northern Ireland's economic situation has long been viewed as crucial to underpinning the peace process. Northern Ireland's economy has made significant advances since the 1990s. Between 1997 and 2007, Northern Ireland's economy grew an average of 5.6% annually (marginally above the UK average of 5.4%). Unemployment decreased from over 17% in the late 1980s to 4.3% by 2007. Like elsewhere in the UK and Europe, however, Northern Ireland was negatively affected by the 2008-2009 global recession. Northern Ireland's economic recovery has been slow and growth has largely lagged behind that of the UK as a whole. In the four quarters ending June 2016, Northern Ireland's Gross Domestic Product (GDP) grew by approximately 1.3%, as compared to 1.9% for the UK as a whole.[1]

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[1] Northern Ireland Statistics and Research Agency, *Northern Ireland Composite Economic Index Quarter 2 2016*, October 2016, (continued...)

Unemployment in Northern Ireland is currently 5.7%, higher than in the UK (4.8%) but considerably lower than in the Republic of Ireland (7.9%) and the European Union (8.5%).[2]

Northern Ireland has also made strides in promoting equality in its workforce. The gap in economic activity rates between Protestants and Catholics has shrunk considerably since 1992 (when there was an 11 percentage point difference) and has largely converged in recent years (in 2014, the economic activity rates of Protestants and Catholics were 72% and 71% respectively). In addition, the percentage point gap in unemployment rates between the two communities has decreased from 9% in 1992 to 2% in 2014.[3]

At the same time, income levels and living standards in Northern Ireland remain below the UK average. Of the UK's 12 economic regions, Northern Ireland had the second-lowest Gross Value Added (GVA) per capita in 2015 (£18,584), considerably below the UK's average (£25,351).[4] Northern Ireland also has both a high rate of economic inactivity (27%) and a high proportion of working-age individuals with no qualifications. Studies indicate that the historically poorest areas in Northern Ireland (many of which bore the brunt of "the Troubles") remain so, and that many of the areas considered to be the most deprived are predominantly Catholic.[5]

To improve Northern Ireland's economic recovery and strengthen its long-term performance, Northern Ireland leaders are seeking to promote export-led growth, decrease Northern Ireland's economic dependency on the public sector by growing the private sector, and attract more foreign direct investment. Reducing Northern Ireland's economic dependency on the public sector (which accounts for about 70% of the region's gross domestic product and employs roughly 30% of its workforce) and devolving powers over corporation tax from London to Belfast to help increase foreign investment were key issues addressed in wide-ranging cross-party negotiations in 2014 and 2015. The November 2015 Fresh Start Agreement sets April 2018 as the target date for introducing a devolved corporate tax rate of 12.5% in Northern Ireland (the same rate as in the Republic of Ireland).

Many analysts are concerned that the UK's June 2016 vote in favor of leaving the European Union (dubbed "Brexit") could have significant economic repercussions for Northern Ireland, given that it shares a land border with the Republic of Ireland and an interdependent economic relationship, with extensive cross-border trade, integrated labor markets, and many industries that operate on an all-island basis. According to a recent UK parliamentary report, Northern Ireland depends more on the EU market (and especially that of the Republic of Ireland) for its exports than the rest of the UK. Approximately 52% of Northern Ireland exports go to the EU, including 38% to the Republic of Ireland.[6] Some experts also note that access to the EU single market has been one reason for Northern Ireland's success in attracting foreign direct investment, and they express concern that Brexit could deter future investment.

Prior to the UK referendum, projections estimated Northern Ireland's economy would grow by 1.7% in 2017; following the UK's decision to leave the EU, forecasts predict a slowdown in Northern Ireland's

(...continued)

p. 7, https://www.economy-ni.gov.uk/sites/default/files/publications/economy/NI-Composite-Economic-Index-Statistical-Bulletin-Q2-2016_0.pdf.

[2] Northern Ireland Statistics and Research Agency, *Northern Ireland Labour Market Report*, December 2016, https://www.economy-ni.gov.uk/sites/default/files/publications/economy/labour-market-report-december-2016.PDF.

[3] Office of the First Minister and Deputy First Minister, *Labour Force Survey Religion Report 2014*, February 2016.

[4] GVA is similar, albeit not exactly equivalent, to Gross Domestic Product (GDP); the UK government uses GVA as the measure to compare regional economic performance. House of Commons Library Briefing Paper, *Regional and Local Economic Growth Statistics*, December 16, 2016, p. 7, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05795.

[5] Northern Ireland Statistics and Research Agency, *Northern Ireland Multiple Deprivation Measure 2010 Report*, May 2010.

[6] Report of the UK House of Lords European Union Committee, *Brexit: UK-Irish Relations*, December 2016, http://www.parliament.uk/brexit-uk-irish-relations.

economy, with one study suggesting that it could grow by only 0.2% in 2017 (primarily because of economic uncertainty and a decline in business investment).[7] An Oxford Economics model of Brexit's potential impact predicts a net loss in economic output for Northern Ireland by 2030 in the range of 0.1% to 5.6% (depending on different scenarios for future UK-EU relations). Post-Brexit, Northern Ireland also stands to lose EU regional funding (roughly $1.3 billion between 2014 and 2020) and agricultural aid (direct EU farm subsidies to Northern Ireland are nearly $375 million annually).[8]

UK Secretary of State for Northern Ireland James Brokenshire asserts that the government is determined to safeguard the whole UK economy, including Northern Ireland, following the Brexit decision. UK officials hope to ensure that Brexit does not adversely affect the investment climate in Northern Ireland and note that the government has sought to engage with the business community there "to make a success of Brexit."[9] Some UK and Northern Ireland officials, including Northern Ireland First Minister Arlene Foster, maintain that despite Brexit, Northern Ireland will continue to trade with the EU (including Ireland). They also contend that Brexit offers new economic opportunities for Northern Ireland outside the EU. First Minister Foster recently asserted that "the economic and social benefits for us in Northern Ireland from the UK are far more important than our relationship with the EU," and "we will work with whomever we need to for the best deal for Northern Ireland at home and abroad."[10]

Northern Ireland Public Finances

Responsibility for fiscal policy, macroeconomic policy, and funding allocation across the United Kingdom remains with the UK Treasury. Spending by the UK's devolved governments (Scotland, Wales, and Northern Ireland) falls within a UK-wide system of public expenditure control and budgeting guidance. The devolved administration's budgets are normally determined within UK comprehensive spending reviews alongside the budgets for UK government departments. Each devolved administration has fiscal responsibilities and freedoms to match its executive and legislative powers within the terms of its individual devolution agreement.

Northern Ireland's Budget[11]

The vast majority of funding available to Northern Ireland's devolved government comes from the UK government (from general taxation across the UK); a small portion of Northern Ireland funding comes from regional tax rates and borrowing. UK government funding falls into two broad categories:

- Block grant funding, also known as Departmental Expenditure Limits (DEL). The DELs are the amounts that government departments have been allocated to spend, usually in spending reviews, and are firm spending limits set for up to four years. DELs are spent on

[7] Northern Ireland Department of Enterprise, Trade, and Investment, *Economic Commentary*, March 2016; John Campbell, "PwC Forecasts Slowdown in Northern Ireland Economy After Brexit Result," BBC News, July 19, 2016.

[8] House of Commons Library Briefing Paper, *Brexit: Impact Across Policy Areas*, August 26, 2016, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7213#fullreport.

[9] UK Government Press Release, "Brokenshire Holds Inaugural Meeting of Northern Ireland Business Advisory Group," September 1, 2016.

[10] Arlene Foster, "The UK Joined Europe as One Nation, and That's How We'll Leave," *The Guardian*, October 28, 2016.

[11] Information in this section is drawn from: HM Treasury, *Statement of Funding Policy: Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly*, November 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf; House of Commons Library Briefing Paper, *The Barnett Formula*, April 13, 2016, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7386; and Northern Ireland Executive, *Budget 2016-2017*, January 2016, https://www.northernireland.gov.uk/sites/default/files/publications/nigov/2016-17-budget-document.pdf.

the running of services and the everyday costs of resources such as staff. In 2016-2017, Northern Ireland's DEL funding is £10.9 billion ($13.6 billion).

- Annually Managed Expenditure (AME) funding. AME is spending on demand-led areas (such as welfare, tax credit, or public sector pensions) that is difficult to control and cannot be constrained within firm multi-year limits. In 2016-2017, Northern Ireland's AME funding is £8.8 billion ($11 billion).

Changes in block grant DEL funding to the devolved administrations are generally calculated by applying the Barnett Formula, which seeks to ensure that when there is a change in funding levels for services in England, then there is the same pounds-per-person change in funding in Northern Ireland, Scotland, and Wales. For example, if the funding for education in England increases by the equivalent of £100 per person, the devolved administrations' block grants will increase by £100 per person.

Under the Barnett Formula, Northern Ireland receives a population-based proportion of changes in planned UK government spending on comparable services provided by the devolved administration:

Change in a UK government department's budget x Comparability percentage x Appropriate population proportion

For Northern Ireland, changes determined by the Barnett Formula are then reduced by 2.5% because Northern Ireland's devolved government does not require provision to meet value-added tax (VAT) expenditure; unlike in the rest of the UK, any VAT paid is refunded by HM Revenue and Customs.

Northern Ireland and the other devolved administrations can spend the Barnett Formula-determined DEL block grant as they wish. For example, if block grants increase because education spending has increased in England, the devolved governments do not necessarily have to spend the additional money on education. AME spending is largely outside of the control of the devolved governments.

Northern Ireland's Fiscal Balance

In October 2015, Northern Ireland's Department of Finance released its *Net Fiscal Balance Report 2012-2013 and 2013-2014*, with estimates of Northern Ireland's public expenditure, revenue, and deficit.[12]

Category	2012-2013 (£ billions)	2013-2014 (£ billions)
Total Managed Expenditure	24.3	24.1
Identifiable	19.8	20.1
Non-identifiable	2.9	2.9
Accounting Adjustments	1.6	1.1
Revenue	14.8	14.9
Deficit	9.5	9.2

In 2012-2013, Total Managed Expenditure (TME)—or total public sector expenditure in Northern Ireland—was estimated to be 3.4% of the equivalent UK total; in 2013-2014, TME was roughly equivalent to 3.3% of the UK total. For both time periods, Northern Ireland's fiscal deficit per head and as a percentage of GVA was considerably higher than UK figures. In 2012-2013, Northern Ireland's fiscal deficit was equivalent to £5,187 per head, compared to the UK figure of £1,999; as a percentage of GVA, the fiscal deficit was 29.1%, higher than the UK equivalent of 8.7%. In 2013-2014, Northern Ireland's

[12] Available at: https://www.finance-ni.gov.uk/publications/northern-ireland-net-fiscal-balance-report-2012-13-and-2013-14.

deficit was equivalent to £5,006 per head, compared to the UK per head figure of £1,763, and was 27.1% of GVA, higher than the UK equivalent of 7.5%.

In accordance with UK budget guidance, public expenditure data for Northern Ireland is disaggregated into three components:

- Identifiable expenditure, which can be recognized as benefitting individuals, enterprises, or communities within particular regions. Examples include welfare payments and most health and education expenditures.
- Non-identifiable expenditure, which is incurred on behalf of the UK as a whole and cannot be attributed to an individual region. For the purposes of analysis, a share of UK expenditure is apportioned to Northern Ireland (either as a share of population or as a share of GVA). Defense expenditures and debt interest are the largest elements of non-identifiable expenditure, which also includes international services and EU transactions.
- An accounting adjustment allows for depreciation of public sector capital.

The Department of Finance's fiscal balance report also provides a hypothetical scenario that estimates Northern Ireland's fiscal deficit when non-identifiable spending and the accounting adjustment are excluded. Although hypothetical, this model suggests that if these categories were excluded, Northern Ireland's fiscal deficit would decrease significantly; for 2013-2014, Northern Ireland's fiscal deficit would shrink to £5.1 billion and be equivalent to 15.6% of GVA.

Ongoing Challenges

Experts note that Northern Ireland has run a fiscal deficit for decades, and many contend that much of Northern Ireland's economic and budgetary situation is a legacy of "the Troubles." Since the 1970s, the UK government has poured money into Northern Ireland in an effort to reduce the violence. Others point out that regional within-state transfers are not unusual in international terms and that Northern Ireland has limited discretion to raise additional revenue as the bulk of fiscal and tax powers remain with London. Some analysts suggest that Northern Ireland has a lower population density than the UK, which may partly explain the relative higher cost of providing a given level of public services, particularly in areas such as health and education.

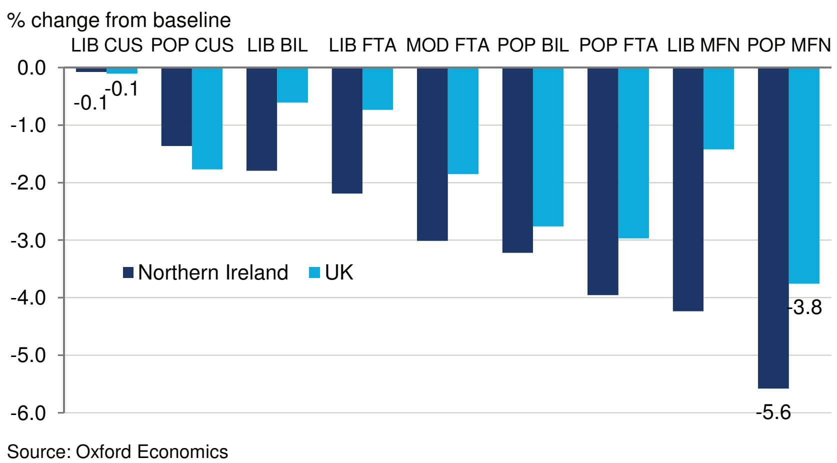
Over the last few years, Northern Ireland has been challenged further by UK-wide austerity measures, with Northern Ireland's block grant reduced by 7% in real terms since 2010. In 2014 and 2015, intertwined issues of identity, history, and welfare reform imperiled budget negotiations in Northern Ireland and raised questions about the stability of the devolved government. In the years ahead, many experts contend that Northern Ireland will continue to face tough budgetary constraints, which could be compounded by Brexit. Although many in Northern Ireland pin great economic hopes on the promised reduction in the corporate tax rate, analysts contend that lowering it will result in some loss of revenue in the short term. Rebalancing the economy away from reliance on the public sector remains a key goal of Northern Ireland's devolved government.[13]

[13] Tom Healy, "Things You Always Wanted to Know About Public Finances in Northern Ireland But Were Afraid to Ask," Nevin Economic Research Institute, November 15, 2014; "A New Kind of Trouble," *The Economist*, January 24, 2015; Dan O'Brien, "Northern Ireland May Be Normalizing, But Big Risks Remain," *Irish Independent*, May 8, 2016.

1.8 PREDICTING THE IMPACT OF BREXIT ON NORTHERN IRELAND

Oxford Economic's research paper "THE ECONOMIC IMPLICATIONS OF A UK EXIT FROM THE EU FOR NORTHERN IRELAND" from February 2016 is an overview of research commissioned by the UK Department of Enterprise, Trade and Investment on the economic implications of a UK exit from the EU showed that Northern Ireland is more vulnerable to Brexit that Great Britain.

-"Overall our modelling indicates that Northern Ireland's economy is likely to be relatively more vulnerable to the type of structural changes triggered by a UK exit from the EU in comparison to the rest of the UK. The impact on Northern Ireland's Gross Value Added in 2030 is displayed in the graphs below across the nine scenarios in comparison to the overall effect on UK GVA."[14]



[15]

"On average, the impact on Northern Ireland's GVA in 2030 is 0.7 percentage points worse than on UK GVA in the four populist scenarios but 1.4 percentage points worse in the four liberal scenarios."[16]

"The fact that Northern Ireland shares a direct land border with another EU member state. On average across the nine scenarios Irish imports fall by a disproportionate amount (relative to other EU member states). The impact of the land border is simulated based on data collected by DETI which shows that Northern Ireland's trade links with Ireland are much stronger compared to the rest of the UK;

(2) The fact that the composition of manufacturing activity in Northern Ireland is skewed towards subs-sectors which according to our trade modelling are likely to be more negatively affected in the event of a UK withdrawal from the EU. In particular, Northern Ireland's manufacturing industry currently has a relatively high dependence on both the food, beverage and tobacco and transport equipment sub-sectors which were found to be relatively more "at-risk" in our scenario analysis;

and

(3) The fact that Northern Ireland receives a relatively high level of inward FDI (compared to the rest of the UK). In our model this results in a stronger fall in TFP and therefore long-run GDP. [17]

"The more interesting aspect of the Oxford Economic report was the difference between possible outcomes for Northern Ireland and the UK under each of the different scenarios. This highlights the central question, how and why will the impact of BREXIT differ in Northern Ireland?"[18]

"the long-term impact of BREXIT would be determined by the shape of the resulting relationship between the UK and the EU. Research to date has forecast that GDP in the UK could be disrupted by as little as 1 per cent or as much as 9 per cent in a worst case scenario. In reality the nature of the UK's trading relationship will be decided by political factors and there is no economic modelling that can predict such outcomes. It is harder to avoid the conclusion that there will be disruption to trading links with the EU in the short-term due to uncertainty if nothing else.

Northern Ireland is vulnerable to this disruption particularly across the agriculture and food sector and many areas of manufacturing. That Northern Ireland could replace this trade by seeking greater links outside the EU is speculation confined to the longer term.

BREXIT would introduce disruption to the development of an All-Island economy which has undeniably failed to live up to the expectations set out in the Good Friday

Agreement. BREXIT therefore represents a disproportionate risk for Northern Ireland in the short to medium term, and any evaluation of long-term impacts requires individual judgement about the future prospects for a post-BREXIT UK economy.”[19]

“When comparing Northern Ireland’s goods trade to the rest of the United Kingdom some interesting differences arise. Looking at EU exports, while Food, Beverages and Agricultural products make 35 per cent of NI’s total, the equivalent for the rest of the UK is only 10 per cent.

Exports of pharmaceuticals account for almost 20 per cent of EU trade in Great Britain, double the equivalent figure for Northern Ireland. As the UK is the largest producer of oil and gas within the EU (ONS, 2015) mineral fuels account for 9 per cent of Great Britain’s exports to the EU while Machinery and Transport accounted for over one third. Given such larges disparities in the make-up of trade, it follows that disruption to EU trade will affect Northern Ireland and Great Britain in different ways.”[20]

“In summary, the EU is a more important export market for Northern Ireland than it is for the rest of the UK. Within EU trade Northern Ireland’s exports could be more vulnerable to trade barriers while the rest of the UK may be able to expand non-EU trade to make-up for EU losses.”[21]

1.9 WOMEN WORKERS TO BE DISPROPORTIONATELY AFFECTED BY BREXIT

The Nevin Economic Research Institute working paper entitled ‘The Economic Implications of Brexit for Northern Ireland’ showed the importance of the retail and manufacturing sectors for Northern Irelands economy and for the employment in Northern Ireland of women. Both of these sectors are predicted to be impacted disproportionally by BREXIT

“Manufacturing jobs are spread across Northern Ireland. While it is not possible to present a regional breakdown of manufacturing jobs by subsector, the data do point to a significant manufacturing employment in rural constituencies. While there are significant manufacturing bases within Belfast, female manufacturing employment is higher in rural areas particularly in food which accounts for a third of all female manufacturing employment, suggesting a possible gender differential arising from the impact of BREXIT.

- Fermanagh and South Tyrone, Upper Bann and Mid-Ulster have the highest proportion of manufacturing jobs in Northern Ireland and while no direct relationship exits, these constituencies could be expected to see disproportionate losses to a disruption in EU trade. In particular the higher rate of female manufacturing employment in these areas is largely confined to food manufacturing and that could be disproportionately hit by a reduction food exports arising from a fall in EU trade.”[22]

“The value of exports to the Retail sector, the largest sector of employment in Northern Ireland. shows the EU and the Republic of Ireland in particular accounts for the vast majority of foreign sales. In 2014 sales from Northern Ireland to the EU were almost equal to the value of sales to Great Britain. While the Northern Ireland market would naturally accounted for the majority of overall sales (£4.3bn) the importance of the EU/ROI market highlights a possible vulnerability for the Retail sector in the event of a BREXIT.

The Retail sector in 2015 accounted for 17.6 per cent of all jobs in Northern Ireland and this is up from 12.5 per cent recorded in 1973 when the UK joined the EU. For the UK as a whole, the Retail sector accounted for 14.7 per cent of all jobs in 1978, almost exactly the same percentage as in 2015. The retail section in Northern Ireland contains the largest number of low paid workers (McFlynn, 2014) and a comparatively large Retail sector may have contributed to low levels of productivity in Northern Ireland (McFlynn 2015). However at present the retail sector provides employment to a large section of the population and it is likely that a disruption to EU trade, particularly with the Republic of Ireland, may cause significant uncertainty and possible job losses in the sector."[23]

1.10 IREXIT

GERMAN-IRISH CHAMBER OF INDUSTRY AND COMMERCE

The German Irish Chamber of Industry and Commerce in its report 'Brexit- a view form the Chambers in December 2016' raised the issue of Ireland being force to leave the EU or IREXIT This is quoted here, as is a submission from the former Irish Ambassador to Canada and senior Good Friday Agreement negotiator Ray Bassett.

"A 'hard' Brexit, compounding Ireland's ability to engage in free trade with the UK, may put severe pressure on Ireland's EU membership in the medium-term. In order to underline the value of EU membership, the European Union may attempt to enforce costs on the UK after it leaves the EU. This has the potential to inflict serious collateral damage on Ireland and may give rise to anti-EU sentiment. By imposing very harsh terms on Britain to discourage other member states from exiting the EU, the EU need to actively consider whether this will build momentum towards an 'Irexit', further undermining European cohesion."[24]

1.10.1 BREXIT, IS IREXIT AN OPTION

Irish society is beginning to wake up to the severe implications of Brexit for Ireland and especially a hard Brexit. Important questions are being raised, including for the first time the possibility that Ireland may have to follow the United Kingdom out of the EU. Such thoughts would not have been scarcely credible even a year ago.

While EU membership has greatly assisted the modernisation of the Irish economy, especially the country's ability to attract American FDI; the food and agriculture sector, tourism, as well as Irish SMEs, are still heavily dependent on the British market. These are employment rich areas and are deeply embedded in the local economy. They are also very dispersed regionally in Ireland. The Department of Finance has made some pessimistic economic projections about the effect of Brexit, including 40,000 job losses, a 30% drop in Irish exports to the UK and a possible diminution of 4% in Ireland's GDP. Most Irish exports to mainland Europe travel overland through Britain which will mean that the previous customs free transit route will have be altered.

Huge delays at the ports can be expected. Bilateral Irish/British trade is worth €1.2bn per week and will be seriously hampered. Add in Irish trade with the rest of Europe and it is a recipe for chaos in the short and medium term. In addition, there are reports that some Irish ports do not have the facilities to cater for both EU and non-EU trade, something that will become much more important post Brexit.

The whole area of globalisation and aggressive tax avoidance by large multi-national firms is coming under the spotlight and the previous formula of attracting US companies to Ireland as their EU base, with special tax inducements, looks in peril. Such arrangements have become toxic to the international community. In addition, without the presence of the UK, Ireland and some small like-minded countries will find it hard to resist EU Commission moves to introduce a common tax regime. Even if Ireland is successful in vetoing EU wide reforms, there is a likelihood that individual countries such as France, Germany etc., will introduce domestic changes which will make a tax efficient location in Ireland less attractive. This should be factored into Ireland's planning for its future economic development.

Ireland and Britain operate a common travel area, allowing their citizens to travel to each other's country without passports; they can vote and access social supports freely in each other's jurisdictions. Both the British and Irish Governments will work to hold onto this system in the negotiations but it is by no means certain that the other EU countries will permit such cosy arrangements. With some European States calling for punishment of the Brits, the atmosphere is not conducive to sensible solutions.

There is also the strong possibility of a reinstatement of a physical border between the Republic in the South and Northern Ireland. That border had been effectively removed by the Good Friday (Belfast) Agreement in 1998. The re-imposition of controls here could effectively torpedo that Agreement, which was based heavily on both countries being full members of the European Union. While there have been a number of contradictory statements emanating from the Government on the issue of a physical border, the Taoiseach Enda Kenny has already conceded that avoiding this will be difficult to achieve. A new border in Ireland would be a very heavy price to pay for remaining inside the EU. While there have been calls for reunification of the country or a special status for Northern Ireland with the EU, neither option is likely in the short term. Therefore, Ireland again has to factor this pertinent fact into its calculations.

Ireland, in many respects, has its special interests in the Brexit negotiations. It needs to stand on its own and push Ireland's national interest rather than merely going to our EU partners pleading a special case and asking that the EU negotiators take this on board in the Brexit negotiations.

With so much at stake, the Irish Government has kept its head down and rebuffed numerous pleas within Ireland to appoint a special Minister for Brexit who would enter into separate negotiations with both the EU authorities and the UK, namely becoming a third element in the discussions. This proposal has overwhelming support in opinion polls, (73%). There is widespread scepticism within the country that the same EU authorities, which inflicted the notorious Bailout on Ireland; are pursuing the Apple case, etc.; are now going to place Ireland at the forefront of its considerations. The approach of being the best boy in the class has been a failure for Ireland inside the EU in recent times.

As the implications of the forthcoming rupture between the UK and the EU becomes clearer, Irish public opinion has started to shift. In a recent poll in Ireland's leading business paper, the Sunday Business Post, 56% of those polled believed that links with the UK are more important than with the rest of the EU. Support for an Irexit in the event of a hard Brexit was 28% but this would have barely registered any support a year ago; there is clearly a momentum building against the present passive stance by the authorities.

Questions are being asked as to whether is not more disruptive to break with Britain and Northern Ireland than with the remaining 26 EU member States. Certainly, from a cultural, historical and family ties point of view, Ireland and the UK are the closest of any two EU countries. Ireland, unlike most other EU countries, does not belong to other groupings, such as the Nordic Council, Visegárd, Benelux, Commonwealth, Francophonie etc., Hence Ireland will be left with no natural allies. It will be an island off the west coast of Europe, behind another larger island which is not part of the EU. Our peripherality in the EU will be greatly increased. I cannot think of many peripheral regions that have prospered in similar circumstances.

Given that is so overwhelmingly in Ireland's interest to negotiate officially and separately with Britain on Brexit, the obvious question must be asked as to why the Irish authorities are pursuing the current course which seems at variance with its national interest. The answer lies in the way the European Union has worked with the political and bureaucratic elites over the years. Constant meetings in Brussels involving Ministers and officials has left them much more Eurocentric than the population at large. The lack of alternative international fora, and active Irish participation in them, means that Irish leaders often think in very narrow EU terms.

Ireland needs to be much more aware of the wider international environment. The UK is energetically seeking new trade agreements and the prospect of an Anglophone North Atlantic free trade area, encompassing the USA, Canada and

Britain is emerging as a strong possibility. Given Ireland's geographic position; its trade links; and its ethnic connections with these three countries, it would be very foolish of any Irish Government not to have a plan B in its sights, should the Brexit discussions end in acrimony. However, this would require a much more independent line that the present course.

There is a foolish assumption in Dublin that any trade deal between the UK and the USA would take years. This is based on the experiences of EU trade deals. However, trying to cater for the needs of 28 countries with a myriad of concerns is not the same as direct bilateral discussions between two countries. The timescale of a new USA/UK deal may be much shorter and could be ready by the time Brexit takes effect. Any new USA trade deal which advantaged Britain over Ireland would have serious implications for our ability to attract US FDI.

Given the whole basis of our entry into the European Union's predecessor in 1973 was our links with Britain, there is an onus on the Irish Government to put the results of the Brexit negotiations to a referendum. Hopefully, the outcome of Brexit negotiations will be benign. However, if this does not turn out to be the case, it would be a brave Government in Dublin who would ask the electorate to re-instate a border in Ireland and erect barriers with our nearest neighbour Britain where most Irish people have family links. The prospects of an Irish Irexit have certainly grown in recent days.

It the discussions it is important to fully examine all alternatives. Brexit is bad for Ireland no matter which course of action we decide to take. There has been no serious look at the possibility of retaining a customs union with the United Kingdom and seeking liberal access to the Single (internal) market of the European Union. If fully explored, it might turn out to be less bad than staying as a full member of the EU and taking the consequences of Brexit.

Ray Bassett, Former Irish Ambassador to Canada and Department of Foreign Affairs Good Friday Agreement Negotiator.

1.11 PREVENTION OF A RETURN TO A HARD BORDER ON THE ISLAND OF IRELAND

In this section of the report the findings of the Research Service of the House of the Oireachtas in relation to the Common Travel area and other related issue is reproduced. A key concern is the cross border movement of people; we reproduce the maps from the Central Statistics Office report ‘BREXIT Ireland and the UK in Numbers’ which shows the location of cross border commuters north and south.

The issue of the Hard Border is addressed, drawing extensively on the House of Lords European Union Committee report ‘Brexit: UK – Irish Relations’. It is proposed that the Hard Border in relation to the movement of people on these islands should be in the Irish Sea between Ireland and Britain. This is a practical solution to the alternative of a border on the old partition lines between north and south. The reinstatement of the border in the Irish Sea between Ireland and Britain was the case from 1939 to 1952. Former British Prime Minster David Cameron outlined the choices in a House of Commons debate in June 2016 ‘Therefore, you can only have new border controls between the Republic and Northern Ireland or, which I would regret hugely, you would have to have some sort of checks on people as they left Belfast or other parts of Northern Ireland to come to the rest of the United Kingdom’. Former Taoiseach Bertie Ahern also made a submission for this report and this is reproduced in full here.

1.11.1 SUBMISSION BY FORMER TAOISEACH BERTIE AHERN

THE BORDER AND BREXIT

The Good Friday Agreement in 1998 ushered in a new era of reconciliation in Northern Ireland, which quickly brought about a peace dividend for communities across the island of Ireland sparked, in part, by a surge in overseas investment and enhanced tourism figures. The Irish peace process is lauded

internationally as an exemplar to other regions where there is conflict, however, Brexit could undermine the work of reconciliation and destabilise the region.

EU funding has helped underpin peace by financing cross-border and cross-community initiatives, which have led to positive social and political outcomes. Brexit puts this significant funding at risk. It is estimated that the region has received close to €1 billion in PEACE/ERDF funding since 1995, with hundreds of millions also directed to the border regions under the INTERREG Programme. As the Irish Congress of Trade Unions has pointed out, the immediate loss of this funding would likely devastate the community sector, resulting in thousands of job losses. For a society still emerging from a bitter conflict, this clearly represents a substantial and serious risk.

Ireland is the only EU member state to share a land border with the UK. There is free movement of people and goods across this border. 30,000 people cross the border between Ireland and Northern Ireland every day to work or visit family and friends. The elimination of a hard border in modern times has been critical in the context of the Northern Ireland peace process and in building co-operation between both jurisdictions on the island. After a meeting in July 2016 between the Irish Taoiseach Enda Kenny and British Prime Minister Theresa May, the Taoiseach said that they had both agreed that there would be no return of a hard border. The Irish Foreign Minister Charles Flanagan has stressed that, irrespective of Brexit, the border between Ireland and Northern Ireland must remain “invisible” and that the Irish Government would be emphasising the importance of this approach in negotiations with EU colleagues. The logistics of how, in practical terms, the border will remain “invisible” is the big question and the big challenged to be addressed over the next two years, as the UK begins exit talks.

The British Government now appear to be switching their language. They are now saying not that there’ll be no border, but that the border won’t be as difficult as to create problems. However, it is of concern that the return of a border will take away the calming effects of an open border. Undoubtedly, any attempt to reintroduce border posts, or to man it in a physical sense as used to be the case, would be very hard to maintain, and would create a lot of bad feeling.

In its Brexit White Paper , the UK government stated its aim to have “as seamless and frictionless a border as possible between Northern Ireland and Ireland.”
The secretary of state for exiting the EU, David Davis, has suggested that the arrangements between Norway and Sweden could be a model to copy, where CCTV cameras equipped for automatic number-plate recognition are in place. However, in an interview with the Guardian, the European parliament’s Brexit negotiator Guy Verhofstadt appeared to scorn such a model, given that there would need to be customs checks and restrictions on the free movement of people.

There are real doubts that current technology could do the job, given the nature of the Irish border. There are 300 crossing points on the border between the Republic and Northern Ireland, with 177,000 crossings by lorries a month, 208,000 by vans and 1.85m by cars.

The re-introduction of a border could be politically destabilising. It has been said that he feared the furious reaction of the unionist communities in the mid-1980s when the Republic was given an advisory role in the government of Northern Ireland could be repeated on the nationalist side if controls were reinstated. My view is that any kind of physical border, in any shape, is bad for the peace process, as it will psychologically feed badly into the nationalist communities.

The return of a border runs contrary to the spirit of the Good Friday Agreement.
For the nationalist community in Northern Ireland, the Good Friday agreement was about removing barriers, integrating across the island, working democratically in the

absence of violence and intimidation – and if you take that away, as the Brexit vote does, that has a destabilising effect.

The British prime minister has repeatedly suggested that the 1923 Common Travel Area deal can be the basis for the future, although it was signed before either state joined the EU. However, a memo from the European parliament's legal affairs committee, which is helping shape the negotiating position of the European commission and the red lines of the European parliament, rebuffs that suggestion: "The [Good Friday] agreement makes it abundantly clear that the fact that both parts of Ireland and the UK are within the EU is a basis for the agreement. Moreover, the fact that Brexit could result in the reintroduction of border controls and controls on the free movement of persons between Ireland and Northern Ireland means this is a question for the EU, and not only Ireland and the UK."

Historically, customs controls have operated on both sides of the border from 1923 until their abolition on 1 January 1993, when the EU Single Market came into effect. In addition, security checkpoints operated on both sides of the border during the Troubles, from 1970 to the late 1990s—although the border security regime operated only partially, even at the height of the Troubles, because the Government in London recognised that a 'hard' border would inflame tensions in the Nationalist community. Other controls have been instituted on an ad hoc basis. For instance, in 2001 the Republic of Ireland operated systematic controls at the Irish border to curtail the spread of foot and mouth disease.

Customs posts were targets for attack when the Troubles erupted. However, the launch of the European Single Market, together with the onset of the peace process from 1994, had removed the need for customs posts and military checkpoints, meaning that, today, "the physical manifestation of the Irish border itself is hardly discernible." Today, there are up to 300 major and minor crossings along a 310 mile (499 kilometre) border.

It is still an evolving situation as to what the precise impact of Brexit on the land border will be, both in terms of the movement of goods (whether UK withdrawal from the customs union would inevitably lead to border checks) or the movement of people (whether the current Common Travel Area arrangements can be maintained). The principal impediment to maintenance of the current soft border arrangements was that, if the UK withdrew from the customs union, customs tariffs would need to be applied, inevitably resulting in some form of physical manifestation of the border. The UK leaving the customs union would make a hard border almost inevitable, whatever that might look like. There would need to be some controls, although this did not necessarily mean the re imposition of the old border checkpoints. The Irish Government's preference would be for the UK to remain in the customs union.

1.12 REINSTATEMENT OF 1939-1952 CONTROLS BETWEEN ISLAND OF IRELAND AND UK WITH FULL IMPLEMENTATION OF OPERATIONS GULL ON NON-RACIAL BASIS WILL PREVENT REINTRODUCTION OF HARD BORDER.

Between 1939 and 1952 the UK government has immigration controls between the island of ireland and Great Britain. Currently illegal movement of non-EU citizens between Northern Ireland and Britain is addressed by means of Operation Gill. Immigration Lawyers noted criticism of Operation Gill by human rights groups, in particular accusations of racial profiling. At the height of the 'Troubles' the border was permeable even though as former Taoiseach Bertie Ahern (1999-2008) has pointed out 40,000 people were on the security pay bill.

Ulster Unionist Party leader Mike Nesbitt told House of Lords that the 'Troubles' had demonstrated that it was not possible to secure the land border, and that therefore "the border will inevitably be at the ports and airports of Great Britain, from Cairnryan to Heathrow"

The House of Lords in its report states that the current soft border should remain but dismisses the 1939-1953 controls which would prevent the unacceptable current racial profiling of those traveling between Northern Ireland and Britain. Yet the House of Lords failed to identify an alternative acceptable solution.

We call on the British Government to accept the realist solution of the immigration controls of 1939-1952 and thereby keep the status quo between the North and South of the Island.

The following is extracted from the House of Lords: European Union Committee 6th Report of Session 2016-17 Brexit: UK-Irish relations.

Common Travel Area arrangements between the United Kingdom and Ireland date from the foundation of the Irish state.

From 1923 to 1939 there was full mutual recognition of immigration permission granted by each state to aliens travelling to the other. Between 1939 and 1952 immigration control applied to travel between the island of Ireland and Great Britain. In 1952 those immigration controls were removed, after an administrative agreement between the two states concerning co-operation in control over entry by aliens.[25]

OPERATION GULL

At present, illegal movement of non-EU citizens between Northern Ireland and Britain is addressed by means of operation Gull, which targets domestic UK flights and ferries to and from Northern Ireland in order ot identify and arrest illegal immigrants going to and from Ireland by way of the border

"Professor Wyatt stated that it was not clear if Operation Gull could be expanded to deal with cross-border illegal movement by EU citizens in the future. He and the Immigrant Law Practioners Association noted critism of Operation Gull by human rights groups, in particular accusations of racial profiling in its identification of indiciduals selected for interview in the UK opers and airports. Professor Wyatt agreed that the techniques used on the UK side to identify and interview suspect travellers lacked the transparency of border passport checks, although they did act as a surrogate for this."[26]

SECURING THE BORDER

"Professor Cathal McCall, Professor of European Politics, Queen's University Belfast, noted that it had been a preamble border, even at the height of the Troubles."[27]

"Mr Ahern recalled that at one stage there were over 40,000 people on the security pay bill, and hoped no-one wished to return to a 'hard border' of that kind."[28]

ENHANCED UK-IRISH IMMIGRATION COOPERATION

One of the reported proposals being explored by the British Government was to move UK immigration control to Irish ports and airports. This is an unacceptable concept.

"134. During the course of our inquiry, reports emerged in The Guardian that the UK Government was seeking to shift the front-line immigration control to Ireland's ports and airports to avoid introducing a hard border between North and South.

135. Many of our witnesses reacted to these reports with a mix of scepticism and incredulity. Bertie Ahern found the suggestion to be "frankly unbelievable", as it showed a "total lack of understanding of how people think north and south in either tradition. It just would not happen"Neither could David Ford see how

the Irish authorities could be expected to police their ports and airports to stop EU citizens coming to Britain.The leader of the SDLP, Colum Eastwood MLA, agreed that there was no support for "the Irish Government taking on the immigration job of the UK Government", both for practical and symbolic reasons."[29]

COMMON TRAVEL AREA IN EU LAW

"Bernard Ryan, Professor of Migration Law, University of Leicester, stated that:

"The continuation of common travel area arrangements appears compatible with EU law ... There is no apparent legal reason why the Republic of Ireland should not retain the benefit of Protocols 19 and 20 after Brexit, so as to permit bilateral co-operation with the United

Kingdom outside the Schengen zone."He suggested that Brexit presented an opportunity for a comprehensive Common Travel Area agreement, in particular given that adjustments to the CTA arrangements were in any case required to cater for EU, EEA and Swiss nationals. He suggested that the two governments could publicise their co-operation over immigration control.

113. Dr Etain Tannam, Assistant Professor, Irish School of Ecumenics, Trinity College Dublin, agreed that the fact that Ireland was not part of the Schengen area would make it possible to continue with the CTA.Ambassador Mulhall told us that there was no pressure from other Member States for Ireland to join Schengen, because of their recognition of the unique circumstances in Northern Ireland." [30]

"131. It is not a given that the EU will tolerate uncontrolled movement from the UK into the EU, via the UK-Irish border. Both the UK and Irish Governments must seek to convince EU partners of the necessity of maintaining the reciprocal rights enjoyed by UK and Irish citizens, both because of the unique nature of UK-Irish relations, and in view of the specific circumstances in Northern Ireland." [31]

CONTROLS BETWEEN BRITAIN AND NORTHERN IRELAND

"140. We heard evidence that the only viable alternative to a harder land border was to introduce greater control of the sea boundary between Northern Ireland and Great Britain. Mike Nesbitt told us that the Troubles had demonstrated that it was not possible to secure the land border, and that therefore "the border will inevitably be at the ports and airports of Great Britain, from Cairnryan to Heathrow". This, he said, "would disadvantage everybody travelling either way, but particularly the citizens of Northern Ireland making their way to the rest of the United Kingdom". Colum Eastwood agreed that maintaining a border on the island of Ireland was practically impossible, and that the border would end up in ports and airports in Britain.141.Dr O'Connor, though, noted that full border checks would be unacceptable to many Unionists, as they would mean needing to show ID to move within the UK.Katy Hayward agreed, citing the then Labour Government's unsuccessful attempts in the 2008 Borders, Citizenship and Immigration Bill to strengthen checks within the Common Travel Area, in particular at points of entry to and from Northern Ireland and Great Britain. The Bill was amended in the House of Lords to remove this provision because of concerns about internal UK checks.

142. Political stability in Northern Ireland depends on the confidence of both communities that their interests are being respected. Just as any undermining of the current soft land border would be economically, politically and socially unacceptable, so strengthened checks for UK and Irish citizens at the sea boundary between Northern Ireland and Great Britain would be politically divisive and inherently undesirable. Other solutions must be identified, to ensure that the positive progress of recent years in developing UK-Irish

relations and promoting stability in Northern Ireland is not undermined by Brexit.” [32]

CONCLUSION

The return to the 1939-1953 controls would prevent the unacceptable current racial profiling of those travelling between Northern Ireland and Britain. The House of Lords European Union Committee 6th Report of Session 2016-17 Brexit: UK-Irish relation failed to identify an alternative acceptable solution. We call on the Irish Government to seek the realist solution the reinstatement of the controls of 1939-1952 and thereby keep the status quo between the North and South of the Island.

1.13 CROSS- BORDER COMMUTERS VERSUS TRAVELLERS BETWEEN IRELAND &BRITAIN

8,295 residents from Ireland in 2011 commuted across the border with Northern Ireland to work or study 6,456 residents from Northern Ireland commuted across the border to work or study in Ireland. 79,300 immigrants who arrived in Ireland in 2016, 13,800 (17%) arrived from the UK.

The figures of the 14,751 who cross the border everyday can be compared to the 5,722 per day who travel between Ireland and Britain daily according to information found by the Oireachtas Library and Research Service.

Origin and destination of cross-border commuters from Ireland to work or study in Northern Ireland (CSO Report Brexit and Ireland in the UK)

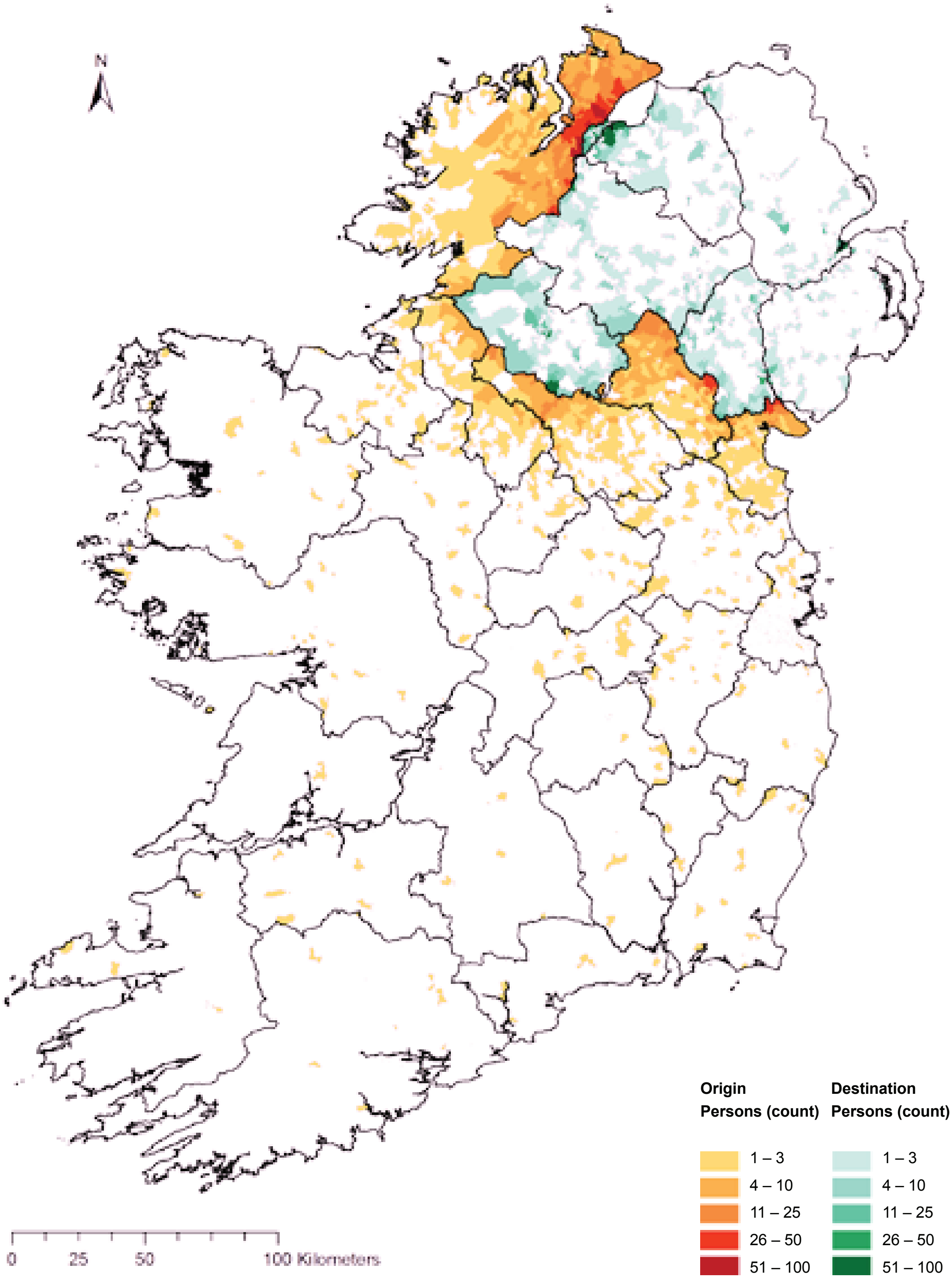
Demographics NI citizens work/study in IRL/ IRL citizens work/study in NI-

Origin and destination of cross-border commuters from Ireland to work or study in Northern Ireland (CSO Report Brexit and Ireland in the UK)

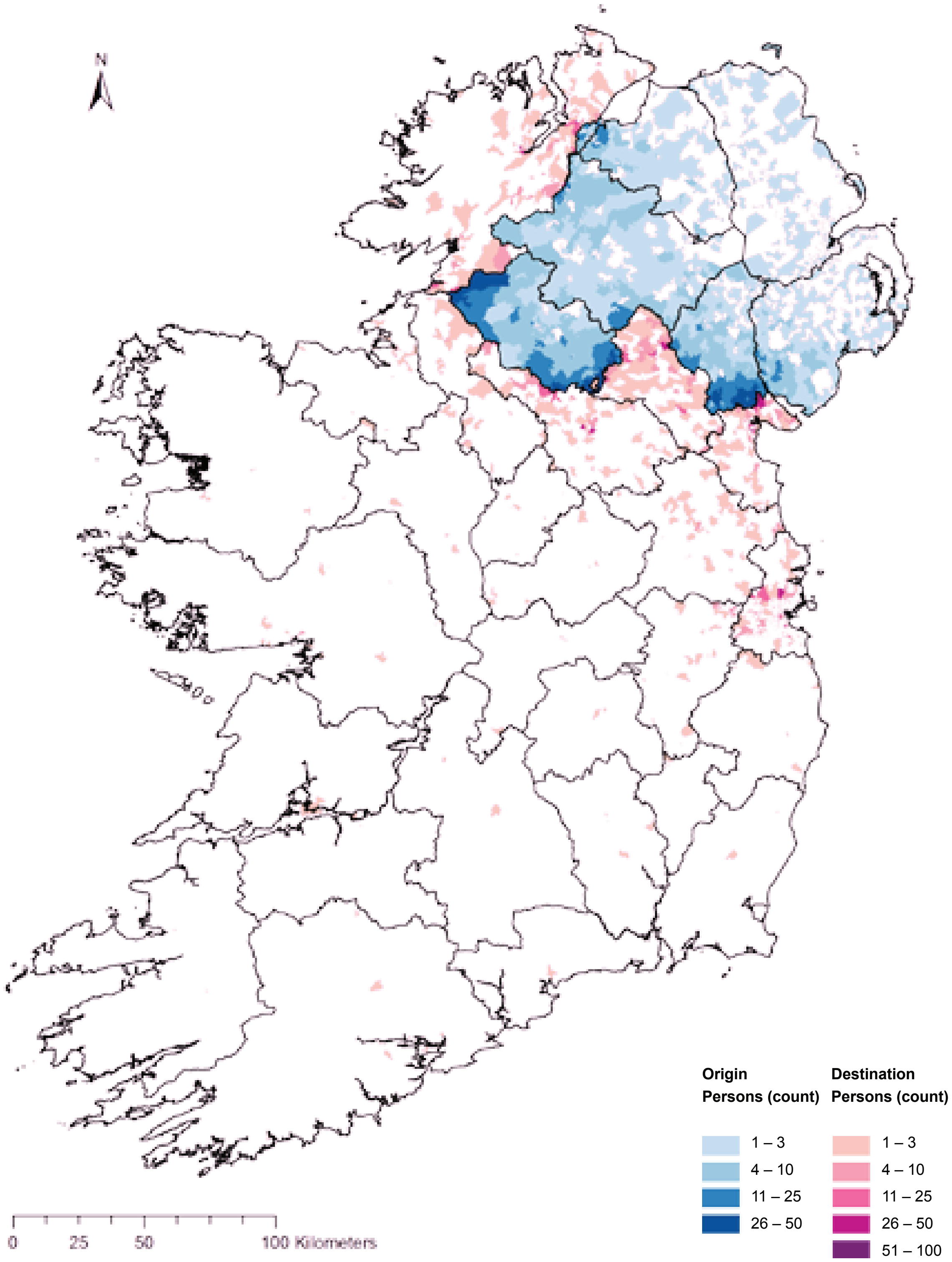
I will demonstrate the importance of the common travel area to the social ties and economic lifeblood of our respective jurisdictions. Of the 27.9 million passenger journeys through Dublin Airport in 2016, 9.9 million were from the UK to Ireland or from Ireland to the UK, which is 36% of the total. Averaged out over the year, it means 27,000 passengers have their journey facilitated by the common travel area every day. In 2015, 1.2 million residents of Northern Ireland used Dublin Airport, which averaged almost 25,000 people per week crossing the Border to catch flights, and 1 million visitors to Northern Ireland came into this State via Dublin Airport. All of these journeys, and the economic activity generated, are made possible by the common travel area arrangements so much so that it is taken for granted in facilitating movement of people North-South and east-west. The picture at other entry points to the State is the same. Cork Airport has over a dozen routes to the UK, with almost 1 million passengers, or 50% of the total, in 2016 taking a journey in either direction. The number of passenger journeys by sea through our ferry ports is also significant at approximately 2.8 million per year. It is estimated there are an average of 2.2 million monthly vehicular crossings on the North-South land Border. These vital statistics relate to the movement of people. We should not forget that in addition to people moving freely from jurisdiction to jurisdiction, the common travel area is also about allowing people to remain, work, access services and to be educated and so forth in either jurisdiction. Preserving those provisions in addition to travel rights is at the heart of maintaining the common travel area.

Noel Waters, Secretary General, Department of Justice and Equality. Seanad Eireann 23.3.17

Origin and destination of cross-border commuters from Ireland to work or study in Northern Ireland



Origin and destination of cross-border commuters from Northern Ireland to work or study in Ireland



1.14 Common Travel Area

The Common Travel Area (CTA) is a set of arrangements under which the UK and Ireland operate an open border between their respective territories, allow free movement and related rights to each other's citizens, and co-ordinate their immigration policies in relation to other countries.[73] These arrangements have been maintained in varying degrees and forms since the establishment of the Irish Free State in 1922. There is no overarching treaty or agreement that encapsulates the arrangements between the two states, and they have been implemented by means of inter-governmental agreements, legislation and administrative practices that have changed over time and in response to circumstances.

The UK referendum vote to leave the EU has focussed attention on the nature and effect of the CTA, particularly in relation to the border between Northern Ireland and the Republic, which will become the UK's only land border with the EU. The Taoiseach, Enda Kenny TD and the Prime Minister, Theresa May MP have stressed the importance of the CTA to both states and have committed to seeking "creative and imaginative ways" to deal with matters such as customs after the UK exits the EU.[74]

Issues that are relevant to the CTA and how it may be affected by the UK's exit from the EU include:

- Immigration and residence rights
- short-stay visas
- border and passport controls

Immigration and Residence Rights

UK and Irish law

The right of UK and Irish citizens to enter and remain in each other's country is a central feature of the CTA. Apart from suspension during and for a period after the Second World War, this right has been recognised and supported by the UK and the Republic since the 1920s. Citizens of the two states are able to enter and reside in each of the countries without time limits or the need for a visa, residence permit or proof of resources. In 2011 approximately 230,000 persons born in the Great Britain were resident in the Republic.[91] In

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[71] Mark Durkan MP at Joint Oireachtas Committee on Implementation of the Good Friday Agreement, 27 September 2016.

[72] 'No Need for an all-Island Brexit Forum' says First Minister, 4 July 2016, UTV News

[73] The CTA also includes the Isle of Man, Jersey and Guernsey, but these are not considered in this Note.

[74] *The Irish Times* (26 July 2016) "Kenny and May agree no return to hard border after Brexit" [91] Central Statistics Office, Census 2011 data, available here.

the same year, nearly 38,000 persons born in the Republic lived in Northern Ireland,[1] 23,000 in Scotland,[2] and 372,000 in England and Wales.[3]

These rights are conferred by legislation of the two states – in the Republic, under the Aliens Act 1935[4] [5] and in the UK, the Ireland Act 1949[6].[98] The UK's exit from the EU will therefore not necessarily affect these rights.

Also relevant in this regard are the terms of the Agreement, section 1(vi) of which recognises the birthright of all the people of Northern Ireland "to identify themselves and be accepted as British or Irish or both as they so choose". The UK and Irish governments accordingly confirm in the Agreement the right of the people of Northern Ireland to both UK and Irish citizenship. This right will "not be affected by any future change in the status of Northern Ireland".

EU law

EU law also gives rights to enter and reside in Member States, though these are defined differently from those arising under UK and Irish legislation discussed above.

Both the UK and Ireland have opted out of the Schengen open-border arrangements that were incorporated into EU law the 1998 Amsterdam Treaty. However, Article 21 of the Treaty on the Functioning of the EU (TFEU) provides that the nationals of EU Member States hold EU citizenship in addition to their national citizenship. The Article provides that EU citizenship confers "the right to move and reside freely within the territory of the Member States", but subject to conditions and limits provided for in EU law. EU Directive 2004/38[7] is the principal EU legislation on this. It provides that EU citizens and the members of their families[8] may:

- reside in any other Member State for up to three months subject only to holding valid identification such as a passport (Article 6);
- reside for longer periods if they are workers, self-employed or otherwise capable of supporting themselves and their families without relying on the host state's social assistance systems, or are registered students with appropriate financial resources and heath insurance (Article 7);

[1] Northern Ireland Statistics and Research Agency, Census 2011 data available here

[2] Scotland Census, Census 2011 data available here

[3] Office for National Statistics, Census 2011 data available here

[4] Aliens Act, 1935: http://www.irishstatutebook.ie/eli/1935/act/14/enacted/en/html.

[5] The current provision is S.I. 97/1999 *Aliens (Exemption) Order, 1999*, which excludes British citizens from the operation of the 1935 Act.

[6] Ireland Act 1949: http://www.legislation.gov.uk/ukpga/Geo6/12-13-14/41/contents. [98] Section 2(1) of this Act provides that the Republic is not to be treated as foreign country for the purposes of UK law.

[7] EU Directive 2004/38: http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:158:0077:0123:en:PDF.

[8] Defined in Article 2(2) to include the spouse or partner of the EU citizen, his or her children under the age of 21, and dependent parents, grandparents etc.

- automatically acquire permanent residence in a host state after residing in it continuously for five years (Article 16).

These rights apply even where the members of the EU citizen's family are not themselves EU citizens. Under agreements relating to the European Economic Area (EEA), citizens of Iceland, Liechtenstein, Norway and (under a separate arrangement) Switzerland, have similar rights of residence in EU states.

Articles 4 and 5 of the Directive give EU citizens and their families the right to enter and exit Member States subject only to being able to provide appropriate official identification such as a passport. Family member who are not EU citizens may in some circumstances be required to obtain visas.

The UK's exit from the EU will remove this basis of entry and residence in the UK. It will therefore directly affect the position of EU citizens and the members of their families who seek to enter or reside in the UK. EU citizens who are Irish citizens are, as previously outlined, subject to a separate regime under the UK's *Ireland Act 1949* and *Immigration Act 1971.* However, family members of those Irish citizens who are not themselves Irish citizens will not qualify for that status.

Coordination of Immigration Policies

An important feature of the CTA has been the coordination by Ireland and the UK of their immigration policies, particularly as regards nationals of countries outside the EU and the EEA. This has been done so that neither country could be used as a 'back door' into the other. A notable example of this is alteration to Irish immigration policy since the 1920s, which has been kept broadly in line with UK legislation concerning the rights of entry to the UK of citizens of certain British Commonwealth countries. The coordination is also reflected in UK and Irish policies on short-stay visas, discussed below.

Following the UK's exit from the EU, it would appear likely that continued coordination will be required if the CTA is to be preserved while preventing 'back-door' immigration through the Republic.

Short-stay visas

The UK and Ireland have agreed measures to coordinate short-stay visas for non-EEA visitors, allowing for mutual recognition of certain short-stay visas. In 2011 the Republic introduced a Short-stay Visa Waiver Programme, which allows nationals of 18 non-EEA countries who hold UK short-stay visas to enter the Republic and remain for up to 90 days without further visa requirements.[9]

This was extended by the 2014 British-Irish Visa Scheme.[102] This allows nationals of India and China to apply for a single short-stay visa to cover both the UK and Ireland. This is intended to enhance tourism throughout the UK and the Republic by allowing visitors unrestricted travel for the duration of their visas. In launching the scheme, Ireland's Minister for Justice and Equality, Frances Fitzgerald TD, described it as "an historic development in the relationship between Ireland and the UK and in the operation of the Common Travel Area which has existed between the two countries since 1922". This scheme may provide a model for similar schemes relating to other countries.

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[9] Irish Naturalisation and Immigration Service: Short Stay Visa Waiver Programme (October 2016) [102] Department of Foreign Affairs Information Note available here

Control of movement of people

The central and most noticeable feature of the CTA is the minimal border controls between the Republic and the UK. For much of its existence, the CTA allowed travel from one state to the other by all persons, regardless of their nationality and without passport or border checks.[10] That position changed in 1997 when the Republic introduced legislation the practical effect of which was to introduce identity checks – usually in the form of passport controls – for persons entering the Republic from the UK.[11] In practice, these are carried out mainly at airports and occasionally sea ports. The purpose of this is to establish if the persons being checked are 'aliens' for the purpose of the *Aliens Act 1935*. As previously mentioned, UK citizens are excluded from that category, and a person who can establish that they are a UK citizen enjoys an unrestricted right to enter and reside in the Republic. As mentioned above, the Republic coordinates many of its non-EEA visa policies with those of the UK. The two countries can therefore rely on each other to check on arrivals from those non-EEA states, allowing them to maintain minimal checks on travel between the Republic and the UK.

The UK's exit from the EU raises questions concerning the minimal checks on travellers between the Republic and Great Britain and the virtual absence of such checks on travellers between the Republic and Northern Ireland. The Republic is not a party to the Schengen arrangements removing border restrictions between EU Member States, but it remains subject to Article 21 of the TFEU and Directive 2004/38. These oblige it to admit EU nationals subject only to the conditions outlined earlier in this paper. If, after its exit from the EU, the UK chooses to limit the access it grants to non-Irish EU nationals, such restrictions will very likely require some sort of checks or inspections on arrivals from the Republic at ports, airports and even border crossings with Northern Ireland. This would amount to fundamental change in the nature of the CTA.

However, addressing the Irish aspects of the implications of UK withdrawal for immigration policy and nationality law, Bernard Ryan, Professor of Law, University of Leicester, has argued that:[12]

In the event of UK decision to withdraw, it is to be presumed that the underlying reasons for the common travel area would continue to apply. The political consensus in support of the common travel area in Northern Ireland would probably be an especially significant factor.

Continuing with common travel area arrangements also appears to be compatible with EU law. There is no obvious legal reason why the Republic of Ireland should not retain the benefit of Protocols 19 and 20 after UK exit, allowing it to maintain special co-operation arrangements with the UK outside the Schengen zone.

Professor Ryan has expressed the view, however, that after a UK decision to withdraw, reform of common travel arrangements might nevertheless be considered.[106]

Open Europe, which describes itself as a Think Tank, addressing the suggestion that maintaining the CTA would be incompatible with Ireland remaining part of EU's free movement rules, since EU

[10] In the Republic, this had effect by reason of the Aliens Act 1935. In the UK, section 1(3) of the Immigration Act 1971 exempts all travellers from the Republic from border controls, though this is subject to limited exceptions concerning non-Irish persons who require visas to enter the UK.

[11] S.I. No. 277/1997 - Aliens (Amendment) (No. 3) Order, 1997

[12] Professor Bernard Ryan (May 2016) ILPA EU Referendum Position Papers 8: The implications of UK withdrawal for immigration policy and nationality law: Irish aspects. https://www.freemovement.org.uk/Brexit-briefing-impact-on-common-travel-area-and-the-irish/

citizens could simply move to the UK via Ireland (this presumes the UK would no longer accept unrestricted free movement from the EU) has argued that:

This appears to be somewhat of a red herring. It is very likely that the UK will continue to allow visa free travel with the EU. Therefore, EU citizens will be free to visit the UK on holiday or to conduct some cross-border business. In reality, the enforcement of ensuring people do not over stay cannot be at the border but via other mechanisms such as regulating access to social security and the job market. These are the things that would no longer be automatically available to EU citizens if the UK was no longer subject to free movement. But there is no real need for any greater border enforcement (though data collection and tracking of entrants should be improved). Border checks from a purely security perspective are already in place since the UK and Ireland are not in Schengen and it seems likely the UK could continue to trust Ireland to enforce the border of the Common Travel Area from a security perspective. The effectiveness of such checks would depend on bilateral cooperation.[107]

Control of movement of goods

Another aspect of border controls that is relevant in this context relates to controls for customs and excise purposes. The UK and the Republic are both part of the European Union Customs Union, but it is not yet clear whether the UK's exit from the EU will entail an exit from the Customs Union. If the UK chooses to leave, resulting in the Republic operating under a different customs regime, it would pose serious questions to the ability of persons and businesses to move freely across the border with the Republic without checks by customs agents.

A similar issue relates to excise duties and charges such as Value Added Tax. Although both states currently operate checks to target smuggling of particular classes of goods (such as tobacco products, alcohol and fuels), the checks are carried in a way that generally does not interfere with the overall operation of the CTA. If, following its exit from the EU, the UK's

[106] As above
[107] Open Europe (March 2016) How might the effect of Brexit on Ireland and Northern Ireland be managed? http://openeurope.org.uk/today/blog/how-might-the-impact-of-Brexit-on-ireland-and-northern-ireland-be-managed/

tax and excise regime diverges widely from that of the Republic, such unobtrusive checks may become impractical, leading to border checks of some or all persons and traffic.

Future Arrangements

The future of the border and the CTA are both issues which are currently under consideration by two Westminster Committees.

On 16 September 2016, the Northern Ireland Affairs Committee of the House of Commons launched an inquiry into the future of the land border between Northern Ireland and the Republic following Brexit. Amongst other issues, the Committee is seeking evidence on:

- What benefits currently derive from the existing open border arrangements?
- What options are there for maintaining the existing Common Travel Area arrangements?
- What are the options for the border if the UK was not part of the EU customs union? What are the advantages and disadvantages of each option?

- What are the options for the border if the UK was not part of the Single European Market? What are the advantages and disadvantages of each option
- What options are available that would maintain the First and Deputy First Ministers' desire for free movement of people, goods and services?
- What policing and criminal justice arrangements will need to be in place to ensure the border does not result in an increase in illegal activity?
- What would be the implications of Northern Ireland having some form of special status within a post-Brexit UK?
- Does the UK's departure from the EU have implications for the UK and Ireland's common visa system?
- What lessons can be drawn from the other parts of the EU that have an external land border, such as between Norway and Sweden/Finland, or between Switzerland and its neighbours?[13]

On 17-18 October 2016, the House of Lords European Committee visited Belfast and Dublin to take evidence for its *Brexit: UK-Irish relations* inquiry[8149]. This is one of a series of short inquiries on the implications of Brexit being undertaken over the coming months by the EU Committee and its Sub-Committees. In addition to the impact of Brexit on Northern Ireland

Topics are to include:

- Trading relationships between Ireland and the UK
- The impact on North/South relations and on the Irish land border
- The impact on the Common Travel Area
- The impact on the peace process and the Good Friday Agreement

[13] http://www.parliament.uk/business/committees/committees-a-z/commons-select/northern-ireland-affairscommittee/inquiries/parliament2015/inquiry3/.

[14] Committee visits Belfast and Dublin for Brexit: UK-Irish relations inquiry, Lords Select Committee press release 14 October

On 17 January 2017, Minister Theresa May gave a speech detailing her twelve point plan for Brexit negations with the EU. Although this plan does indicate a preference to form a customs agreement with the EU, and to maintain a common travel area with the Republic of Ireland, the plan does imply that the UK will withdraw from the Customs Union, also implying a hard Brexit.

Text Box 3 overleaf provides excerpts from the speech, covering points 4 and 9 of the 12 point plan, relating to the Common Travel Area and trade agreements with other countries.

Text Box 3: UK Prime Minister Speech, The UK government's negotiating objectives for exiting the EU (extracts), 17 January 2017 Prime Minister May: 12 point plan

Point 4. Maintain the Common Travel Area with Ireland

We cannot forget that, as we leave, the United Kingdom will share a land border with the EU, and maintaining that Common Travel Area with the Republic of Ireland will be an important priority for the UK in the talks ahead. There has been a Common Travel Area between the UK and the Republic of Ireland for many years.

Indeed, it was formed before either of our 2 countries were members of the European Union. And the family ties and bonds of affection that unite our 2 countries mean that there will always be a special relationship between us.

So we will work to deliver a practical solution that allows the maintenance of the Common Travel Area with the Republic, while protecting the integrity of the United Kingdom's immigration system.

Nobody wants to return to the borders of the past, so we will make it a priority to deliver a practical solution as soon as we can

Point 9. New trade agreements with other countries

I know my emphasis on striking trade agreements with countries outside Europe has led to questions about whether Britain seeks to remain a member of the EU's Customs Union. And it is true that full Customs Union membership prevents us from negotiating our own comprehensive trade deals. Now, I want Britain to be able to negotiate its own trade agreements. But I also want tarifffree trade with Europe and cross-border trade there to be as frictionless as possible. That means I do not want Britain to be part of the Common Commercial Policy and I do not want us to be bound by the Common External Tariff. These are the elements of the Customs Union that prevent us from striking our own comprehensive trade agreements with other countries. But I do want us to have a customs agreement with the EU.

On 02 February 2017, Prime Minister Theresa May presented the white paper to Parliament on the UK's exit from and new partnership with the EU.

The proposals contained within include protecting the strong and historic ties with Ireland and maintaining the Common Travel Area. The importance of cross border trade and the ability for people to move freely across the border is also recognised.

The right of the people of Northern Ireland to self identify as either British or Irish, in accordance with the Belfast / Good Friday Agreement 'will continue'.

The UK will commit to working with the Irish government to find practical solutions given the unique economic, social and political context of Northern Ireland.

1.15 Post Referendum Update

This section presents the state of play regarding official reaction and responses to the outcome of the UK referendum on leaving the EU.

1.15.1 Northern Ireland

The day following the referendum, David Cameron, the then Prime Minister, made a statement in which, amongst other things, he said: 'We must now prepare for a negotiation with the European Union. This will need to involve the full engagement of the Scottish, Welsh and Northern Ireland governments to ensure that the interests of all parts of our United Kingdom are protected and advanced'.[15]

Northern Ireland Executive response and engagement

In response to an Assembly Question, asking them '…to detail each implication of the European Union referendum result for European Union engagement and representation in the (i) short term; and (ii) medium term', the First Minister and deputy First Minister answered that:

The priority of the Executive will be to ensure that our interests are protected.

We have asked the Head of the Civil Service to establish individual departmental teams at senior level to consider the potential implications for each department. We also asked him to put in place an overarching central administrative and political governance structure that will report directly to us.

These teams will liaise with Whitehall, Irish and EU counterparts to ensure we get the best possible deal we can.[16]

An Assembly Question asking the First Minister and deputy First Minister to outline what plans they had to appoint an expert committee on Brexit, similar to that appointed by the First Minister of Scotland, remained unanswered at the time of writing this paper.[17] Updating the Scottish Parliament on 28 June 2016, Nicola Sturgeon (First Minister) stated, amongst other things, that she was:

…establishing a Standing Council of experts to provide advice to me and my government on how best to achieve our EU objectives. This Council will be made up of specialists on finance, economics, European and diplomatic matters and it will encompass a range of political and constitutional opinions.

It will provide the government with access to a wealth of knowledge built up over years of experience.

[15] *EU referendum outcome: PM statement, 24 June 2016* https://www.gov.uk/government/speeches/eu-referendum-outcome-pm-statement24-june-2016 (accessed 19/08/16)

[16] AQW 2120/16-21 (Mr Robbie Butler. Ulster Unionist Party, Lagan Valley)
Tabled Date: 30/06/2016 Answered On Date: 26/07/2016 http://aims.niassembly.gov.uk/questions/search.aspx

[17] AQW 2205/16-21 (Ms Paula Bradshaw,APNI - South Belfast) Tabled 01/07/2016 http://aims.niassembly.gov.uk/questions/search.aspx

The Council will consider the impact of proposed changes to the UK's relationship with the EU on Scottish interests and advise Scottish Ministers throughout our negotiations on the best way to secure Scottish interests and objectives.

Membership of the Council will be flexible to ensure that we have access to appropriate advice as it is required.[18]

On 14 July 2016, the Prime Minister, Theresa May, spoke with the First Minister and deputy First Minister and, in a press release issued by Downing Street, a spokesperson said:

The First Minister Arlene Foster congratulated the Prime Minister on her appointment and they spoke about the importance of working together in a strong United Kingdom. They both agreed there should be continued engagement with the Northern Ireland Executive on the negotiating process for the UK leaving the European Union.

The deputy First Minister Martin McGuinness wished the Prime Minister well in her appointment. They discussed the implications of the EU referendum result. The Prime Minister said that officials and ministers would continue discussions on this issue, and ensure ongoing engagement with the Northern Ireland Executive.

Finally, the Prime Minister said she was looking forward to meeting both the First and deputy First Ministers in the near future.[19][20]

On 10 August 2016, the First Minister and deputy First Minister wrote to the Prime Minister setting out the Executive's initial assessment following the EU referendum result. In the letter they highlighted five broad issues, stating:[21]

Firstly, and most obviously, this region is unique in that it is the only part of the UK which has a land border with an EU Member State.

Secondly, it is critical to our economy that our businesses, both indigenous and FDI companies, retain their competitiveness and do not incur additional costs. We therefore need to retain as far as possible the ease with which we currently trade with EU Member States and, also importantly retain access to labour.

Thirdly, energy is a key priority, given that there are inherent cost and supply issues in a small isolated market so we will need to ensure that nothing in the negotiation process undermines this vital aspect of our economy.

Fourthly, EU funds have been hugely important to our economy and the peace process. Since 1994, for example we have benefited to the tune of €13 billion of funding from Europe and during the period 2014-2020 we would expect to draw down over €3.5billion. The current uncertainty

[18] *First Minister's statement on EU referendum (28/06/16)* http://news.scotland.gov.uk/News/First-Minister-s-statement-on-EU-referendum25c5.aspx (accessed 19/08/16)

[19] *PM calls with Northern Ireland First and deputy First Ministers: 14 July 2016* Prime Minister's Office – Press Release (14 July

[20]) *https://www.gov.uk/government/news/pm-calls-with-northern-ireland-first-and-deputy-first-ministers-14-july-2016* (accessed 19/08/16)

[21] *Foster and McGuinness united in determination to achieve the best possible outcome for all our people* Executive Office Press Release (10 August 2016) *https://www.executiveoffice-ni.gov.uk/news/foster-and-mcguinness-united-determinationachievebest-possible-outcome-all-our-people* (accessed 19/08/16)

around the ability to draw down a proportion of these funds, and the absence of EU programmes in the future is of real concern to a range of sectors.

A further key issue for us is the agri-food sector, including fisheries which represent a much more important component of our regional economy than it does for the UK as a whole.

On 16 August 2016, the Northern Ireland Office announced[22] that James Brokenshire,

Secretary of State for Northern Ireland, had initiated a '… series of all-day visits set to run throughout the remainder of August, building on his visit to the North West at the end of July, the Secretary of State is set to reach nearly every Parliamentary constituency in Northern Ireland in the next two weeks. It was stated that he would be meeting as many local businesses, civic groups and political leaders as possible as part of the Government's effort to ensure Northern Ireland's voice is heard in the forthcoming EU negotiations'.

On Monday 24 October 2016, the UK Prime Minister, Theresa May, convened a meeting of the Joint Ministerial Committee, a body set up under the Memorandum of Understanding between the UK Government, Scottish Government, Welsh Government and Northern Ireland Assembly on Devolution. The meeting was attended by the Prime Minister and the Secretaries of State for Scotland, Wales and Northern Ireland for the UK Government and by the First Ministers of Scotland and Wales and the First and Deputy First Ministers of Northern Ireland. At the meeting, Ministers discussed 'how the constituent parts of the United Kingdom should work together to ensure that the interests of all parts of the United Kingdom are protected and advanced, and to develop a UK approach and objectives for the forthcoming negotiations. They agreed to take forward multilateral engagement through a new Joint Ministerial Committee on EU Negotiations to be known as JMC (EN) which would have the following terms of reference:[23]

Working together in EU Negotiations
Through the JMC(EN) the governments will work collaboratively to:

- discuss each government's requirements of the future relationship with the EU;
- seek to agree a UK approach to, and objectives for, Article 50 negotiations;
- provide oversight of negotiations with the EU, to ensure, as far as possible, that outcomes agreed by all four governments are secured from these negotiations; and,
- discuss issues stemming from the negotiation process which may impact upon or have consequences for the UK Government, the Scottish Government, the Welsh Government or the Northern Ireland Executive.

Following a subsequent meeting of the JMC (EN) on 9 November 2016, the First Minister and deputy First Minister issued the following statement:

Our attendance today sends out a clear signal that we are determined to work together to champion the interests of the people we represent.

We have received assurances from the Prime Minister down that the Northern Ireland Executive will be fully represented in the negotiating process. We will ensure that those promises are honoured. We will continue to take every opportunity to re-iterate our agreed priorities and to emphasise the unique nature of our situation.[10]

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[22] *Secretary of State embarks on NI August engagement programme* From: Northern Ireland Office and The Rt Hon James Brokenshire MP (16 August 2016) https://www.gov.uk/government/news/secretary-of-state-embarks-on-ni-augustengagementprogramme (accessed 19/08/16)
[23] Joint Ministerial Communique Committee, 24 October 2016: https://www.northernireland.gov.uk/sites/default/files/publications/newnigov/joint-ministerial-committee-communique-24october-2016.pdf.

On 8th December 2016, Sinn Fein published a policy paper entitled 'The Case for the North to Achieve Special Designated Status within the EU'. The paper makes the case for Northern Ireland to remain within the European Union after Brexit, noting the centrality of the EU to the Good Friday agreement and to the continuing political and economic development of the region.

On 9th January 2016, a continuing row over the spiralling costs of a subsidised green energy initiative reached a crises point. The scheme was introduced by First Minister Arlene Foster in her role as Minister for Enterprise, Trade and Investment. A request was made by Sinn Fein Deputy First Minister Martin Mc Guinness for the First Minister Arlene Foster to step aside temporarily pending the outcome of these investigations. The First Minister Arlene Foster subsequently refused to accede to this request, thus prompting the resignation of the Deputy First Minister which in turn precipitated a general election. The Northern executive was suspended on the 16/01/2017 and fresh elections were held on 03/06/2017. Therefore there has been little further work from committees on Brexit matters subsequent to these developments.

On 24th January 2017, the UK Supreme Court delivered its judgment in relation to the triggering of Article 50. One of the areas covered in this judgement was the issue surrounding the Northern Ireland Executives potential to veto this process. The Court unanimously decided that there was no requirement to consult the devolved administrations on the issue, stating, "The devolved legislatures do not have a veto on the UK's decision to withdraw from the EU."

Northern Ireland Assembly activity

On Monday 27 June 2016, following a plenary debate, the Assembly resolved 'That this Assembly notes the result of the referendum on European Union membership; and calls on the Executive to set out, in the immediate future, their response to the consequences of the withdrawal of the United Kingdom from the European Union'.[11]

On 19 September 2016, the Assembly held a debate on the motion: 'A Vision for Northern Ireland Outside the European Union'. The motion proposed**:** That this Assembly, in light of the referendum decision by the United Kingdom to leave the European Union, endorses and adopts the approach contained in A Vision for Northern Ireland Outside the European Union, published by the Ulster Unionist Party. On a vote, the motion was negative (Ayes 15, Noes 70). On 17 October 2016, the Assembly held a debate on the motion: EU Special Status for Northern Ireland. The motion proposed: That this Assembly notes the current public concern arising from the European Union Referendum vote; endorses the proposal of the Irish Government and others that there should be legal recognition of the unique status of Northern Ireland and the circumstances on the island as part of the arrangements to leave the European Union; believes that this is one mechanism that can safeguard the interests of the people of Northern Ireland, including future access to European Union funding opportunities; and calls on the British Government to fully endorse, and to negotiate for, this outcome in discussions on leaving the European Union. On a vote, the motion was negative (Ayes 46, Noes 47)). Individual MLAs have also been active and, since the referendum result was known, close to 300 Assembly Questions with a 'Brexit' element have been directed to Ministers and their Departments.[12] The Committee for the Executive Office will lead the examination of the Executive's approach to the UK's exit from the EU, with other statutory committees scrutinising sectoral issues within their remit. The Committee has heard from senior Northern Ireland Civil Service officials on the work being done by Departments to prepare for the

UK negotiations on leaving the EU. Evidence has also been taken from Professor David Phinnemore on the paper "After the EU Referendum: Establishing the best outcome for Northern Ireland" and the Committee has identified a number of other witnesses that it may consider inviting to give evidence at a future date.

The Committee is also giving consideration to: the non-EU binding treaties and obligations that will pertain after UK withdrawal from the EU; how non-EU European states negotiate on international treaties; and how other European countries which are not part of the EU engage with EU treaties and agreements. The Committee hopes to visit Brussels in early 2017 in order, amongst other things, to examine the work of the Office of the Northern Ireland Executive in Brussels relating to the UK's exit from the EU

Across other statutory committees, work is ongoing to consider the particular consequences for Northern Ireland of a UK exit from the EU. Unsurprisingly, this is a significant issue for the Committee for Agriculture, Environment and Rural Affairs (AERA) which took evidence from key stakeholders at the earliest opportunity after the referendum.[24] A number of written briefings have also been considered. To inform its consideration of a range of issues research has been commissioned by the AERA Committee on the following:

- NI Environment
- NI Agri-food sector
- NI Fisheries sector
- Rural Development funding for the rural community
- Forms of farm support/subsidy as operated in selected countries and associated conditions

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10 Foster and McGuinness attend JMC meeting, Executive Office press release 9 November 2016:https://www.executiveofficeni.gov.uk/news/foster-and-mcguinness-attend-jmc-meeting.

11 12 http://aims.niassembly.gov.uk/officialreport/report.aspx?&eveDate=2016/06/27&docID=268132
http://aims.niassembly.gov.uk/questions/search.aspx

Ireland Civil Service officials on the work being done by Departments to prepare for the UK negotiations on leaving the EU. Evidence has also been taken from Professor

The following research has also been commissioned or briefings taken by other Assembly Committees:

- Public Procurement after the EU Referendum (Committee for Finance)
- Areas of EU Competence, Action and Support – Potential Areas of Impact on Health and Social Care as a result of the EU Referendum Decision (Committee for Health)
- Implications of Brexit for transport and water policy (Committee for Infrastructure)

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24 The Official Reports from those evidence sessions are available on the Committee's website at http://aims.niassembly.gov.uk/officialreport/minutesofevidence.aspx .

All research papers commissioned or considered by committees will be made available on the Assembly website. The Committee for the Economy is collating Northern Ireland business responses for the House of Lords EU sub-committees undertaking a Brexit trade inquiry regarding trade flows with the EU and concerns that Brexit raises. A number of business organisations undertaking Brexit based research have agreed to share their findings with the Committee.

The Committee for the Economy has also written to the Secretary of State for Northern Ireland, the Secretary of State for Exiting the European Union and the Secretary of State for International Trade for information on the fact finding engagements they have each had with stakeholders in Northern Ireland. On the 3rd of March 2017, the Northern Ireland Assembly Election was held, after being called on the 16th of January 2017.

1.15.2 Ireland

Government response and engagement

The initial response of the government in the Republic was to note the outcome of the UK EU referendum, with the result described as having "very significant implications for Ireland, as well as for Britain and for the European Union".[25][26] According to a press release, the Government met later on the morning of 24th June to reflect on the result, after which the Taoiseach was to make a public statement.

The government announced details of its contingency plans for Brexit later on the 24th June.[27] The Contingency Framework adopted by the Government identifies what it sees as the key policy issues to be managed by Government Departments arising from the referendum vote in the UK to leave the EU. The Contingency Framework, which is being coordinated by the Department of the Taoiseach, is:

based on preparations over many months including inputs by Government Departments to identify the key strategic and sectoral issues arising from the UK disengaging with the EU. The framework will ensure that the Government and its constituent Departments are able to focus on key policy areas/issues to be addressed in any exit negotiations with a view to minimising potential operational risks likely to arise.[28]

Priority issues identified in the contingency plans include UK-EU Negotiations, British-Irish Relations, Northern Ireland, Trade, Investment, North/South Border Impacts, Competitiveness and Macroeconomic issues, Research/Innovation funding and Energy. The Government also published a summary of key actions to manage contingencies arising.[29]The Contingency Framework will track and monitor relevant issues and actions in the period immediately following referendum, the pre-negotiation period, and the period of negotiations, although it is noted that some may arise in more than one phase. Using the Contingency Framework, Ministers, Departments and Agencies are to track and adapt the detail of contingencies and risk management strategies arising in each of the key strategic, policy and operational areas identified, with more to be added as the terms and conditions

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25 Department of the Taoiseach press release, *Government statement on the outcome of the UK EU referendum*. 24th June

26 . Available at http://www.taoiseach.gov.ie/eng/News/Government_Press_Releases/Government_statement_on_the_outcome_of_the_UK_EU_referendum.html

27 Department of the Taoiseach press release, *Irish Government Brexit Contingency Plans Announced*. 24th June 2016. Available at

28 Department of the Taoiseach press release, *Irish Government Brexit Contingency Plans Announced*. 24th June 2016. Available at http://www.taoiseach.gov.ie/eng/News/Government_Press_Releases/Irish_Government_Brexit_Contingency_Plans_Announced.html

29 Appendix: Summary of key actions to manage contingencies arising, available at http://www.merrionstreet.ie/en/NewsRoom/News/Contingency_Framework_Summary.pdf.

http://www.taoiseach.gov.ie/eng/News/Government_Press_Releases/Irish_Government_Brexit_Contingency_Plans_Announced.html of the new UK/EU relationship evolve.[30] The press release detailing publication of the contingency plans highlights the country's role and relationships with both the EU and the UK, including Northern Ireland:

> "It is important to recall that Ireland – as a committed Member State of the EU - will work within the EU context. At the same time, Ireland has unique bilateral interests with the UK, including with regard to Northern Ireland, and the Government will also have to work bilaterally in close contact with the UK Government and the devolved Administration in Northern Ireland."

The same press release also explains that a number of existing structures are in place and will be used to manage the process on a whole-of-government basis. These are reproduced in Text box 1. In response to a question on whether it might be more appropriate to appoint a specific Brexit minister, as has happened in the UK, the Minister for Foreign Affairs and Trade Charlie Flanagan TD put forward the rationale for the Government's approach in the following terms:

> Having a dedicated Minister fails to appreciate the width and breadth of this challenge. That is why the Government's response is being co-ordinated and chaired by the Taoiseach, himself, as Head of Government. Already we have had a number of meetings of the specially convened Brexit Cabinet committee, whose membership incorporates more Ministers than other members. Its most recent meeting took place last week and it will meet again in the next couple of weeks. In support of direct ministerial engagement across Government and with the Cabinet committee, work is also proceeding at official level on deepening the analysis across key issues and a range of sectors.[313233]

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[30] Department of the Taoiseach press release, *Irish Government Brexit Contingency Plans Announced*. 24th June 2016. Available at

[31] Dáil debate, Priority Questions – Brexit Issues, Minister for Foreign Affairs and Trade Deputy Charles Flanagan. Tuesday,

[32] th October 2016. Available at http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructedKey)/dail~20161025/$File/Daily%20Book%20Unrevised.pdf?openelement

[33] Available at: http://www.taoiseach.gov.ie/eng/News/Government_Press_Releases/Irish_Government_Brexit_Contingency_Plans_Announced.html

Text Box 1: Existing structures to be used in whole of government response to Brexit (extract from press release)

- The Cabinet Committee on EU Affairs and the Senior Officials Group that supports it;

- The joint UK Permanent Secretaries/ Irish Secretaries General group and its North/South equivalent;

- A senior official in every Government Department has already been identified to oversee this issue. All Departments will now supplement this arrangement with a Top Management sub-committee specifically dealing with the implications of this development for their area of work;

- Department of the Taoiseach chairs an Interdepartmental group of senior officials that has been meeting regularly to look specifically at the bilateral and national interests affected by the UK's withdrawal from the EU. The work of this group will be scaled up and intensified;

- A wider consultative group of stakeholders chaired by Department of the Taoiseach comprising key business representative groups, ICTU and NGOs has also been meeting for some months now. The work of this group will be scaled up and intensified;

- The Minister for Foreign Affairs and Trade will continue to use the expertise of the Export Trade Council to advise Government on this issue. The expertise of the Council will be focused on the issues arising from the UK's disengagement from the EU;

- The work of the North/South Ministerial Council and the British-Irish Council will become more important as mechanisms to develop the detailed outworking of policy issues arising.

Source: Department of the Taoiseach press release, *Irish Government Brexit Contingency Plans Announced*. 24th June 2016[21]

http://www.taoiseach.gov.ie/eng/News/Government_Press_Releases/Irish_Government_Brexit_Contingency_Plans_Announced.html

The Government has also established a Cabinet Committee on Brexit. In general, the Government may establish Cabinet Committees to assist it in carrying out its responsibilities. Cabinet Committees are chaired by the Taoiseach and the Department of the Taoiseach is responsible for their management. There are currently nine other such Cabinet Committees.[34] [35]

According to the Taoiseach, the Cabinet Committee on Brexit has met twice to date (on 8 September and 19 October) for "an in-depth discussion of the issues arising from the UK decision to leave the European Union" and will continue to meet on a regular basis to deal with Brexit-related issues.[36] The Cabinet Committee on Brexit "will oversee the overall Government response, including both the economic impact and the negotiations at EU level and with the Administrations in London and Belfast".

On 4th October, the Government announced it had approved a series of next steps to "ensure continuing effective management of, and engagement on, Brexit issues". These include the next steps reproduced in Text Box 2.

Shortly after the referendum outcome, the Taoiseach raised the possibility of developing an all island forum with the support of political parties, North and South, to discuss the joint challenges arising from the UK decision.[37] Northern Ireland First Minister Arlene Foster was reported as having expressed the view that she considered existing bodies and mechanisms best placed to deal with the implications of the referendum outcome.[26]

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[34] Department of the Taoiseach webpage, *Cabinet Committees of the 30th Government* available at http://www.taoiseach.gov.ie/eng/Taoiseach_and_Government/Cabinet_Committees/Cabinet_Committees_of_the_30th_Government.html

[35] Details of the composition of the Cabinet Committee on Brexit are available at: http://www.taoiseach.gov.ie/DOT/eng/Taoiseach_and_Government/Cabinet_Committees/Brexit.html.

[36] Dáil debate, *Questions – Brexit Issues*, Taoiseach Enda Kenny TD. Wednesday, 26th October 2016. Available at http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2016102600022?opendocument#U 00450

[37] MerrionStreet.ie press release, Taoiseach to chair plenary meeting of the North South Ministerial Council. 4th July 2016. Available at http://www.merrionstreet.ie/en/News-Room/News/Taoiseach_to_chair_plenary_meeting_of_the_North_South_Ministerial_Council.html

[26] No Need for an all-Island Brexit Forum' says First Minister, 4 July 2016, UTV News

Text Box 2: Governments next steps regarding Brexit (extract from press release)

- An all-island Civic Dialogue on Brexit with the initial meeting to be hosted by the
Taoiseach and the Minister for Foreign Affairs and Trade on 2 November in Dublin. Invitations will be extended to a broad range of civic society groups, trade unions, business groups and non-governmental organisations as well as representatives of the main political parties on the island.

- A series of roundtable discussions with interested groups to be held to allow for detailed consideration of Brexit issues arising on a sectoral level.

- Agreement that Budget 2017 will include measures which will support the overall economic response to Brexit.

- Continued engagement with other EU leaders and Governments and the EU institutions, including high-level Government meetings with Michel Barnier, newly appointed as EU Commission's chief Brexit negotiator, who is expected to visit Dublin shortly.

- Continued detailed engagement between senior government officials and their counterparts in the UK, in the context of the meeting of Secretaries General and
Permanent Secretaries in London this week, and with Northern Ireland Departments in advance of the next Summit of the North South Ministerial Council.

- The Government also noted that there will be continued engagement with parliamentarians throughout these islands through the work of the:
  - North South Inter-Parliamentary Association; o the British
  Irish Parliamentary Assembly and the
  - Oireachtas Joint Committee on the Implementation of the Good Friday Agreement.

Source: Department of the Taoiseach press release, *Government Statement on Preparations for Brexit*. 4th October 2016.[26]

The initial meeting of the all-island Civic Dialogue on Brexit (as referred to in Text Box 2) was hosted by the Taoiseach and the Minister for Foreign Affairs and Trade on 2nd November in Dublin.[27] This all-day event was intended “to allow for the widest possible conversation on the implications of the UK referendum result for Ireland, North and South and for North/South relations” according to a government press release.[28]

In his speech, the Taoiseach, Enda Kenny TD restated the Government’s priorities as being the economy and trade; Northern Ireland and the peace process; the border and the Common Travel Area as well as the future of the EU itself.[29] The Taoiseach also explained that this was the first instalment and there will have more plenary engagements in the coming weeks and months and that the all-island Dialogue is part of a series of consultations by the Government and added to this will be a further series of sectoral discussions both north and south.

As detailed in Text Box 2, the Government's next steps in responding to Brexit included aagreement that Budget 2017 include measures which will support the overall economic response to Brexit. In this context, an infographic[30] summarising actions the Government is taking to get the Irish economy ready for Brexit, together with a longer paper[31] on the economic implications of Brexit and the responses to Brexit have been published. The Department of Finance also published an exposure analysis[32] of sectors of the Irish economy in the context of the UK EU exit.

On the 17/01/2007 the Irish Government news service published a statement with regard to Teresa May's 12 point plan for exiting the EU. The release stated "

The Government has noted the contents of Prime Minister May's speech today and welcomes the fact that it provides greater clarity on the proposed approach of the British Government to the Brexit negotiation process. Prime Minister May has made clear that she wishes to secure the closest possible future economic relationship for Britain with the EU, a goal that Ireland shares.

On the 15/02/2017 the leader of the Fianna Fáil Deputy Michael Martin sought information from the Taoiseach with regard to the organisational structure of his Department. In light of the increasing workload it would face coordinating the Irish response to Brexit. In particular, the Deputy sought clarity with regard to staffing levels, and if there was provision made to hire external expertise in key areas of trade and legal if the need arose.

In response to this question the Taoiseach Enda Kenny in a parliamentary reply on 15/02/2017provided an update in relation to the Governments preparations for Brexit stating that "

"Brexit is being treated as a crucial cross-cutting whole of Government issue. In my own Department, I have implemented significant restructuring by creating an amalgamated international, EU and Northern Ireland division under a second Secretary General. This restructuring brings responsibility within my Department for relevant international issues together in a single integrated division. This division supports the Cabinet Committee on Brexit and EU Affairs and manages the overall co-ordination of Brexit issues across Government…

Work on Brexit is also supported by the Minister for Foreign Affairs and Trade, Deputy Flanagan, and his Department, which now has a greater role in EU matters overall, with a newly created EU division and the existing division dealing with Anglo-Irish affairs both having important roles to play. Across Government, relevant Departments, agencies and overseas missions are being strengthened to deal with Brexit…..

The Brexit stakeholder group, which was set up pre-referendum as an information sharing forum, last met in October 2016. Since then we have broadened our stakeholder consultation and engagement through the all-island Civic Dialogue process, which began with a plenary session on 2 November. The second plenary session takes place this Friday, 17 February".

Flanna Fail Sinn Fein motion on special status for Northern Ireland

In order to give effect to the provisions contained in its publication 'The Case for the North to Achieve Special Designated Status within the EU'. On the 15th of February Sinn Fein put forward a motion in the Dail calling for the Government "to negotiate for Northern Ireland to be designated with a special status within the EU" and for the whole Island to remain within the EU as a single entity. Subsequent to this Flanna Fail tabled a similar motion which was later adopted by Sinn Fein and put forward as a single text.

The Minister for Foreign Affairs Deputy Charlie Flannigan articulated the Governments response to this motion in a parliamentary reply on the 21/02/2017. The Minister noted that that whilst he agreed with the broad thrust of the motion, he proposed deleting the reference to special status.

Special status" for Northern Ireland is taken to mean a specific request for Northern Ireland to remain within the EU with a special status post Brexit….

"…special status gives rise to serious concerns for other EU partners about precedents that might be set elsewhere. This would risk undermining the Government's efforts to specifically address and mitigate the very real impacts facing our island – and the people of Northern Ireland in particular - due to Brexit.

The Dail rejected the Government text by 84 votes to 59 and adopted the Sinn Fein/ Flanna Fáil Motion by 77 votes to 65.

[26] Available at http://www.taoiseach.gov.ie/eng/News/Government_Press_Releases/Government_Statement_on_Preparations_for_Brexit.html

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[38] Streams from the event are available at http://merrionstreet.ie/en/News-Room/News/Taoiseach_Minister_Flanagan_to_host_All-Island_Civic_Dialogue.html

[39] Department of the Taoiseach press release, *Government Statement on Preparations for Brexit*. 4th October 2016. Available at http://www.taoiseach.gov.ie/eng/News/Government_Press_Releases/Government_Statement_on_Preparations_for_Brexit.html

[40] Speech by the Taoiseach, Enda Kenny at the First Meeting of the All-Island Civic Dialogue on Brexit Royal Hospital Kilmainham, Wednesday, 2nd November, 2016. Available at http://www.taoiseach.gov.ie/eng/News/Taoiseach's_Speeches/Speech_by_the_Taoiseach_Enda_Kenny_at_the_First_Meeting_of_the_All-Island_Civic_Dialogue_on_Brexit_Royal_Hospital_Kilmainham_Wednesday_2_November_2016.html [30] Department of Finance (2016), *Getting Ireland Brexit Ready*, Budget #17, Dublin: Department of Finance: http://budget.gov.ie/Budgets/2017/Documents/Getting_Ireland_Brexit_ready_infographic.pdf. [31] Department of Finance (2016), *Getting Ireland Brexit Ready*, Dublin: Department of Finance: http://budget.gov.ie/Budgets/2017/Documents/Getting%20Ireland%20Brexit%20Ready_final.pdf.

[32] Department of Finance (2016), *UK EU Exit – An Exposure Analysis of Sectors of the Irish Economy*, Dublin: Department of Finance: http://budget.gov.ie/Budgets/2017/Documents/An_Exposure_Analysis_of_Sectors_of_the_Irish_Economy%20_final.pdf.

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[38] Houses of the Oireachtas press release, Dáil to convene on Monday in light of UK referendum result. 24th June 2016. Available at http://www.oireachtas.ie/parliament/mediazone/pressreleases/2016/name-38516-en.html

[39] Statement in the Dáil on the UK EU Referendum Result by the Taoiseach, Mr Enda Kenny TD, Monday 27 June 2016: http://www.taoiseach.gov.ie/eng/News/Taoiseach's_Speeches/Statement_in_the_Dail_on_the_UK_EU_Referendum_Result_by_the_Taoiseach_Mr_Enda_Kenny_TD_Monday_27_June_2016.html.

[40] The transcript of this debate is available at http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructedKey)/dail~2016062

Oireachtas response and engagement

Dáil Éireann held a special sitting to discuss the outcome of the UK referendum on the 27th June.[27] This discussion took place over several hours and the Taoiseach made a statement[28] on the subject.[29] The issue of Brexit has been further raised in the Dáil Éireann since the outcome of the UK referendum, as well as in Seanad Éireann.

Work of Oireachtas Committees

A number of Oireachtas Committees have included Brexit on their current agendas. These have included general discussions or more focused debates on a particular aspect of the referendum outcome. For example, the Joint Committee on the Implementation of the Good

Friday Agreement met on 27th September 201636 and 20th October to discuss implications of Brexit on the Good Friday Agreement and will resume its discussions on 17 November.3 33 The Joint Committee on Agriculture, Food and the Marine has discussed the specific impact of Brexit on the Irish mushroom industry.

On 4th October 2016, the Joint Committee on European Union Affairs was updated on the work of the General Affairs Council by the Minister of State at Department of Foreign Affairs and Trade Dara Murphy TD during which Brexit also featured.[41] Likewise, Brexit was also discussed during a meeting of the Committee with the European Commissioner for Agriculture and Rural Development Phil Hogan on 20th October.[42]

The Committee on Jobs, Enterprise and Innovation is holding a series of meetings with stakeholders on the economic impact of Brexit. At the time of writing these included representatives from Enterprise Ireland, IDA Ireland, and InterTrade Ireland[43] in addition to a session with representatives from the Centre for Cross Border Studies, the Institute of International and European Affairs, the Economic and Social Research Institute, the Irish Congress of Trade Unions, the Nevin Economic Research Institute, and the Irish National Organisation for the Unemployed.[44] In a further session, this Committee met with representatives from Ibec, the British Irish Chamber of Commerce, Chambers Ireland, the Small Firms Association, Irish Small and Medium Enterprises, and the Irish Exporters Association.[45]

[41] Transcript of the debate is available at http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructedKey)/committees~20161004~EUJ/$File/Daily%20Book%20Unrevised.pdf?openelement

[42] Transcript of the debate is available at http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructedKey)/committees~20161020~EUJ/$File/Daily%20Book%20Unrevised.pdf?openelement

[43] Transcript of the debate is available at http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructedKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement

[44] Transcript of the debate is available at http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructedKey)/committees~20161025~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement

A number of Oireachtas Committees have now completed their hearings and have produced their reports. The Dáil Business Committee hosted a Symposium on Europe Union Affairs and the economic implications of UK withdrawal from the European Union on 22nd September 2016 in the Mansion House in Dublin.41 The aim of the symposium, which was the first between Members of the Dáil, Seanad and European Parliament, was to inform debate in advance of the new Parliamentary Session. The symposium was addressed by economic, diplomatic, business and union representatives.[42]

On the 17th of January the Joint Committee on Jobs, Enterprise and Innovation met to discuss the Economic and Trade Agreement.

On 9th February the Committee on the Implementation of the Good Friday Agreement met. The meeting was addressed by the Minister for Public Expenditure and Reform, Deputy Paschal Donohoe, who spoke about the implications of Brexit on the allocation of EU funding, including under the PEACE and INTERREG programmes.

On the 1st March the Committee on European Affairs met. The guest attendee at this meeting was Mr. James Temple-Smithson head of the European Parliament Information Office in Ireland. Mr Templeton was invited speak about the work and role of the European Parliament Information Office in Ireland.

[45] Transcript of the debate is available at

Post Referendum Update

1.15.3 The British Negotiating Strategy

On 17th January 2017 the British Prime Minister Teresa May set out the UKs negotiating strategy at Lancaster House. These priorities are laid out in a 12 point plan as illustrated in Text box no 1. During this speech the Prime Minister stated that the UK would not publish a white paper covering its withdrawal plans.

Some of the main points to emerge from the Prime Minister's speech were a reiteration of pledges made during her election campaign. In summary, that the UK would no longer be part of the single market and, as part of the negotiations with the EU on trade, she would seek to conclude a unique customs agreement with the EU.

Text Box 1. Teresa May's 12 Point Plan

1. Provide certainty about the process of leaving the EU.
2. Control of our own laws. Leaving the European Union will mean that our laws will be made in Westminster, Edinburgh, Cardiff and Belfast.
3. Strengthen the Union between the four nations of the United Kingdom.
4. Deliver a practical solution that allows the maintenance of the Common Travel Area with the Republic of Ireland.
5. Brexit must mean control of the number of people who come to Britain from Europe.
6. Protect rights for EU nationals in Britain and British nationals in the EU. We want to guarantee rights of EU citizens living in Britain and the rights of British nationals in other member states, as early as we can.
7. Protect workers' rights. Not only will the government protect the rights of workers set out in European legislation, we will build on them.
8. Free trade with European markets through a bold and ambitious free trade agreement with the European Union.
9. New trade agreements with other countries. It is time for Britain to get out into the world and rediscover its role as a great, global, trading nation.
10. The best place for science and innovation. We will welcome agreement to continue to collaborate with our European partners on major science, research and technology initiatives.
11. Co-operation in the fight against crime and terrorism. We will continue to work closely with our European allies in foreign and defence policy even as we leave the EU itself.
12. A smooth, orderly Brexit. We believe a phased process of implementation will be in the interests of Britain, the EU institutions and member states.

Source: UK Government press office

On 24th January 2017, the UK Supreme Court delivered its judgment on the issue of triggering Article 50. An 8-3 majority of the Court upheld the decision of the High Court which stated that an Act of Parliament is required to authorise ministers to notify the Council of the UK's decision to withdraw from the European Union.

On 26th January, the UK Government published the European Union (Notification of Withdrawal) Bill. Secretary of State for Exiting the European Union David Davis said that the purpose of the bill would be "simply to give the government the power to invoke Article 50." The first reading took place on the Tuesday 31st January and from there it goes to the House of Lords for debate after the 8th February, when the House of Commons committee stage ends.

On the 01/02/2017 the Irish Times reported that following on from the Supreme Court decision Prime Minister Teresa May must obtain parliamentary approval prior to initiating the withdrawal process. The same article notes that on the 31/01/2017 M.Ps voted by a majority of 384 on a motion authorising Teresa May to trigger article 50 of the Lisbon Treaty with respect to withdrawal from the EU. The final vote was 498 in favor with 114 against.

On the 02/02/2017 the telegraph newspaper noted the UK secretary of state for exiting the EU David Davis announced the release of a white paper which gives effect to Theresa May's vision of "an independent and truly global United Kingdom".

The secretary expands on some of the provisions contained in the 77 page document by noting
“The White Paper confirmed that the principle of free movement will end and new immigration rules will be "phased out...
.. Britain's strategy would be guided by the 12 principles set out by Mrs May last month…
..The UK would seek to secure the rights of around 2.8 million EU nationals who live in the UK as soon as possible in negotiations...
..The paper confirmed Britain will leave the single market and the Government will try to strike a new customs agreement.
It confirmed Britain will leave the jurisdiction of the European Court of Justice (ECJ) and the British taxpayers will no longer pay contributions into the Brussels budget”

On the 08/03/2017 the UK Parliament announced that the House of Lords supported a Labour led motion seeking amendments to the bill that would guarantee the rights of EU nationals already living in the UK. The motion was passed by a majority of 102, with the final vote (358 in favour to 256 against).
As the Bill passed through the House of Commons unchanged. This amendment by the House of Lords could have the effect of passing the bill back and forth to the House of Commons for further scrutiny before the March 13th cut of point. By which time the Lords are expected to halt their demands for further changes and allow for the legislation reach the statute book.

1.16 The Agreement/Peace Process and Institutions

This section identifies and provides background to a range of issues which feature a specific cross-border dimension,

The GFA/Peace Process and Institutions

The Agreement, Institutions and Peace Process

Background

The Belfast Agreement (Good Friday Agreement)[49] ('the Agreement') set out to manage conflict by re-defining three sets of relations central to the conflict: relations between the Northern Irish parties (Strand 1), North/South relations (Strand 2) and East-West or BritishIrish relations (Strand 3).

At its core, the Agreement is a compromise on the constitutional status of Northern Ireland which is guided by the principle of consent; this confirms Northern Ireland's position in the UK unless the majority of its population decides otherwise in a constitutionally provided-for referendum, and guarantees the completion of this change if so chosen. Alongside this, the Agreement provides constitutional guarantees for dual nationality, for agreed, power-sharing institutions (consociational with community safeguards)[46] in Northern Ireland now and in the future,[47] and for over-arching and interdependent British-Irish and North/South institutions.[48]

Creating the internal power-sharing institutions in particular the North/South institutions,[49]was critical to ensuring support for the removal by the Irish Government and people (via a constitutional referendum) of the Republic's territorial claim to Northern Ireland. Under the amended Articles 2 and 3, the Irish Constitution enshrines the principle of consent, the right of all people born on the island to Irish citizenship and the right of the Irish Government to establish shared (North/South) institutions with executive powers and functions which may exercise powers and functions in respect of all or any part of the island.

The Agreement committed different parties to a number of actions on issues central to the conflict. Referred to as 'confidence-building measures', they included actions on the decommissioning of paramilitary weapons and effective demobilisation of paramilitary organisations; security and demilitarisation; policing and justice; prisoners issues, and the management of "civil rights, safeguards and equality of opportunity". The latter included a commitment to "equality and mutual respect as the basis of relationships" and "to the protection and vindication of the human rights of all". Further, the parties committed to ensure that the decisions of the Assembly do not infringe the European Convention on Human Rights or any Bill of Rights for Northern Ireland, and provided for the establishment of a Human Rights Commission.[50]

[46] 'Community safeguards' refers to the provision (in both the Agreement and the UK's *Northern Ireland Act 1998*) for weighted voting in the Northern Ireland Assembly on "important or controversial matters" either by parallel consent (overall majority that includes a majority of unionists and a majority of nationalists) or by weighted majority (overall majority of 60% that includes at least 40% of each of nationalists and unionists).

[47] The Agreement, Section 3 (Strand 1)

[48] The Agreement, Section 2. 1 (Constitutional Issues)

[49] The Agreement, Section 4 (Strand 2)

[50] The Agreement, Section 3, 5 (b) and (c)) (Strand 1, Safeguards)

Strand 2 provides for the North/South Ministerial Council, through which ministers from the Irish government and the Assembly Executive work to “develop consultation, co-operation and action within the island of Ireland – including through implementation on an all-island and cross-border basis – on matters of mutual interest within the competence of the Administrations, North and South”.[51] Importantly for nationalist parties, the Agreement provides for the Council to have executive powers. Importantly for unionist parties, the Council’s powers are not full executive powers, in that it cannot make decisions without the approval of the power-sharing Assembly and the Oireachtas.[52]

Under Strand 3, the British-Irish architecture established under the Anglo-Irish Agreement (1985) was replaced with a new Standing British-Irish Intergovernmental Conference which exists alongside power sharing in Northern Ireland (Section 5, 1-9). Under the Agreement, the Governments do not have the power to override the democratic arrangements established by the Agreement.[53]

The British-Irish Council was also established as a forum for cooperation and consultation between the Governments of Ireland, the UK, the devolved parliaments of Scotland, Wales and Northern Ireland, the Isle of Man and the Channel Islands.[54]

How might Brexit affect this architecture?

The potential implications of Brexit on the Agreement, its institutions and the formal peace process can be categorised into those having direct and indirect effects.

Possible direct effects (i) On the status of the Agreement and its institutions

The Agreement is an international agreement between two States and, as such, the UK’s exit from the EU does not affect its status in international law. The Irish and UK Governments are co-guarantors of the Agreement. Since the Brexit vote, both Governments have officially committed to abide by its terms and to use its institutions as the basis for engagement on Northern Ireland (Text Box 3).

[51] The Agreement, Section 3 (Stand 2), 1

[52] Agreement, Section 4, 1-6

[53] Agreement, Section 5 (Strand 3), 9. If agreement cannot not be reached on the establishment of the institutions, the BritishIrish Conference may contribute to a review of the Agreement. In early 2000, based on its doctrine of parliamentary sovereignty, the UK Government introduced a new power to ‘suspend’ the institutions. Given the unilateral power that this bestows on the UK Government, it has been argued that this breaches the Agreement and the rules and procedures established for its implementation.

[54] See British-Irish Council’s website for objectives and most recent communiques: https://www.britishirishcouncil.org/aboutcouncil.

Text Box 3: Statements by UK Prime Minister and Irish Taoiseach (extracts), 26 July 2016 Prime Minister May

It is in all our interests to work together to safeguard our national security and the outcome of the referendum will not undermine it.

We are both fully committed to working together in support of the Northern Ireland Executive to build a better, stronger, safer future for the people of Northern Ireland. Indeed, it is vital that that we keep up the momentum on tackling paramilitary groups and building a shared future.

And today we have reaffirmed our commitment to establishing a new Independent Reporting Commission by the end of this year, which will support these efforts.

Taoiseach Enda Kenny

Today's meeting also gave us the opportunity to discuss developments in Northern Ireland to which the Prime Minister has referred. And we did repeat and reiterate the importance of the partnership between our two governments as co-guarantors of the Good Friday Agreement, and in supporting the peace process, and in contributing to stability and continued progress in Northern Ireland. We are both very much committed to the 1998 Good Friday Agreement and the successive agreements of St Andrews[55] and Fresh Start,[60] and we will continue to work for a prosperous and peaceful Northern Ireland in the time ahead.

So we have agreed, as the Prime Minister has reiterated, that we would work together to ensure that the benefits of the peace process are preserved in any new arrangements which might emerge regarding the United Kingdom's future relationship with the European Union. In particular, we both recognised that Ireland is the only EU member state that shares a land border with the United Kingdom. We are in full agreement that we do not wish to see any return to the borders of the past on the island of Ireland

The Secretary of State for Northern Ireland has rejected the argument that Brexit will fatally undermine the Agreement, stating that the 'UK Government remains fully committed to the Agreement and to its successors' and that 'this includes the political institutions'. He continued that 'the Assembly, the North/South Ministerial Council and the British-Irish Council will all continue to reflect the unique political relationships throughout these islands".

He further committed that "those elements of the Agreements that deal with people's rights and identity will be upheld, as will all the constitutional guarantees – underpinned by the abiding principle of consent".[61]

There is a direct reference to the European Union in the Annex to the Agreement. In it the Governments of Ireland and the UK express that the Agreement has been reached "wishing

[55] St Andrews Agreement 2006: https://www.gov.uk/government/publications/the-st-andrews-agreement-october-2006. [60] A Fresh Start for Northern Ireland 2015: https://www.gov.uk/government/news/a-fresh-start-for-northern-ireland.

to develop still further the unique relationship between their peoples and the close cooperation between their countries *as friendly neighbours and as partners in the European Union"* (emphasis added). While this is an acknowledgement of the over-arching framework that the European Union provides for the constitutional relationship between Northern Ireland and the Republic,[62] "the fact that one of the co-guarantors of the Agreement is no longer an EU Member State should not of itself undermine the status of the 1998 settlement".[63]

Two separate legal challenges to the right of the Prime Minister to trigger Article 50 were taken to the Belfast High Court. One, broadly stated, argued that this would breach the principle of consent. The other, again broadly stated, argued that this would breach the right of the Assembly to 'protect peace process guarantees enshrined in the Good Friday Agreement'. [64] In both cases the contention was that Article 50 could not be triggered by the use of the Royal Prerogative and that legislation (or other mandate from Parliament) was required for this purpose. The cases were heard together by the High Court over three days in October 2016.

Regarding the issue of consent, it was contended that '…as a matter of law Article 50 cannot be triggered without the consent of the people of Northern Ireland. This, it is asserted, is because the Northern Ireland people are said to have a legitimate expectation that there would be no change in the constitution of Northern Ireland without their consent. Withdrawal from the EU would, the argument contends, be such a change'[65].

The court's assessment of this argument as set out in the judgment was that[66]:

> The court is not aware of any specific provision in the Good Friday Agreement or in the 1998 Act which confirms the existence of the limitation which the applicant contends for and which establishes a norm that any change to the constitutional arrangements for the government of Northern Ireland and, in particular, withdrawal by the United Kingdom from the EU, can only be effected with the consent of the people of Northern Ireland. Nor can the court identify material which would cause it to imply any such limitation. This is not, in the court's estimation, surprising as if such a limitation exists, it would be reasonable to have expected this to have been highlighted in the run up to the referendum held in June of this year. The proposition for which the applicant contends would, it seems, have the most unusual result of

[61] Secretary of State Brokenshire, extracts from speech at Oxford University, 21 September 2016: https://www.niconservatives.com/news/secretary-state-northern-ireland-Brexit.

[62] See De Mars, Murray et al (June 2016) 'Policy Paper: Brexit, Northern Ireland and Ireland' *Durham University and Newcastle University*

[63] Centre for Cross Border Studies and Co-operation Ireland, EU Referendum Briefing Paper 1 p. 5

[64] http://www.independent.co.uk/news/uk/politics/Brexit-legal-challenge-dismissed-northern-ireland-article-50-caseeuwithdrawal-not-heard-latest-a7384386.html

[65] McCord's (Raymond) Application - In the Matter of an Application by McCord (Raymond) for Leave to Apply for Judicial Review and in the Matter of Article 50 of the Treaty of the European Union And In the Matter of Application to Leave to Apply for Judicial Review by (1) Steven Agnew, (2) Colum Eastwood, (3) David Ford (4) John O'Dowd (5) Dessie Donnelly (6) Dawn Purvis (7) Monica Wilson (8) The Committee on the Administration of Justice, (9) The Human Rights Consortium v (1) Her Majesty's Government, (2) The Secretary of State for Northern Ireland, (3) The Secretary of State for Exiting the European Union Judgment Delivered by the Court (28/10/2016) [para 147] http://www.courtsni.gov.uk/en-GB/Judicial%20Decisions/PublishedByYear/Documents/2016/%5b2016%5d%20NIQB%2085/j_j_MAG10076Final.htm.

[66] As above [paras 152-155].

requiring a second referendum on the issue of EU membership to be held in Northern Ireland within a short time of the people of Northern Ireland having gone to the polls in respect of the same issue in a national referendum where the national outcome was in favour of withdrawal.

While it is correct that section 1 of the 1998 Act does deal with the question of the constitutional status of Northern Ireland it is of no benefit to the applicant in respect of the question now under consideration as it is clear that this section (and the relevant portion of the Good Friday Agreement) is considering the issue only in the particular context of whether Northern Ireland should remain as part of the United Kingdom or unite with Ireland. The very fact that the issue is dealt with in this way, it seems to the court, makes it unlikely that the applicant's wider view as to the meaning of these provisions can be correct.

It further seems to the court that in this area it is difficult to see how the court can overlook the importance of the terms in which the 1998 Act are cast or to deviate from what to date has been plain, namely that the United Kingdom Parliament has retained to itself the ability to legislate for Northern Ireland (see section 5(6)) without the need to resort to any special procedure, save in so far as that might be required for the purpose of section 1 of the 1998 Act (a matter about which the court need not dilate upon).

In the court's view, any suggestion that a legitimate expectation can overwhelm the structure of the legislative scheme is not viable.

Regarding the contention '…the prerogative power cannot be exercised for the purpose of notification in accordance with Article 50(2) TEU, and the allied contention that this is because it has been displaced by the Northern Ireland Act 1998 read along with the Belfast Agreement and the British-Irish Agreement and other constitutional provisions,' the High Court stated, amongst other things:

It is therefore, in the court's opinion, inapt for the applicants to talk in terms of notification changing the rights of individuals or of the operation of institutions becoming transformed by reason of the invocation of Article 50(2). This simply will not happen by reason of the step of notification per se. The reality is, at this time, it remains to be seen what actual effect the process of change subsequent to notification will produce. In the meantime, sections 6 and 24 of the 1998 Act will continue to apply; the North/South and East/West institutions will continue to operate; and the work of implementation bodies will go

on. While the wind of change may be about to blow the precise direction in which it will blow cannot yet be determined so there is a level of uncertainty, as is evident from discussion about, for example, how Northern Ireland's land boundary with Ireland will be affected by actual withdrawal by the United Kingdom from the EU.

The court is not persuaded, for the purpose with which this judicial review is concerned, prerogative power has been chased from the field or that statutory power (in the form of the 1998 Act) has displaced it in accordance with the test described above. Rather, it is the court's view the prerogative power is still operative and can be used for the purpose of the executive giving notification for the purpose of Article 50. This, however, is said without

> prejudice to the issues which have been stayed and which are under consideration in the English courts[56].

The court also rejected the argument that there is an obligation for the UK government to seek and receive the consent of the Northern Ireland Assembly to such legislation by obtaining from it the passage of a Legislative Consent Motion authorising such legislation (although the court had, in any case, already ruled that legislation was not in its view needed).

However, the High Court in London concluded that “the Secretary of State does not have the power under the Crown’s prerogative to give notice pursuant to Article 50 of the TEU for the United Kingdom to withdraw from the European Union”[57]. The judgment also questioned some of the processes by which the High Court in Belfast had made its assessment in the case outlined above.[69] The Attorney General for Northern Ireland subsequently issued a notice that the devolution case (not the consent case) was worthy of further judicial consideration and indicated his intention to request the case leap frog the Court of Appeal and go directly to the High Court in London.[58] Update to the legal challenges regarding the right of the Prime Minister to trigger Article 50 without Northern Irish consent.

On 24 January 2017, the UK Supreme Court ruled that the UK government cannot trigger Article 50 of the Lisbon Treaty without authorisation from an Act of parliament. However, the decision ruled that a vote by the Scottish Parliament, Northern Ireland Assembly and Welsh Assembly is not required. A summary of the judgement can be found on the Supreme Court’s website.

“The decision to withdraw from the EU is not a function carried out by the Secretary of State for Northern Ireland in relation to Northern Ireland... Moreover, section 1 NIA, which gave the people of Northern Ireland the right to determine whether to remain part of the UK or to become part of a united Ireland, does not regulate any other change in the constitutional status of Northern Ireland”

A statement was later released from the Prime Minister’s Office following the ruling stating that the intention remains to trigger Article 50 by the end of March 2017 as planned.

On 01 February 2017, the House of Parliament voted 498 to 114 to advance the bill allowing Prime Minister Theresa May the authority to invoke Article 50.

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[56] As above [paras 107-108].

[57] R (Miller) v Secretary of State for Exiting the EU [2016] EWHC 2768 3 November 2016: https://www.judiciary.gov.uk/wpcontent/uploads/2016/11/judgment-r-miller-v-secretary-of-state-for-exiting-the-eu20161103.pdf.

[69] As above., Paragraph 104.

[58] NI AG says further consideration of Brexit challenge warranted’ *Irish Times* 8 November 2016. [71] De Mars, Murray et al (2016) cited above.

Impact of Brexit on the Good Friday Agreement The following media articles highlight the threat that Brexit may have on the Good Friday Agreement and the peace process in Ireland.

The following independent article claims that the Good Friday agreement is ‘under threat’ due to the Brexit strategy of Prime Minister Theresa May. Deputy Gerry Adams claimed in a BBC article that Brexit will destroy the Good Friday Agreement. He also claimed that fundamental human rights enshrined in the agreement could be undermined. A Telegraph article also questioned if Brexit could disturb the peace in Northern Ireland, emphasising the view of the Irish government and Taoiseach Enda Kenny that Brexit could endanger the stability of the peace process.

The latest Institute for International and European Affairs (IIEA) Brexit Brief, released in January 2017, highlights the House of Commons Exiting the European Union Committee report, which underlines the need to ensure “UK-Irish relations and stability in Northern Ireland and the Good Friday Agreement are not jeopardised by the UK’s exit from the EU.”

The IIEA report also highlights comments from Hillary Benn MP, made at the Labour Party conference on Brexit on 13 December 2016 that any agreement should uphold and respect the Good Friday Agreement.

The Joint Oireachtas Committee on the Implementation of the Good Friday Agreement met on 26 January 2017 to discuss the Implications for the Good Friday Agreement of the UK Referendum Result.

Among the implications discussed, includes the impact of Brexit on the Good Friday Agreement, the relationship between the Republic of Ireland and Northern Ireland, and issues regarding the border and the likelihood of the replacement of the customs union which could see a restriction on the movement of people and goods across the border.

Mr Tom Arnold and Mr Dáithí O’Ceallaigh of the IIEA emphasised the good work that was achieved with Northern Ireland and the border over the past twenty years, through the support of the Commission and the European institutions, and the potential to further build on the Good Friday Agreement into the future. This however, will require the UK and Ireland to work hard to ensure that their relationship is maintained, to compensate for the loss of the UK leaving the EU.

Text Box 2: Address by Taoiseach Enda Kenny to the Institute of European Affairs on 'Ireland at the heart of a changing European Union' (extracts), 15 February 2017
Taoiseach Enda Kenny
The Brexit process will not wait for another round of lengthy talks in Stormont.
When Article 50 is triggered, the world will move on, and it will move on quickly.
Of course I will do my best to put forward the interests of the North in the Brexit negotiations.
I will defend the Good Friday Agreement, in its spirit as well as its letter.
The Irish Government will oppose a hard border, argue for free movement on this island, seek EU funding for cross-border projects and protect the rights of EU citizens, whether from North or South…
The European Union has always been about removing barriers, about bringing people together in peace and prosperity. The Treaty of Rome, which we will celebrate on its 60th anniversary next month, is one of the greatest peace agreements in history.
Without it, there could have been no Good Friday Agreement.
So, I am in absolutely no doubt that the European Union, which has done so much to support reconciliation on this island, will defend the peace process and the Good Friday Agreement.
I am confident that the European Union will not bring us back to a border of division.

(ii)Impact on protection of human rights in the Agreement

Commentators have considered the effect of Brexit on the commitment to human rights in the Agreement. A recent academic paper points to the Agreement's reference to Ireland and the UK as "partners in the EU", the over-arching enabling framework provided by the EU, and the Agreement's commitment to the European Convention on Human Rights; they argue that the EU, the European Convention on Human Rights and the Agreement are essentially interdependent in their application to Northern Ireland.[71]

The Irish Minister for Foreign Affairs, Charlie Flanagan TD, has stated that while the incorporation of the Convention is one of the key principles underpinning the Good Friday Agreement and ensuring the protection of human rights within Northern Ireland's law, the UK's withdrawal from the EU does not affect its commitment to the European Convention on Human Rights:

"It is important to note that the European Convention on Human Rights is a separate regime from the EU. Leaving the EU does not mean leaving the Convention."[59]

On the other hand, it is the case that the EU's Charter of Fundamental Rights of the European Union, which applies to matters concerning EU law, is unlikely to continue to apply to Northern Ireland if the UK leaves the EU.[73]

Indirect impact of Brexit on the institutions

(iii) Brexit would mean a change in the relationship between the UK and the Irish Governments, the co-guarantors of the Agreement. To date, the

[59] Minister addressing the Joint Committee on the Good Friday Agreement, 27 September 2016
[73] Northern Ireland, Raise, EU Referendum Update, August 2016 p. 24.

implementation of the Agreement has relied heavily on the strength of this relationship.

The implementation of the Agreement has been marked by recurring crises (see Text Box 4 below) which have been managed through informal British-Irish diplomacy. Professor Jennifer Todd refers to this as ”an informal mode of implementing the Agreement and adjudicating its principles” and notes that this method of implementation makes the agreement vulnerable to changes in British-Irish relations and priorities.[60]

[60] Todd Jennifer (2016) *The vulnerability of the Northern Ireland settlement: British Irish Relations, political crisis and Brexit.* Professor of Politics in University College Dublin.

Text Box 4: Obstacles to the implementation of the Agreement

Central to early disputes was the extent to which decommissioning should happen before, after or at the same time as devolution and power-sharing. Disagreement over interpretation and timing extended to other confidence-building measures, in particular those concerning the reform of the police force and endorsement of that reform. The St. Andrew's Agreement (October 2006), published by the UK and Irish Governments following negotiations with all of the Northern Ireland parties, included a timetable leading towards the restoration of devolution and power-sharing in Northern Ireland. It required full acceptance of the PSNI by all parties as well as the restoration of the Northern Irish Assembly and a commitment by all parties to power sharing in the Executive. It included a plan to devolve policing and justice within two years of the restoration of the Executive. A new devolved administration was established in 2007, in which the Democratic Unionist Party served for the first time since the establishment of the institutions, and policing and justice were devolved in 2010.

Further crises stemming in part from the aspects of the 1998 and 2006 Agreements that had yet to be implemented – cultural equality, dealing with the past, and parity of esteem – led to renewed paralysis which was resolved only when the UK and Irish Governments convened talks, which led to the Stormont House Agreement of December 2014 (Todd, 2015).

A further Agreement – A Fresh Start – published by the UK and Irish Governments in November 2015, is designed to implement various aspects of the Stormont House Agreement, to deal with the impact of continued paramilitary activity and includes investment guarantees by the Governments.

While the institutional architecture has become increasingly embedded since 2007, a number of the Agreement's provisions have yet to be implemented, in particular the establishment of institutions to deal with the legacy of the past.

While both the UK and Irish Governments have issued statements committing themselves to upholding the principles of the Agreement, there is no doubt that Brexit brings change and uncertainty to the relationship. Todd argues that the Agreement is vulnerable to any events "which weaken British and Irish commitment to hands-on oversight of Northern Irish affairs".[61] Research undertaken by Arc (NI Access, Research, Knowledge), funded by the Office of the First and Deputy First Minister (OFMDFM), also found a link between political uncertainty and community relations. Its report found:

> 'a clear underlying upward trend in the proportion of people in Northern Ireland who think that 'relations between Protestants and Catholics are better than they were five years ago'. Equally clearly, this upward trend is not a steady one and there have been many ups and downs along

[61] Todd Jeniffer, 2016 cited above

And that

> ‘community relations in Northern Ireland remain extremely fragile and vulnerable to events and political changes.’ [62]

(iv) **The logic underpinning the Agreement is vulnerable to any weakening of the North/South, cross-border dimension**

The progressive strengthening of cross-border relations is central to the Agreement and to the logic underpinning the peace process.

Firstly, as outlined above, North/South cooperation pursued through the Agreement’s institutions is central to the political compromise inherent in the Agreement; Secondly, the progressive enhancement of cross-border relations and cooperation at the sectoral, community and individual level are an important component of the peace-building process: Analysts of peace-building processes argue that ‘softer,’ practical cross-border cooperation:

(a) by enabling contact and cooperation for mutual benefit between individuals and sectors (e.g. business, regional health authorities, local councils and/or communities) serves to break down stereotypes and promote good relations between communities both sides of the border and, indeed, within Northern Ireland;[63]
(b) through the promotion of trade, business networks and all-island sectoral strategies, social and economic development for the mutual benefit of the people either side of the border contributes to and reinforces the political peace process by reducing poverty and deprivation;
(c) has substantially reduced the negative effect of the border on daily lives, which hasreduced its political significance for Northern Ireland nationalists. Where the border is invisible, British sovereignty is ”no longer seen as having implications for internal power (within Northern Ireland) cultural status of freedom on movement”.[64]

[62] Ark Research Report (December 2013) ‘The Long View: Community Relations in Northern Ireland 1989-2012’ funded by OFMDFM: https://www.executiveoffice-ni.gov.uk/publications/long-view-community-relations-northern-ireland-1989-2012.
[63] Hayward and Wiener argue that the European Union legitimised cross-border cooperation, providing a de-politicised context in which cross-border cooperation is pursued for mutual economic development rather than as a back-door to unity. (Hayward and Wiener, 2008, ‘The EU and Border Conflicts’ p. 51.
[64] Todd Jeniffer, 2016 cited above

Cross-border and wider North/South cooperation at all levels has been hugely facilitated by EU Membership and Brexit may present a number of challenges to it which are discussed in more detail in other sections of this Paper:

One – joint membership of the EU and the free movement of people, goods, capital and services – has enabled the border to become almost invisible, delivering the benefits to peace-building outlined above. [65] While the UK and Irish Governments have both stated that they are against a return to a hard border, the end of both states having common membership of the EU means that there is no certainty that customs and immigration border checks can be avoided.

While there is a possibility that the Common Travel Area will be maintained (see Section 4 of this Paper) and that the UK will seek continued access to the EU's Internal Market, the terms on which the UK eventually exits the EU will be the outcome of negotiations between the UK and the other 27 EU Member States.[66] A report by two UK think tanks – UK in a Changing Europe and the Political Studies Association – states that while "all sides are agreed that closing the Irish border would be a serious mistake and that some accommodation will have to be made…it is difficult envisage Northern Ireland being within the Single Market and the rest of the UK being outside it without controls and trade in goods and services between Northern Ireland and Great Britain".

A second issue related to the EU is that it has provided "a democratic context and a direct functional relevance for the institutions of the Agreement."[67] Brexit could gradually weaken this functional relevance or the logic or purpose of North/South cooperation as 'policies and

[65] Centre for Cross Border Studies, EU Referendum Paper 3, 2016, 7. While reciprocal arrangements between the UK and Ireland predate their entry into the EU, Protocol 20 to the EU Treaty formalised this under EU law and, with accession to the Single Market, customs checks were abolished between them.
[66] Minister Charlie Flanagan, Joint Oireachtas Committee on the Implementation of the Good Friday Agreement, 27 September 2016
[67] Hayward and Wiener 2008 cited above.

regulations in the different jurisdictions diverging.'[68] Cross-border cooperation in a variety of sectors, including the six areas of cooperation under the Agreement and for the six implementing bodies, has been greatly facilitated by the fact that both jurisdictions are subject to common EU legislation and regulation.

Thirdly, as detailed in the section on funding in this Paper, the EU has provided billions of Euro in funding to the peace process through four Peace Programmes and 5 territorial cooperation programmes (INTEREG). [69] In a recent briefing paper the Centre for Cross Border Studies highlighted the significance of this funding to the continued development of cross-border transport and energy infrastructure, both of which facilitate cross-jurisdictional flows. It said that these have "enabled cross border cooperation to move beyond piecemeal activities lacking a more strategic vision and wider socio-economic impact.'[68]

While there are risks to the institutions (discussed above), it is also the case that the existence of the North/South institutions may be a source for stability and consensus over the Brexit period. The Centre for Cross Border Studies notes that, rather than becoming redundant, the institutions may become more important as they provide a mechanism to address emerging impacts of the withdrawal process.[69] For example, at its plenary meeting on 4 July 2016, the North South Ministerial Council agreed to undertake a number of actions including:

- working together to ensure that Northern Ireland's interests are protected and advanced, and the benefits of North/South cooperation are fully recognised in any new arrangements that emerge as regards the UK's future relationship with the EU;
- that the frequency of the briefings on relevant EU matters provided by the Irish Government for senior Northern Ireland officials should increase;
- that the Irish Permanent Representation in Brussels and the Northern Irish Executive Office in Brussels will continue and intensify their close working relationship.[70]

Under the Agreement, the North/South Ministerial Council has a duty to consider the European Union dimension of relevant matters, including the implementation of EU policies and programmes and proposals under consideration in the EU framework. It commits parties to making arrangements to ensure that the views of the NSM Council are taken into account and represented appropriately at relevant EU meetings. While the context and the issues raised may be different, it is possible that the Council would continue to undertake this duty after Brexit.While some actors (e.g. Mark Durkan MP) have called for the establishment of a wider North/South Forum involving sectoral interests, such as business, to discuss and feed int the Brexit negotiations process,[71] others, such as First Minister Arlene Foster MLA, prefers to deal with the implications of Brexit through the existing cross-border institutions. [72]

[68] Centre for Cross Border Studies and Cooperation Ireland EU Referendum Briefing 1, 7

[69] Centre for Cross Border Studies and Cooperation Ireland EU Referendum Briefing Paper 3 p. 7) [68] Centre for Cross Border Studies and Cooperation Ireland EU Referendum Briefing Paper 3 p. 7) [69] Centre for Cross Border Studies and Cooperation Ireland (2016) EU Referendum Briefing Paper 2 p.3.

[70] Joint Communiqué, North South Ministerial Council, 22nd Plenary Meeting, 4 July 2016

1.17 Policing and Justice

Police Cooperation

There is extensive cross-border cooperation between An Garda Síochána (the Gardaí) and the Police Service of Northern Ireland (PSNI), as well as between other bodies such as the Republic's Revenue Commissioner and HM Revenue and Customs. The effects on these of the UK's exit from the EU will vary according to the type and basis of the cooperation.

Cross-Border Policing Strategy

Cooperation between the Gardaí and the PSNI is based on the framework of the CrossBorder Policing Strategy[71] that was agreed in February 2010. This strategy covers areas such as operations, investigations, security, intelligence and information sharing, as well as Human Resources, planning and training. The success of this strategy was noted in a 2015 report by a committee of the British-Irish Parliamentary Assembly dealing with smuggling. The report described cooperation as taking place both informally and formally, and at all levels. It characterised the cooperation as close and effective.[72]

As the Cross-Border Policing Strategy is a bilateral arrangement between authorities in the Republic and their counterparts in Northern Ireland, its existence or characteristics will not necessarily be affected by the UK's exit from the EU. However, the terms on which the UK exits may make it expedient to review the nature of the authorities' cooperation and the wider issues that it may need to address, potentially including matters such as customs and immigration controls.

EU Agencies

The Republicand UK participate in a number of EU agencies and groups whose work is intended to enhance policing and security across the EU. These include:

- **Europol**, the EU agency that distributes intelligence and information to lawenforcement agencies in EU Member States,
- **Eurojust**, the EU's agency for coordination of investigative and prosecution authorities,
- **Schengen Information System**, a distributed information system for keeping track of persons of interests to law-enforcement agencies,[112]
- **eu-LISA**, an EU agency that supports cooperation and information exchange between Member States on the use of large-scale IT systems for justice and security purposes.

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[71] PSNI, Department of Justice, Department of Justice and Law Reform and An Garda Síochána (2010), *Cross Border Policing Strategy*: http://www.garda.ie/Documents/User/Cross%20Border%20Policing%20Strategy.pdf.

[72] British-Irish Parliamentary Association, Committee A – Sovereign Matters (2015), Report on Cross-Border Police Cooperation and Illicit Trade: http://www.britishirish.org/assets/NewFolder-2/235.-BIPA-report-from-Committee-A-SovereignMatters-on-Cross-border-Police-Cooperation-and-Illicit-Trade-2015.pdf. [112] The Republic is not yet fully integrated into this system.

These are central to the coordination and cooperation of law enforcement agencies across the EU. It is likely that the UK, the remaining EU Member States and the EU itself will seek to maintain the cooperation and information provided through these bodies, possibly through associate membership along the lines currently provided by most of these agencies to EEA states such as Norway and Iceland.

A consideration that is relevant to bilateral cooperation arrangements between the Republic as well as to those between the UK and EU agencies and other remaining EU Member States is the UK's post-exit treatment of personal data: agencies in Ireland and elsewhere in the EU may be constrained as to the types of personal information they can share or the purposes for which they do so, depending on the UK's data protection regime after its exit from the EU.

European Arrest Warrants

Extradition arrangements between the UK and the Republic (as well as other EU Member States) are currently governed by the 2002 Council Framework Decision on the European Arrest Warrant.[73] This greatly simplified the extradition arrangements that it replaced by providing for a system of trust and mutual recognition of arrest warrants and decisions in criminal matters. Unlike other extradition arrangements, a European Arrest Warrant (EAW) is transmitted directly to appropriate authorities who are obliged to carry out the arrest. The EAW also reduces the scope of the 'dual criminality' test in extradition cases, which can require detailed proof of the equivalence of an offence in the requesting country to one in the country from which extradition is sought. The EAW has however been criticised for providing convenience to state authorities at the expense of individuals' civil liberties. These concerns include the issue of proportionality – that is, arising from the use of EAWs in respect of relatively minor matters. Another criticism arises from incompatibilities between the criminal justice systems of EU Member States, which can result in persons surrendered under an EAW being held without trial in the requesting country for unduly long periods, and sometimes being released without charge despite their surrender from another state.[114]

The EAW has become an important tool for law enforcement agencies in Ireland and the UK. In 2014, the Republic surrendered 21 wanted persons to the UK on foot of EAWs, of whom 6 were surrendered to the PSNI.[74] In the same year, the Republic made 48 requests to the UK for surrender of persons under EAWs, leading to a total of 36 surrenders to the Republic by UK authorities, of which 32 were by the PSNI.[94] A 2011 report by the European Commission on the implementation of EAWs stated that on average, contested surrenders under the

[73] Council Decision 2002/584/JHA: http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32002F0584&from=EN. [114] See generally House of Commons Library Briefing Paper 07016 (2 June 2015) "The European Arrest Warrant", available here.

[74] UK National Crime Agency "Wanted from the UK: European Arrest Warrant statistics 2009 – May 2016": http://www.nationalcrimeagency.gov.uk/publications/european-arrest-warrant-statistics/wanted-from-the-uk-european-arrestwarrantstatistics/691-wanted-from-the-uk-european-arrest-warrant-statistics-2009-may-2016-calendar-year. [94] UK National Crime Agency "Wanted by the UK: European Arrest Warrant statistics 2009 – May 2016": http://www.nationalcrimeagency.gov.uk/publications/european-arrest-warrant-statistics/wanted-by-the-uk-european-arrestwarrant-statistics.

EAW framework took 48 days to process, in contrast to an average of one year under previous arrangements.[75]

Extradition arrangements for the UK and Ireland in relation to countries that are members of the Council of Europe but not the EU are currently based on the Council of Europe's 1957 Convention on Extradition.[118] A 2014 paper published by the UK Government in relation to EU police and criminal justice matters[76] compared EAWs with extraditions under the 1957 Convention. The paper noted that the 1957 Convention allows countries to choose to refuse extradition of their own nationals. It also noted that, unlike EAWs, the 1957 Convention does not permit extraditions for fraud or taxation offences. Moreover, it pointed out that setting up extradition arrangements with countries currently operating under the EAW system would require legislative changes by the UK as well as some or even all of those other countries. It said that this could take considerable time and poses the risk of inconsistent arrangements.[77]

Upon the UK's exit from the EU it is possible that it might agree with the Republic an equivalent set of arrangements. However, the operation of EAWs in the Republic is governed by the European Arrest Warrant Act 2003[78], which was enacted expressly to give effect to the Council's 2002 Framework Decision. That Act may therefore enjoy the benefit of immunity from challenge on Constitutional grounds that is afforded by Article 29 of the Republic's Constitution to measures "necessitated by the obligations of membership of the European Union". Equivalent measures adopted outside the context of EU membership would have no such immunity and may be open to challenge on constitutional grounds in the Republic's courts.

[75] European Commission (2011) Report on the implementation of the EAW Framework Decision, COM (2011) 175: http://ec.europa.eu/justice/criminal/files/eaw_implementation_report_2011_en.pdf. [118] In the Republic, under the Extradition Act 1965; in the UK under the Extradition Act 2003.

[76] HM Government (2014) "Decision pursuant to Article 10(5) of Protocol 36 to The Treaty on the Functioning of the European Union", Cm 8897: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/326699/41670_Cm_8897_Print_Ready.pdf.

[77] *As above.*, pp. 55-60

[78] European Arrest Warrant Act 2003: http://www.irishstatutebook.ie/eli/2003/act/45/enacted/en/html.

1.18 Finance and Funding

Background: European Union Structural and Investment Funds

European Union funding comes in two forms: competitive funds and non-competitive funds.

Competitive funds are made available directly to citizens and organisations of EU Member States by the European Union (e.g. Horizon 2020, Culture etc.);

Non-competitive funds - the EU Structural and Investment Funds (SEI) - are managed at member-state level with the amounts determined within the Multi-Annual Frameworks (7year periods). Recent reforms designed to enable national governments and responsible bodies to better coordinate actions under the different investment funds have amalgamated the Structural Funds (the first three listed below) with the Investment Funds.

The original rationale for the structural funds was to remove regional disparities and this logic gradually became known as 'cohesion policy.' Over the years they have been linked to the promotion of economic growth, competitiveness, employment, sustainable development and good governance including the participation of civil society. They are now aligned with the goals of the Europe 2020 Strategy for generating smart, sustainable and inclusive growth in the EU.[122]

The focus in this Paper is on the possible impact of Brexit on non-competitive funding made available for cross-border and transnational cooperation under the EU Structural Funds in Northern Ireland and the border counties: the INTERREG and PEACE Programmes.

Text Box 5: The European Structural and Investment Funds

The **European Structural and Investment (ESI) Funds,** the European Union's only explicitly redistributive policy includes five funds, the first three of which deliver the EU's regional policy (structural funds):

- **European Regional Development Fund (ERDF)**
- **Cohesion Fund (CF)** [123]
- **European Social Fund (ESF)**
- **European Agricultural Fund for Rural Development (EAFRD)**[124] and **European Maritime and Fisheries Fund (EMFF)**[125].[126]

[122] European Commission, November 2015 'European Structural and Investment Fund 2014-2020: Official texts and commentaries'

[123] The Cohesion Fund is only available to objective 1 (priority regions) and is not, therefore, relevant to either Ireland or Northern Ireland. Regions are categorised into priority, transitional and developed for the purposes of EU Regional policy. Northern Ireland, a priority region until 2006, is a transitional region, the Republic a developed region.

[124] European Agricultural Fund for Rural Development (EAFRD) http://ec.europa.eu/agriculture/rural-development20142020/index_en.htm.

[125] European Maritime and Fisheries Fund (EMFF): https://ec.europa.eu/fisheries/cfp/emff_en.

[126] European Commission, The EU's Main investment Policy (2016): http://ec.europa.eu/regional_policy/en/policy/what/investment-policy/.

Background and purpose of the EU's Cross-Border Funding Programmes

INTERREG (European Territorial Cooperation)

The EU's Cohesion policy is central to its over-riding goal to promote prosperity and peace between its member states. Cohesion policy aims to 'reduce disparities between the levels of development of the various regions and the backwardness of the least-favoured regions.'[99]

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[99] Centre for Cross Border Studies and Cooperation Ireland, Briefing Papers on EU Referendum, Briefing Paper 3 p. 2 quoting
128
Treaty on the Functioning of the European Union. All 6 Briefing Papers (many are cited below) are available here.

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The INTERREG funding programme, its key policy instrument, aims to promote 'a harmonious economic, social and territorial development of the Union as a whole' by funding projects under three strands of cooperation: cross-border (Interreg A), transnational (Interreg B) and interregional (Interreg C).

The INTERREG Programmes for Northern Ireland and the border region of Ireland addresses the economic and social problems related to the existence of borders by funding strategic cross-border co-operation for a more prosperous and sustainable region.

For INTERREG IA, IIA and IIIA, the eligible areas were Northern Ireland and the border counties. Under INTERREG IVA (2007-2013) and VA (2014-2020), the eligible area was extended to Western Scotland. Projects involving Northern Ireland and the border region of Ireland (as per the previous INTERREG Programmes) and tripartite projects involving Northern Ireland, the Border Region of Ireland, and Western Scotland are eligible for funding. All projects have a Northern Ireland - Border Region of Ireland element.

Since 1991, INTERREG has brought approximately €1.13 billion to support cross-border and transnational cooperation in the region (Table 1). INTERREG IVA invested €256 million in cross-border initiatives (€192 million of which was contributed by the EU). More recently, €283 million (€240 million of which has been committed by the EU) has been earmarked for cross-border projects under INTERREG VA.

Table 2: Funding for Northern Ireland and border region INTERREGA Programmes[128]

Programme	Funding Period	EU Contribution (m)	National Contribution (€m)	Total Programme Value (€m)
INTERREG 1A	1991-1993	82.1 ECU	67.9	150
INTERREG IIA	1994-1999	159 ECU	103	262
INTERREG IIIA	2000-2006	137	46	183
INTERREG IVA	2007-2013	192	64	256

INTERREG VA	2014-2020	240	43	283

The Special EU Programmes Body has published a paper which overviews the Impact of EU Funding on the Region 1995 to 2020[100] and gives details about the funding, the measures and the types of projects funded under the Programmes. Under INTERREG IVA a total of 88 projects were funded, 3,552 businesses supported, 954 new jobs created and over 121,700

Source: Special EU Programmes Body, Facts and figures on EU Peace and INTERREG Funding [accessed 9 November 2016].

[100] SEUPB (2016), Impact of EU Funding on the Region 1995 to 2020, Belfast: SEUPB: http://www.seupb.eu/newsandevents/latestnews/16-05-27/The_Impact_of_EU_Funding_on_the_Region.aspx.

beneficiaries in health, rural development and tourism initiatives. INTERREG VA which has funds earmarked for the 2014-2020 period targets 4 areas of intervention (priorities) under which all projects are cross-border and comply with two horizontal principles (equality of opportunity and sustainable development) (Table 3).

Table 3: Priorities (target areas) of INTERREG Programmes IIIA, IVA, VA

Programme	Priorities (Target Areas)
INTERREG IIIA (2000-2006)	1. Integrated local development strategies 2. Physical infrastructure and the environment 3. Civic and community networking
INTERREG IVA (2007-2013)	Cooperation for a more prosperous cross-border region by: 1. Encouraging innovation and competition in enterprise and business 2. Promoting tourism Cooperation for sustainable cross-border region by: 1. Promoting cross-border cooperation in policy development 2. Improving access to services to promote quality of life for individuals.
INTERREG VA (2014-2020)	1. Research and innovation 1.1 Enhancing research and innovation 1.2 Business investment in research and innovation 2. Environment 2.1 Protect and restore biodiversity 2.2 Invest in the water sector 3. Sustainable transport 4. Health and social care

Peace Programmes

The EU Programmes for Peace and Reconciliation (PEACE I-IV) were developed in 1995 as a way to reinforce the formal progress towards peace. A unique territorial cohesion programme funded under Structural Funds, it aims to 'reinforce progress towards a peaceful and stable society in Northern Ireland and the Border Region of Ireland.'[79]

Between 1995 and 2013, Peace I, II and III invested almost €2 billion (€1.99 billion) in thousands of projects to promote peace and stability in Northern Ireland and the border

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counties of Ireland. €229 million of EU funding has been earmarked for projects under PEACE IV. The Table below gives details of funding provided under each programme.[80]

Table 4: Funding for Northern Ireland and the border region EU PEACE Programme

Programme	Funding Period	EU Contribution € million	National Contribution	Total Programme Value (€ million)
Peace I	1995-1999	500	167	667
Peace II	2000-2004	531	304	835
Peace II extension	2005-6	78	82	160
Peace III	2007-2013	225	108	333
Peace IV	2014-2020	229	41	270

[79] Special EU Programmes Body, Peace 2014-2020 Programme Factsheet
[80] Source: Special EU Programmes Body, Facts and figures on EU Peace and INTERREG Funding [accessed 9 November 2016]. [132] See Bush and Heuston, 2013 'The Story of Peace: learning from the Peace Programme in Northern Ireland and the border counties' and Cooperation Programmes under the European territorial cohesion fund (agreed between the Irish government and the Northern Irish executive which allude the theories of change underpinning peace-building programmes p.8-10.

The Peace Programmes are underpinned by a number of theories about the types of interventions that can build good relations and peace such as:

- Initiatives which promote socio-economic development through cross-border or cross-community projects for mutual benefit thereby enhancing prosperity and
- building relations and breaking down stereo types through contact;
- Initiatives which directly or indirectly address the societal impacts and legacies caused by protracted violent conflict – such as fear, distrust, segregation, polarised communities, discrimination, sense of injustice.[132]

Overviewing its impacts to date, the Special EU Programmes Body highlights the Programme's focus on:

- Improving cross-border public sector cooperation;
- Developing cross-border reconciliation and understanding; and
- Promoting joint approaches to social, education, training and human resource development.[133]

The priorities agreed for the 2014-2020 Programme (Peace IV) as well as the target outputs under each priority are in the below table.[81] Cross-border projects are encouraged although the programme allows projects in one jurisdiction if they meet the aspired outputs and results of the Programme.[82]

[81] Source: Special EU Programmes Body, Facts and figures on EU Peace and INTERREG Funding [accessed 9 November 2016].

[82] Special EU Programmes Body (2014-2020) Programme Factsheet p.2.

Table 5: Peace IV Priorities and Outputs

Programme	Priorities and target outputs
Peace IV	**1. Shared Education** Increase the level of direct, sustained and curriculum-based contact between pupils and teachers from all backgrounds. **Target**: Under this measure 350 schools and 144,000 school years will be affected. **2. Children and young people** Help young people, in particular those not in education, employment and/or training to develop a greater understanding and respect for diversity; access new opportunities and become active citizens **Target:** to support over 7,000 marginalised young people (14-24 to help form positive relationships. **3. Shared spaces and services** Create new shared spaces and services where people from different communities and backgrounds can come together to learn from and respect each other. Target: under this measure, 8 capital build projects will be funded to help create a more cohesive society and provide support to victims and survivors of the conflict. **4. Building positive relations at local level** To create a society characterised by good relations and respect, where cultural identity is celebrated and people can live, learn and socialise together free from prejudice, hate and intolerance. Target: under this measure 17 Local peace plans and 20 regional level projects to promote positive cross-community relations, respect and cultural diversity.

[80]

Joint Design of Programmes

The INTERREG and Peace Programmes come under the EU's Structural and Investment Funds. These are non-competitive funds which are managed at member-state level with the amounts determined within the multi-annual framework (7 year periods). As such, the content and funding priorities for INTERREG and PEACE are agreed by the two member states - Ireland, the UK (via the Northern Ireland Executive), and the European Commission.

Effect of Brexit on EU cross-border funding

UK withdrawal from the EU will affect EU funding for cross-border programmes and projects both in the short and long-term.

In the short-term, there is uncertainty around the ability to draw down a proportion of the funds provided under the 2014-2020 Programmes.[83]

On 13 August 2016[106] the UK Chancellor of the Exchequer Philip Hammond gave the following assurances from the Treasury regarding EU-funded projects:

- Firstly, all structural and investment fund projects, (which includes funding under the PEACE and INTERREG funding and agri-environment schemes), which are signed before the Autumn Statement (23 November 2016) would be fully funded, even when these projects continue beyond the UK's departure from the EU

- Secondly, arrangements would be put in place by the Treasury for assessing whether to guarantee funding for specific structural and investment fund projects that might be signed after the Autumn Statement, but while the UK remains a member of the EU.

The statement also gave assurances regarding EU competitive funds (for example universities participating in Horizon 2020) and funding under CAP Pillar 1. On the former, it stated that while the UK is still a member of the EU (meaning until it officially leaves or 2 years after it triggers Article 50) the Treasury would underwrite the payments of such awards, even when specific projects continue beyond the UK's departure from the EU. On CAP Pillar 1, the Treasury guaranteed that the current level of funding would be upheld until 2020, as part of the transition to new domestic arrangements.

In evidence to the Joint Oireachtas Committee on the Implementation of the Good Friday Agreement on 27 September 2016, the Minister for Finance in the Northern Ireland Executive, Martin O'Muilleoir MLA, questioned whether these assurances went far enough to protect the €1.6 billion earmarked for programmes in the North and the Border region between now and 2020. He argued that the commitment to under-write project approvals contracted in advance of the Autumn statement was insufficient and left €1.1 billion due to be issued via letters of offer post November at risk:[84] According to Minister O'Muilleoir:

> "We have €120 million of letters of offer for cross-border, transformative job, environmental and health projects jammed in the system and there are 17 separate INTERREG letters of offer that have been cleared and area ready to issue."

Minister O'Muilleoir MLA, and Ireland's Minister for Public Expenditure and Reform Paschal Donohue TD, wrote to the European Commissioner for Regional Policy reiterating the joint support of the Executive and the Irish Government for the cross-border PEACE and

[83] NI Assembly Raise, EU Referendum Update, August 2016; NI Executive Minister for Finance, 27 September 2016 at Joint Oireachtas Committee on the Implementation of the Good Friday Agreement. [106] A link to the Statement on the UK.Gov website is here

[84] Joint Committee on the Implementation of the Good Friday Agreement' Discussion with Minister for Finance Martin O'Muilleoir on 27 September 2016.

INTERREG Programmes. The Commissioner was unable to offer any guarantees before the negotiations between the UK and the EU begin.[85]

The Northern Irish Executive was not the only body to highlight the potential loss of funding resulting from Secretary Hammond's November 23 deadline. For example, Greater Manchester pointed out that the November deadline 'would leave projects worth more than £150m facing the axe, because they were not yet under contract - part of 90% of EU funding not yet delivered.'[86] Analysis of the assurances in the *Financial Times* argued that as the UK has already committed to the EU budget up until 2020, and negotiations to undo this would be torturous, the UK is likely to be contributing to the EU budget at least until it formally withdraws (which may be 2 years after article 50 is triggered) or even until 2020 (when the budget period ends). As such, the funding for that period should be available.[87]

On 3 October 2016, the Chancellor of the Exchequer gave assurances beyond guaranteeing funding to projects which receive letters of offer before 23 November 2016. He stated that the Treasury would 'offer a guarantee to bidders if they secure mutli-year EU funding before the UK exits the EU, where the projects meet UK priorities and value for money criteria.' In these cases, the Treasury would guarantee those payments after the UK has left the EU.[88]

However, analysis in the Independent.co.uk questioned whether the caveats – that schemes must "meet UK priorities and value for money" – gave the Treasury plenty of wriggle room not to guarantee all funding. [143]

On 10 October 2016, the Chief Executive of the Special EU Programmes Body discussed the short-term challenges posed by Brexit to the implementation of the Programmes[89]:

- The practical implementation issues of the assessment process and the assurances of funding from the UK, Ireland and the EU;
- The uncertainty about the timeframe (when Article 50 is to be triggered);
- Managing project length with a view to reducing risk of financial exposure Uncertainty pre and post-2018 within Accountable Departments.

Longer term issues – funding for Peace and Cross Border Programmes beyond 2020

In the long-term, the absence of EU programmes is of real concern to a range of sectors and, if funding is not found elsewhere, there is a risk of 'a return to patchy cross-border

[85] Response to Parliamentary Question in the European Parliament

http://www.europarl.europa.eu/sides/getAllAnswers.do?reference=P2016-006399&language=EN

[86] 'Philip Hammond promises to spend billions to make up for lost EU funds as pressure mounts' *Independent.co.uk* 3 October 2016.

[87] 'Questions remain on Hammond's post-Brexit funding pledge' *Financial Times, 12 August 2016*

[88] 'Further certainty on EU funding for hundreds of British projects' 3 October 2016 (www.gov.uk) [143] Cited above 3 October 2016.

[89] Presentation by Gina McIntyre, Chief Executive of SEUPB at Centre for Cross Border Seminar in Northern Irish Office in Brussels **82**

cooperation with little strategic impact' [90] which could undermine the work of the last twenty years and a key foundation of the peace process (see Section on the Agreement, Institutions and the Peace Process in this Paper).

There may, however. be ways in which EU funding for the cross-border Programmes could be secured even in the context of Brexit.

For example, cross-border cooperation between local authorities and other actors on either side of the EU border is facilitated and supported within the EU's framework for territorial cooperation. [91] The instruments which support regional development along external borders in particular involve countries which are candidates or potential candidates for EU Membership (e.g. Serbia, FYR Macedonia). However, instruments also support cooperation with 'third countries' which are neither candidates nor potential candidate states (e.g. Iceland, Norway, Switzerland).[92]

As there is no precedent for a Member State leaving the EU, whether or not a former EU Member State, or a region of that former-Member State, would be a candidate for cooperation within the EU's framework for territorial cooperation is unknown and would depend on the EU-UK negotiations for Brexit.

However, it is the case that participation of non-EU countries in EU territorial cooperation programmes requires that the non-member state follow the relevant regulations and the policy direction set by the EU and it requires their financial contribution. The continued participation of Northern Ireland in EU cross-border programmmes post-Brexit would, therefore, depend on the UK's willingness to adhere to EU cohesion policy and its continued financial contribution.[93] Further, it would require the UK government to negotiate with the EU on behalf of the Northern Ireland Executive.

The other option is for cooperation to take place outside of the EU funding progarammes under its own legal framework. The Karlsruhe Agreement (1996) between France, Luxembourg, Germany and Switzerland supports cross-border cooperation between local and regional authorities and local public institutions in their common areas of competence. The legal framework could be the substantial partnership which already exists between the Irish and UK government and the Northern Ireland Executive.

[90] Centre for Cross Border Studies and Cooperation Ireland, Briefing Paper 3 Link provided above

[91] Centre for Cross Border Studies, Briefing Paper 3 p. 7. Link provided above

[92] Link to European Commission's overview of regional cooperation across external borders http://ec.europa.eu/regional_policy/en/policy/cooperation/european-territorial/outside-the-eu/

[93] Taillon Ruth (October 2016) 'Future scenarios: Cross border cooperation 'post Brexit'' Presented at seminar in Northern Ireland Office, Brussels 10 October 2016.

1.19 Business and Trade

Trade

In the short-term, the UK remains a member of the EU. As such, firms will continue to trade on the same terms as they did before the EU Referendum. The most immediate impact of the EU Referendum result on trade is that the fall in Sterling has served to make exports from Northern Ireland less expensive in international markets. This is already a notable development. The impact in the Republic, as outlined below, is that Irish businesses are finding it harder to export to the UK due to the fall in the value of Sterling[94]. Recent statistics from InterTradeIreland show that flows of cross-border shoppers (measured by occupancy of Irish registered cars in border shopping centres) increased from 43% in Q2 to 56% in Q3 2016.[95]

The Ulster Bank's first 'Purchase Manger's Index' (PMI)(a cross-sectoral survey of business, which provides a measure of business output and activity) since the Referendum found: [96]

> In contrast to the picture for total new business, new export orders increased during the month, as the weakness of sterling helped companies to secure new work from clients in the Republic of Ireland.[97]

However, businesses in Northern Ireland that import raw material for inclusion in their own products may face increased costs, as many of these commodities are traded in dollars, with Sterling weaker than the dollar in the currency market. This was also recognised in the Ulster Bank's PMI:

> Input prices increased at a much faster pace in July as the weakness of sterling resulted in higher costs for imported items.[121]

The longer-term picture is more uncertain. The deal struck between the UK and EU, following negotiations, will not determine only the barriers (or lack of) NI firms may encounter in accessing the EU Single Market, but may also determine the opportunities available to trade with the rest of the world.

NI sends the majority of its goods exports to the EU. In 2015, the EU was the destination of 55% of NI goods, down from 70% in 1996 (see Figure 2).

Figure 2: NI Goods exports EU and Non-EU proportion[98]

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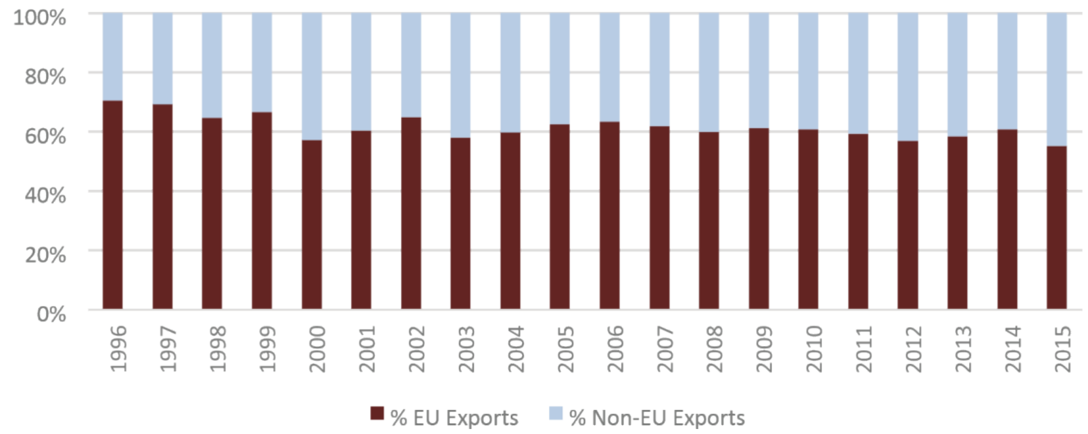
[94] 'Sterling fall demands urgent policy response' IBEC, 1 August 2016: http://www.ibec.ie/IBEC/Press/PressPublicationsdoclib3.nsf/vPages/Newsroom~sterling-fall-demands-urgent-policy-response01-08-2016?OpenDocument?OpenDocument#.WCswAVQYZaS.

[95] InterTradeIreland webpage, Crossborder Shopping available at http://www.intertradeireland.com/researchandpublications/trade-statistics/cross-border-shopping/

[96] The Ulster Bank Northern Ireland PMI (8 August 2016) https://ulstereconomix.com/2016/08/08/output-declines-for-first-timein-15months/#more-2021

[97] *As above*

[121] *As above*



Source: HMRC Regional Trade Database (October 2016)

The Republic is a significant market for produce from Northern Ireland. In 2015, 33% of all Northern Ireland goods exports went to the Republic, accounting for 61% of Northern Ireland's EU exports in the same year.[156]

Northern Ireland imports from the EU made up 55% of total imports in 2015, down from 62% in 1996. The Republic was the source of 27% of Northern Ireland's total imports (49% of all imports from the EU).

For Ireland, the longer-term effects of Brexit on trade are uncertain and are also predicated on the outcome of negotiations. In the immediate term, the fall in the value of Sterling has meant that Irish exports are less competitive in the UK market. The UK export market accounted for 13.8% of total Irish exports in 2015 (See Figure 3). Northern Ireland is a relatively small export market for Ireland, accounting for just 1.6% of total exports in 2015.[99]The UK was the source of 25.7% of Irish imports in 2015. From an overall trade perspective, therefore, the Republic is a much more significant trade market for Northern Ireland, than Northern Ireland is for the Republic, both in terms of export and imports.

[98] HMRC UK Trade Info, Regional Trade Database (extracted 18 October 2016)
https://www.uktradeinfo.com/Statistics/BuildYourOwnTables/Pages/Table.aspx [156]
As above
[99] Central Statistics Office, Trade Statistics (August 2016) p21
http://www.cso.ie/en/media/csoie/releasespublications/documents/externaltrade/2016/trade_aug2016.pdf

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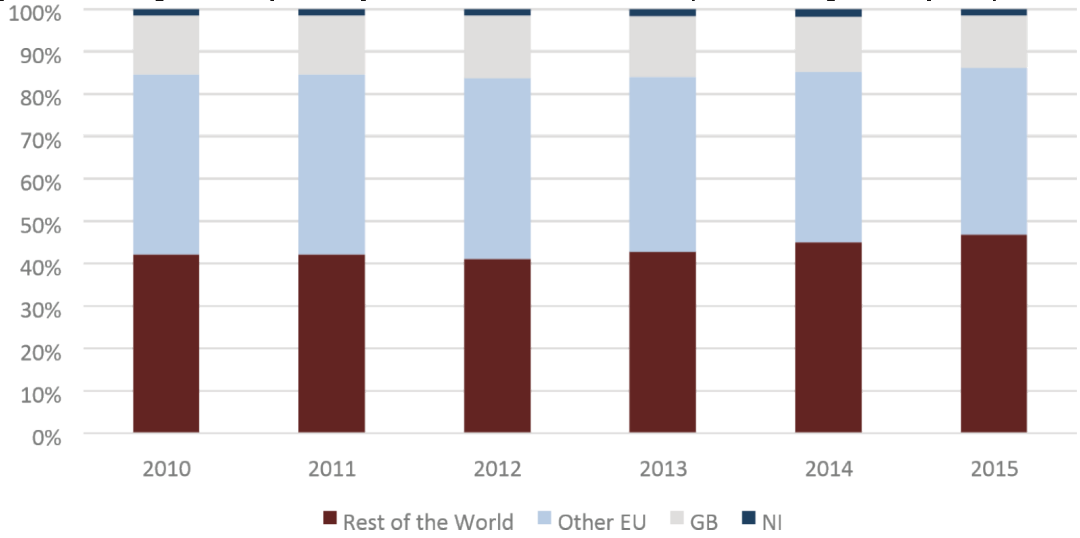
Figure 3: Irish goods exports by destination 2010 – 2015 (% of total good exports)[100]



Source: CSO Trade Statistics (August 2016)

The UK is a more significant market for Ireland, making up 13.8% of exports and 25.7% of imports. It should be noted, however, that the UK is a much more significant market for certain sectors. For example, 51% of all agriculture produce exports from Ireland were sold to the UK in 2015, compared to 10% of industrial produce exports.[101]

Foreign direct investment

The UK exit from the EU is likely to have impacts – positive and negative - on foreign direct investment (FDI) on both jurisdictions on the island of Ireland, on Northern Ireland as a region of a country no longer in the EU and the Republic as an EU Member State. The extent to which Brexit will impact FDI into Northern Ireland is likely to depend on:

- The deal struck between the UK and EU;
- The importance placed on single market access by investors;
- The impact on the effectiveness of the NI corporation tax rate; and,
- Invest NI's ability in the future to support investors beyond what is currently allowed under EU State Aid rules.

[100] *As above*

[101] *As above* p17

Currently, the Republic is the most common source market for foreign-owned business in Northern Ireland. Irish firms made up 32.8% (290) of all Northern Ireland foreign-owned business in 2015. When measured by associated employment, Irish businesses were responsible for 17.5% of all employment associated with foreign business in Northern Ireland, second to the US.[102]

The UK performs strongly in attracting FDI. According to the EY's attractiveness survey 2016, the four largest recipients of FDI projects in Europe over the last ten years have been the UK, Germany, France and Spain, with the UK securing the largest number of projects each between 1997 and 2015. In 2015, the UK's market share of European FDI rose to 20.9%, from 19.9% in 2014. [103]

UK Trade and Investment data on FDI into Northern Ireland between 2011/12 and 2014/15, summarised in Table 6, suggest that FDI from outside the EU has had a more significant impact on Northern Ireland than FDI from the EU. Between 2011/12 and 2014/15 a Northern Ireland attracted a total 207 FDI projects, of which 86 or 42% were from the EU. These projects resulted in the creation of a total of 13,219 new jobs in Northern Ireland, of which 2,075, or 16% were created by EU FDI projects. The same projects resulted in the safeguarding of 1,037 jobs, of which 84, or 8% were safeguarded by FDI projects from the EU.

Table 6: FDI projects in Northern Ireland 2010/11 to 2014/15[104]

	Northern Ireland
Total Projects	207
EU Projects	86
% EU Projects	42%
Total new Jobs	13,219
EU new jobs	2,075
% EU new jobs	16%

[102] *As above*

[103] EY's attractiveness survey, UK 2016 Positive rebalancing p9 (2016) http://www.ey.com/Publication/vwLUAssets/2016UKAttractiveness-Survey/$FILE/EY-UK-Attractiveness-Survey-2016.pdf

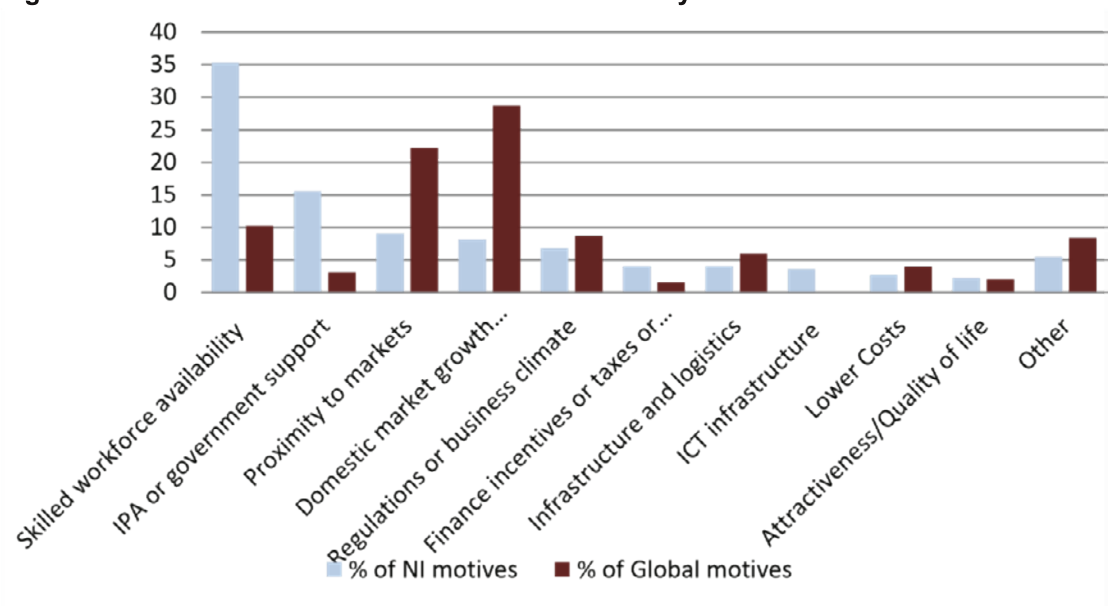
[104] UK Trade and Investment, Foreign Direct Investment projects by UK Region (2010/11 to 2014/15) (29 February 2016) https://www.gov.uk/government/publications/foreign-direct-investment-projects-by-ukti-regions-201011-to-201415/foreigndirect-investmentprojects-by-uk-region-201011-to-201415

	Total safeguarded jobs	1,037
	EU safeguarded jobs	84
88	% EU safeguarded jobs	8%

Source: UK Trade and Investment

FDI Intelligence data (2014), outlined in Figure 4, contrasts motivations cited by firms engaging in FDI globally, with those cited by firms engaging in FDI in Northern Ireland. The figure shows us that by a considerable margin, the availability of a skilled workforce was the most significant motivation of firms locating in Northern Ireland, followed by the existence of an Investment Promotion Agency (IPA) or government support. It further highlights that these factors are less significant globally. The main motivating factors for global FDI where domestic market growth potential and proximity to markets. This suggests, that factors that are likely to less affected by Brexit – IPA availability, and skills – are more important to investors locating in Northern Ireland than is the case for investors globally.

Figure 4: Motives of FDI in NI v Motives of FDI Globally[105]



Source: FDI Intelligence (2014)

WAVETEQ Limited (a spin-out company from the Financial Times that specialises in FDI consultancy) published a working paper on the impact of Brexit on FDI in July 2016. This found, that of the UK regions:

[105] Figure 1. Created with data from Barklie, G (2014). "Why are firms establishing a presence in NI?" fDi Markets [164] WAVETEQ Limited, The impact of Brexit on foreign direct investment into the UK: Recommendations for investment promotion strategy (July 2016) http://www.wavteq.com/Brexit/

> *FDI in Northern Ireland, Scotland and the South East (including London) would be at the highest risk* [from Brexit]*, with 70% of FDI in Northern Ireland and half of FDI in Scotland at risk due to the high concentration of FDI in knowledge-based sectors.*[164]

After Brexit, Ireland will be the only English speaking country within the EU. This is likely to create some opportunities for Ireland. As noted in the WaveTeq white paper:

> *It is therefore not surprising that Ireland and key cities in Europe including Amsterdam, Berlin, Brussels, Frankfurt and Paris are all considering rampingup their FDI promotion activities to win relocation and new FDI projects from the London.*[106]

However, a number of commentators have expressed a note of caution. For example, in July 2016 PwC stated:

> *The 'leave' result in the Brexit referendum was initially believed to be a good thing for Ireland, as it was thought that the UK would be a less competitive FDI proposition. However, this needs to be reconsidered as the UK would be free to create investment-friendly tax policies that may divert attention from Ireland as an FDI option.*[107]

Prior to the EU Referendum in the UK, the Economic and Social Research Institute published a report 'Scoping the possible economic implications of Brexit on Ireland'. On foreign direct investment the report claimed that the *'UK outside the EU would be less attractive to FDI because of uncertainty and reduced access to the EU single market'* and that a reduction in FDI could diminish future UK growth, which would negatively affect Irish growth due to a reduction in trade. The report plays down the possibility of the Republic benefiting from a drop-off in FDI into the UK. It states:

> *Ireland may attract additional FDI projects including some from the relocation of FDI from the UK. However, on the basis of patterns of the location choice of new FDI projects in Europe over the past ten years, the expected additional attractiveness of Ireland to new FDI projects is likely to be small.*[108]

The report's authors are, however, confident that Ireland will remain an attractive destination for FDI relative to the UK due to *'more competitive corporate taxation'.*

A further potential consequence of Brexit on FDI in Ireland is that foreign investors who established in Ireland, but whose largest market is the UK may consider relocating to

[106] WAVETEQ Limited, The impact of Brexit on foreign direct investment into the UK: Recommendations for investment promotion strategy (July 2016) http://www.wavteq.com/Brexit/

[107] PwC, Brexit the implications for Irish Business (July 2016) p3 http://www.pwc.ie/media-centre/assets/publications/2016-pwcirelandBrexit-booklet2.pdf

[108] ESRI, Scoping the possible economic implications of Brexit on Ireland (November 2015) https://www.esri.ie/pubs/RS48.pdf [168] WAVETEQ Limited, The impact of Brexit on foreign direct investment into the UK: Recommendations for investment promotion strategy (July 2016) http://www.wavteq.com/Brexit/

the UK if the *'new agreement between the UK and EU restricts the ability to service the UK from Ireland'.*[168]

1.20 Agri-Food

The agri-food sector encompasses primary production (agriculture or farming), food and drinks (excluding tobacco), and wood processing. The discussion below focuses on the primary production and food and drinks elements of agri-food, given their significance to Northern Ireland and the Republic.

There are almost 140,000 farms in the Republic and 25,000 in the North. Compared to the Republic, Northern Ireland's agricultural share is lower for both total gross value added (GVA)[109] (2.5% total GVA compared to 1%) and overall employment (5.5% compared to 3.2%) while farm sizes are bigger (32.5 ha in the Republic versus 40 ha in Northern Ireland).

From the outset, it is important to note that, as with other sectors, the exact impact of Brexit on the agri-food sector across the island of Ireland will only fully emerge when the terms of the UK's withdrawal become clear. Given its significance for both Northern Ireland and the Republic, as illustrated by the figures cited above, the impact of Brexit on agri-food is explored in detail in Paper 2 for the eighth meeting of the North South Inter-Parliamentary Association.

Paper 2 includes a brief background to the current round of the Common Agricultural Policy (CAP) (2014-2020) and the agri-food strategies in place North and South. It gives a short overview of the importance of the sector including statistics on farm sizes, types, farm incomes and also the gross value added (GVA) for the agri-food sector and employment figures. It also includes a comparison to Great Britain. The paper then provides a more detailed description of agriculture and the food and drinks sector for both the Republic and Northern Ireland, highlighting the social and economic importance of the sector and identifying key trends in trading. Finally the paper identifies the key/shared common challenges that the agri-food sectors North and South will need to address in light of 'Brexit' such as access to labour, access to markets – existing and new, and rising costs of materials due to currency fluctuations or potential tariffs. Having identified these issues the section poses a series of questions which may need to be considered if these key challenges are to be addressed.

Some key considerations regarding the agri-food sectors in Northern Ireland and the Republic are presented below. These rely heavily on the contents of *Paper 2 - Agri-food and Brexit*.

Farm incomes and impact of CAP payments

[109] See Eurostat definition at http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:GVA

Average farm income was €26,303 (€23,228 in disadvantaged areas in 2014) in the Republic in 2015 with dairy consistently the most profitable farming enterprise. Department of Agriculture and Rural Development (DARD) data for Northern Ireland from 2013-14 reveals that when measured across all farm types the average Farm Business Income with EU direct payments removed equated to £3,780 per farm. Direct payments under CAP are very important across Ireland but are more important to Northern Irish farmers. Worth on average €17,168 (32% in dairy to 109% in sheep) in the Republic, direct payments were 103% of the value of average farm business income in Northern Ireland in 2014-2015. In the Republic, the Border counties have the most disadvantaged land with lowest farm incomes and highest reliance on subsidies.

Characteristics of the food and drink sectors in Ireland and Northern Ireland

The food and drinks industry has a high degree of indigenous ownership and is dispersed across the country making it very significant for rural employment. The food and drinks sector accounts for 2.2% of GVA in Northern Ireland, has a gross turnover of £4,596 billion and employs over 21,000 people. Food and drinks exports were worth £1,289 billion in 2014. In the Republic, the food and drinks sector generated 5.1% of total GVA in 2014, employs 53,000 people and exported €10.83billion worth of food and drinks in 2015.

Imports and exports / cross-border trade

Great Britain is the largest market for food and drinks in Northern Ireland and the UK is the largest export market for the Republic.

Cross-border trade in food and drinks is high in comparison to other sectors and accounts for approximately one-third of all manufacturing cross-border trade. While cross-border trade from Northern Ireland to the Republic tends to be higher, cross-border trade is strong in both directions for dairy, beef, and sheep meat and drinks.

Challenges facing the long-term sustainability of the sectors

The abolition of milk quotas in 2015 was seen as the most fundamental change to farming this generation and there are many more challenges facing the long-term sustainability of Irish agriculture North and South. These include low farm incomes, price volatility on world markets (especially from the continuing depressed price of milk – no relaxation of Russian sanctions expected in the short-term), increased competition and currency differentials between sterling and the euro. The impact on farm businesses has been significant.

As Great Britain is our largest trading partner, Brexit will have major implications for the sector North and South. Impacts may include higher consumer prices for groceries sourced in the UK, negative effects on cross-border trade and pressure on North/South interdependence of certain sectors in particular dairy and sheep, freedom of movement of people and labour, and potentially diverging regulatory systems.

For further reading, see *Paper 2 - Agri-food and Brexit* on this topic.

1.21 Labour Market and Skills

This section of the paper will consider, briefly, some of the implications for the labour market and skills development as a result of Brexit.

The areas considered are:

- The Free Movement of Labour;
- The European Qualifications Framework;
- Tuition Fees;
- Higher Education Institutions and Horizon 2020; and, Other Issues.

The Free Movement of Labour

The Free Movement of Labour is one of the four freedoms of the European Union, enshrined within Article 3 (2) of the Treaty of the European Union and Article 45 of the Treaty on the Functioning of the European Union.

As stated by the European Parliament:[110]

It entails the abolition of any discrimination based on nationality between workers of the Member States as regards employment, remuneration and other conditions of work and employment.

It is not clear, at this point in time, how the negotiations on Article 50 will impact on the Free Movement of Labour. However, it is important to note that Northern Ireland and the Republic share a land border, which has a significant movement of people and trade across it on a daily basis.

Indeed, the Centre for Cross Border Studies (CCBS) estimates that between 23,000 to 30,000 people are cross-border workers.[111]

The links between the Republic and the UK in terms of cross-border working is highlighted by a study PwC carried out which found that in 2014 the Republic issued 15,000 new Personal Public Service Numbers to UK nationals and the UK issued 17,000 new National Insurance Numbers to Irish nationals.[172]

PwC stated that:[136]

Restrictions on movement of labour, may impact the current employment balance between Ireland North and South.

In addition, the CCBS stated that:[112]

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[110] European Parliament, Free Movement of Workers, http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_3.1.3.htm l

[111] Centre for Cross Border Studies, EU Reference Briefing Paper 4, http://crossborder.ie/site2015/wpcontent/uploads/2016/06/CCBS-and-Cooperation-Ireland-EU-ReferendumBriefing-Paper-4.pdf [172] PwC, Brexit: The Implications for Irish Businesses http://www.pwc.ie/mediacentre/assets/publications/2016pwc-ireland-Brexit-booklet2.pdf [136] As above

Amongst these cross-border workers are some who are neither UK nor Irish citizens, and are instead citizens of other EU countries, and their situation in a post-Brexit' context would be uncertain.

It should be noted that in relation to the CTA, which allows freedom of movement between the two jurisdictions (see Section 3), the CCBS notes that:

A Brexit would mean that of the two sovereign states responsible for the CTA only Ireland would remain a signatory to the EU Treaties and, therefore, the CTA's continuation would become a matter for renegotiation involving the UK, Ireland and the EU.

The impact on the free movement of labour will, therefore, be determined by the terms which are negotiated between the UK and Irish governments bilaterally and between the UK and the EU on the terms of the UK's exit.

European Qualifications Framework

The European Qualifications Framework (EQF) is a translation tool that aids communication and comparison between qualifications systems in Europe.[113]

As stated by the European Commission:[176]

This allows any national qualifications systems, national qualifications frameworks (NQFs) and qualifications in Europe to relate to the EQF levels. Learners, graduates, providers and employers can use these levels to understand and compare qualifications awarded in different countries and by different education and training systems.

The EQF facilitates free movement by allowing employers to easily compare qualifications.

Given the regular movement across the border of workers, especially those who live in border regions, the loss of the EQF may create problems in having qualifications recognised impacting on both employees and employers.

Tuition Fees

Under the existing arrangements, as EU citizens, students traveling from Northern Ireland to the Republic and from the Republic to Northern Ireland are subject to the

[112] Centre for Cross Border Studies, EU Reference Briefing Paper 4, http://crossborder.ie/site2015/wpcontent/uploads/2016/06/CCBS-andCooperation-Ireland-EU-Referendum-Briefing-Paper-4.pdf

[113] European Commission, Learning Opportunities and Qualifications in Europe,

https://ec.europa.eu/ploteus/search/site?f%5B0%5D=im_field_entity_type%3A97 [176]

As above **94**

same fees as domestic students.[114] As such, a student from the Republic studying in Northern Ireland will pay tuition fees of £3,925 (2016/17). Conversely, a student from Northern Ireland studying in the Republic will pay a Contribution Charge (there are no tuition fees in the Republic but students must pay towards student services and examinations) the maximum rate of which for the academic year 2016-2017 is €3,000.

However, once the UK leaves the EU, and if no other arrangements are in place, a student from the Republic will be declared an international student and as a result could see their tuition fees rise from between £12,495 to £33,170 (depending on their course of study and university).[115] This situation will also exist for students traveling from Northern Ireland to the Republic.

This could create a number of issues, including:

- Student flows North and South may be reduced; and,
- Increased pressure on domestic HEIs in Northern Ireland for places, potentially resulting in grade inflation.

HEIs and Horizon 2020

Horizon 2020 funds a large range of Research, Development and Innovation (RD and I) projects across the EU.

A large portion of this research is carried out through partnerships formed between Higher Education Institutes, and Northern Ireland and the Republic are involved in such partnerships.

As stated by Gerry O' Sullivan of the Higher Education Authority (HEA):[116]

> *Ireland and the UK are the only two English-speaking countries, so we're a natural partner for that country. We also have centuries of historical connectivity, and we of course share a border in this country with them, so they're an obvious partner in this country.*

Whilst the available data on Horizon 2020 is limited, between January and September 2014, Northern Ireland made 290 applications for funding of which 109 involved North/South working, with Northern Ireland drawdown for these projects valued at £5.3 million.[117]

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114 Student Finance NI, Frequently Asked Questions, http://www.studentfinanceni.co.uk/portal/page?_pageid=54,1267465&_dad=portal&_schema=PORTAL#section7_1

115 Northern Ireland Assembly, RaISe, Economic Impact of International Students in NI, http://www.niassembly.gov.uk/globalassets/documents/employment-and-learning/research-papers/11.-raise---economicimpact-ofinternational-students-in-ni-final.pdf

116 University Times, 22 June 2016, Brexit and the Uncertain Future of Irish Higher Education, http://www.universitytimes.ie/2016/06/Brexit-and-the-uncertain-future-of-irish-higher-education/

117 Department for the Economy, NI Horizon 2020, https://www.economy-ni.gov.uk/articles/ni-horizon-2020

Whilst no data was found on the breakdown of university involvement in North/South projects, it was found that higher and secondary education in Northern Ireland had 25 successful applications, out of the 37 made by organisations based in Northern Ireland.

It is possible that the UK could become recognised as a third party contributor to Horizon 2020 and, potentially any successor programmes. However, it is still too early to state how likely this may be.

Other Issues

This section considers some wider issues which may be of interest:

- **EURES:** This is the European Job Mobility Portal. EURES provides a cross-EU information, advice and recruitment service.[118] It links the various Public

  Employment Services (PES) in each EU Member StateStae (in Northern Ireland this is the Jobs and Benefits Offices, in the Republic this is provided by Intreo), allowing jobseekers to search for employment across the EU 28. It plays a particular role in cross-border areas, supporting those who work cross-border (or those seeking work) in regards tackling any administrative, legal or fiscal barriers they may face. The border between Northern Ireland and the Republic is one of twelve EURES cross-border partnerships.[119] It is unknown what the impact of Brexit will be on the services provided by EURES; and,

- **Social Security Coordination (SSC):** The EU provides common rules to protect an individual's rights when moving across the EU.[120] SSC ensures that when an individual is working in a different EU country than the one in which they are a domestic resident they have access to the same rights and obligations as the nationals of the country they are in. In addition, if you make a contribution to the social security institutions in one country, you can receive it (generally) if living in another. Again, it is not known at this stage how Brexit will impact on SSC.
  However, it should be noted that currently the EU28 + Iceland, Liechtenstein, Norway and Switzerland are all included within SSC.[146]

[118] EURES, What can EURES do for you?, https://ec.europa.eu/eures/public/en/what-can-eures-do-for-you?lang=en&app=0.9.1-build-3&pageCode=about_eures

[119] EURES, EURES in cross-border regions, https://ec.europa.eu/eures/public/en/eures-in-cross-borderregions?lang=en&app=0.9.1-build3&pageCode=cross_border#/details/46

[120] European Union, Employment, Social Affairs and Inclusion, EU Social Security Coordination, http://ec.europa.eu/social/main.jsp?catId=26&langId=en [146] As above

1.22 Tourism

The Northern Ireland Executive's draft Programme for Government Framework 2016 to 2021 seeks to *'improve Northern Ireland's attractiveness as a destination'.* Progress on this indicator will measured by *'total spend by external visitors'.*[121] Similarly, the Irish Government's Programme for Government includes tourism policy goals set for 2025 to increase revenue from overseas visitors to €5billion, growing employment in the tourism sector to 250,000 (from 200,000 currently) and increasing the number of visits to Ireland to 10 million.[148]

In 2015, 28% of external overnight trips (total number of trips: 2,284,889) to Northern Ireland were made by visitors from the Republic and mainland Europe.[122] Comparatively, 57% of external overnight trips were made by visitors from Great Britain, whilst 16% were made by visitors from the rest of the world. If visitors from Great Britain are excluded (total number of trips, excluding Great Britain: 989,470), 64% of out-of-state overnight trips were made by visitors from the Republic and mainland Europe, compared to the 36% made by visitors from the rest of the world.[123]

By comparison, 40% of overnight visitors (of 7,749,000) in 2015 to the Republic were from Great Britain, 37% from the rest of Europe, 16% from USA and Canada and 6% from all other areas.[189] Taken as a whole island, 14% of visitors to the island of Ireland in 2015 came to Northern Ireland and 76% to the Republic.[124]

Expenditure by external visitors totalled £540.75m in 2015. Of this, 51% of total expenditure came from visitors from Great Britain, 28% from visitors from the Republic and mainland Europe, and 22% came from visitors from the rest of the world. If visitors from Great Britain are excluded, total expenditure from visitors outside the UK equalled £266.42m. Of this. 56% came from visitors from the Republic and mainland Europe, and 44% came from visitors from the rest of the world. By comparison, 28% of revenue from visitors to the Republic was from visitors from the USA, 20% from the rest of Europe (excluding Great Britain), 15% from the rest of the world and 10% from Great Britain.

The impact of the EU Referendum result on tourism in Northern Ireland and the Republic is unclear at present. For Northern Ireland, one immediate impact is that the fall in the value of Sterling may serve to make holidaying in Northern Ireland more attractive to visitors from outside the UK. Moreover, in making holidays outside the UK more expensive for tourists

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[121] Department for the Economy, Tourism and the Programme for Government 2016 to 2021 https://www.economyni.gov.uk/topics/tourism

[148] Irish Government (2016), *A Programme for a Partnership Government*, Dublin: Irish Government: http://www.merrionstreet.ie/merrionstreet/en/imagelibrary/programme_for_partnership_government.pdf.

[122] Note: source data does not disaggregate EU from 'mainland Europe'.

[123] Department for the Economy, External Overnight Trips to Northern Ireland additional tables (26 May 2016) https://www.economy-ni.gov.uk/sites/default/files/publications/economy/External-Overnight-Trips-2015-Tables-for-Online.xlsx

[189] Table 2a, *Percentage of overseas trips to Ireland by non-residents with at least one overnight in Ireland, cross-classified by area of residence and reason for journey, years 2014 and 2015*, Central Statistics Office (CSO): http://www.cso.ie/en/releasesandpublications/er/tt/tourismandtravelquarter22016/.

[124] Tourism Ireland (2016), *Island of Ireland: Overseas Tourism Performance*, Dublin: Tourism Ireland: https://www.tourismireland.com/TourismIreland/media/Tourism-Ireland/Research/Facts-and-Figures-2015.pdf?ext=.pdf.

from Northern Ireland the fall in the value of Sterling may also encourage domestic tourism. These points were raised by Ulster Bank economist Richard Ramsey in a recent Belfast Telegraph article:

> *As with trade, the immediate impact from a weaker pound makes NI a competitive destination for tourists.*
>
> *Not least with our nearest neighbour the Republic of Ireland. The local tourism industry could also be given a boost via the 'staycation' market due to the increased cost for NI people of holidaying in other currency zones, including the Republic of Ireland.*[125]

The impact of Sterling's devaluation may not be entirely positive for the tourism industry in Northern Ireland however. As noted in the same article.

> *Input cost inflation, notably food and energy, will be an unwelcome development.*[192]

In the longer-term, should a hardened border result from the post-EU Referendum settlement, it is possible that this could negatively impact Northern Ireland's tourism industry should such a development serve to deter cross-border travel by visitors from the Republic or international visitors entering the island through the Republic. It should be noted the future of the border is presently unclear. Following a meeting with the First and Deputy First Ministers the Prime Minister, Theresa May, stated that a *'practical solution'* would be sought:

> *If you look ahead, what is going to happen when the UK leaves the European Union is that of course Northern Ireland will have a border with the Republic of Ireland, which will remain a member of the European Union.*
>
> *But we've had a common travel area between the UK and the Republic of Ireland many years before either country was a member of the European Union.*
>
> *Nobody wants to return to the borders of the past. What we do want to do is to find a way through this that is going to work and deliver a practical solution for everybody - as part of the work that we are doing to ensure that we make a success of the United Kingdom leaving the European Union - and that we come out of this with a deal which is in the best interests of the whole of the United Kingdom.*[126] The Irish Tourism Industry Confederation has raised a number of concerns regarding the impact of the UK withdrawal on the Irish tourism industry, including

[125] The Belfast Telegraph, Economist Richard Ramsey on the 10 ways Brexit will impact us (24 June 2016) http://www.irishnews.com/business/2016/06/24/news/economist-richard-ramsey-on-10-ways-Brexit-will-impact-on-us-578502/ [192] *As above*
[126] BBC News, Theresa May on NI post-Brexit: 'No-one wants return to borders of the past' (25 July 2016)

- Reduced spending by British visitors due to the lower value of Sterling to the Euro
- The impact of a hard border on tourism and business

- The future of common visa arrangements between the UK and the Republic, such as those for visitors from China and India
- The degree to which the EU will allow UK-Irish agreements on the border and immigration
- The impact on Irish airlines in the EU Open Skies regime, where airlines have to be at least 50% owned and controlled
- The effects on air traffic should the UK not be part of the European Common Aviation Area

However, the general approach for the time being is 'business as usual' until more is known of the actual repercussions of Brexit, as the CEO of Tourism Ireland has stated[127]:

> *Although it is still too soon to fully understand the long-term implications of Brexit for tourism to the island of Ireland, we had a very useful discussion with tourism industry leaders today. The British market will remain of significant importance for all of us in the short, medium and long-term. We have committed to continued monitoring of developments over the coming months. But, for now, it is very much business as usual. Tourism Ireland's €4 million promotional campaign will roll out in Britain from now until the end of the year, to highlight the island of Ireland to prospective visitors and maintain the strong growth we have seen in recent years*.

Tourism may also be impacted by changes to state aid resulting from the UK's exit from the EU. Should the negotiated relationship between the UK and the EU result in a relaxation of state aid rules, this could, in theory, create the circumstances whereby Air Passenger Duty (APD) in Northern Ireland could be reduced or abolished. The removal of state aid restrictions and their ability to constrain connectivity via support for airlines and airports, have been identified as a potential post-Brexit opportunity by the First Minister.[128]

[127] 'Tourism Ireland post-Brexit briefing and update on the British market', Tourism Ireland press release 21 July 2016: https://www.tourismireland.com/Press-Releases/2016/July/Tourism-Ireland-post-Brexit-briefing-and-update-on.

1.23 Energy

There is a long-standing history of co-operation between the Republic and Northern Ireland on energy policy. This has been recognised in the development framework for the All-Island Energy Market:

> Co-operation on common energy issues has been long standing, with both Governments having a shared interest in more competitive energy markets, reduced energy costs and improved reliability of supply. This work is set against the background of the European Union's (EU) single market for electricity and natural gas and the growing regionalisation of markets.[129]

The outcome of the UK referendum has given rise to many unknowns at this stage. It does appear, however, that energy will be an important consideration in the future, given cooperation achieved to date and security of supply for both the Republic and Northern Ireland. The importance of energy for Northern Ireland specifically was highlighted in the response of the First Minister and deputy First Minister of Northern Ireland to the UK referendum. This is reflected in the August 2016 letter from First Minister and deputy First Minister letter to the Prime Minister, in which they state:

> Thirdly, energy is a key priority, given that there are inherent cost and supply issues in a small isolated market so we will need to ensure that nothing in the negotiation process undermines this vital aspect of our economy.[130]

Energy dependency shows the extent to which an economy relies upon imports in order to meet its energy needs.[199] It constitutes a significant part of the context within which energy policy operates. Dependency on a particular energy source can also be important, and is illustrated in the fuel mix of a given jurisdiction. These concepts are briefly explored in this section, before turning to an overview of specific policy initiatives, including in the context of Brexit.

Energy dependency in Ireland and Northern Ireland

The Republic was the fourth most energy dependent EU Member State in 2014, importing 85.3% of the energy it consumed.[131] The Republic's energy market is particularly heavily reliant on its connection to the UK market. More than 90% of the €6.5bn of energy products that the Republic imported in 2014 (3.6% of real GDP) came from the UK.[201] The UK energy market is connected to both mainland Europe

[129] *All-Island Energy Market - A Development Framework* available at http://www.dccae.gov.ie/energy/SiteCollectionDocuments/Electricity/All%20island%20Energy%20Market%20Development%20Framework.pdf
[130] Quoted in RaISe (2016) *EU Referendum Update*. Available at http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2016-2021/2016/executive_office/4616.pdf [199] As defined by Eurostat webpage, *Energy dependence*. Available at http://ec.europa.eu/eurostat/web/productsdatasets//tsdcc310
[131] Eurostat news release, *Energy dependency in the EU*. 4th February 2016. Available at http://ec.europa.eu/eurostat/documents/2995521/7150363/8-04022016-AP-EN.pdf/c92466d9-903e-417c-ad76-4c35678113fd [201] National Treasury Management Agency (NTMA) (2015), *Brexit and its Impact on the Irish Economy*. Available at http://www.ntma.ie/download/BrexitIrish%20Economy.pdf

and Norway. It is less dependent on imports than the Republic given its North Sea reserves , although its energy imports from Europe are increasing mainly because reserves of natural gas in the North Sea are declining. The UK had an energy dependence rate of 45.5% in 2014, according to Eurostat figures. Northern Ireland is dependent on imported gas to meet its generation needs and is therefore susceptible to the volatility of world energy prices. As noted in the Strategic Energy Framework (SEF) regarding Northern Ireland: *Our position on the western periphery of Europe with few fossil fuel sources creates a near 100% dependence on imports to meet our energy needs. This dependency creates uncertainty in terms of security of supply and exposes Northern Ireland to the volatility of world energy prices.*[132] *Fuel mix and energy trends in Ireland and Northern Ireland The Sustainable Energy Authority of Ireland (SEAI) publishes regular statistical information on energy in the Republic. Its Energy in Ireland 1990 – 2014 2015 edition illustrates, inter alia, the trend in energy supply over the period 1990 – 2014. This data is reproduced in Table 7 and emphasises changes in the fuel mix over the period. The SEAI explains that the Republic's: …energy supply is discussed in terms of changes to the total primary energy requirement (TPER). It explains that this is defined as the total amount of energy used within Ireland in any given year and includes the energy requirements for the conversion of primary sources of energy into forms that are useful for the final consumer, for example electricity generation and oil refining.*

[132] Department for the Economy, Strategic Energy Framework (July 2010) p6 https://www.economyni.gov.uk/publications/energy-strategic-framework-northern-ireland

As Table 7 shows, fossil fuels accounted for 90% of all energy used in the Republic in 2014. Oil continues to be the dominant energy source, having roughly a 47% share in both 1990 and 2014. Use of natural gas fell in 2014 by 3.1% and its share of TPER was 28%. Total renewable energy increased by 13.3% during 2014, with all forms of renewable energy experiencing growth. The overall share of renewables in primary energy stood at 7.7% in 2014.

Table 7: Growth rates, quantities and shares of total primary energy requirement (TPER) fuels in Ireland, 1990-2014

	Growth %	Average annual growth rates %					Quantity (ktoe)		Shares %	
	1990 – 2014	'90 – '14	'00 – '05	'05 – '10	'10 – '14	2014	1990	2014	1990	2014
Fossil Fuels (Total)	28.6	1.1	2.5	-1.8	-3.7	-1.5	9,330	12,001	98.2	90.4
Coal	-39.4	-2.1	0.8	-8.0	0.4	-4.6	2,085	1,262	22.0	9.5
Peat	-44.2	-2.4	-0.4	-1.1	0.8	6.2	1,377	768	14.5	5.8
Oil	41.3	1.5	3.0	-4.4	-3.8	-0.8	4,422	6,249	46.6	47.1
Natural Gas	157.3	4.0	2.6	6.2	-5.7	-3.1	1,446	3,721	15.2	28.0
Renewables (Total)	508.8	7.8	9.7	13.0	10.4	13.3	168	1,021	1.8	7.7
Hydro	1.7	0.1	-5.7	-1.0	4.3	18.2	60	61	0.6	0.5
Wind	-	-	35.4	20.4	16.2	13.2	0	442	-	3.3
Biomass	188.2	4.5	9.8	3.1	9.6	13.9	105	304	1.1	2.3
Other Renewables	8971.1	20.7	8.9	33.7	3.9	11.6	2	214	0.0	1.6
Non-Renewable (Wastes)	-	-	-	-	64.8	9.1	-	63	-	0.5
Electricity Imports (net)	-	-	83.6	-25.5	46.2	-4.2	-	185	-	1.4
Total	**39.7**	**1.4**	**2.8**	**-1.4**	**-2.6**	**-0.5**	**9,497**	**13,270**		

Source: SEAI (2016) *Energy in Ireland 1990 – 2014*, 2015 Report[133].

The Analytical Services Unit of the Northern Ireland Department of Enterprise, Trade & Investment has published information on total energy consumption[134] in Northern Ireland using an amalgamation of sources including the DECC total final energy consumption data[210] (which excludes electricity and gas for Northern Ireland) mentioned above, electricity consumption data (published by DETI and sourced from NIE Networks) and gas consumption data (as published by the Utility Regulator). This is reproduced in Table 6 below.

Table 6 shows that some 46,264 GWh of energy was consumed in Northern Ireland in 2013 (13,784 GWh from electricity and gas and 32,480 GWh from other fuels). This was equivalent to 3.2% of the total energy consumption in Great Britain in that year. The table also shows that gas consumption increased annually between 2009 –and 2013, whilst electricity consumption fluctuated. Total energy consumption in Northern Ireland increased between 2012 and 2013 but was still below the 2009 level.

[133] Available at http://www.seai.ie/Publications/Statistics_Publications/Energy_in_Ireland/Energy-in-Ireland-1990-2014.pdf.
[134] This excludes any gas or coal consumption by power stations in Northern Ireland. Also, energy consumption by aviation (air transport) and shipping (national navigation) are excluded from the DECC total final energy consumption data. [210] Rounded to nearest GWh.

Table 8: Total energy consumption in Northern Ireland (GWh), 2009 - 2013

	2009	2010	2011	2012	2013
Electricity	8,049	8,432	8,235	8,095	8,181
Gas	3,984	4,487	4,834	5,008	5,603
Total Electricity and Gas	12,033	12,919	13,069	13,103	13,784
Plus DECC final energy consumption (excluding electricity and gas)	35,291	36,815	32,976	31,523	32,480
Equals Total Energy Consumption in Northern Ireland	**47,324**	**49,734**	**46,045**	**44,626**	**46,264**
Total Energy Consumption in GB[111]	1,506,847	1,510,205	1,447,081	1,435,022	1,426,912
NI as a % of GB	3.1%	3.3%	3.2%	3.1%	3.2%

Source: Department of Enterprise, Trade & Investment (2016) *Energy in Northern Ireland 2016*.[211]

Notes: The GB total includes a small amount of unallocated consumption (i.e. consumption that could not be allocated to any particular UK region.
The Department for Energy and Climate Change (DECC) publish total final energy consumption datasets covering each region of the United Kingdom. There are, however, no gas or electricity data [212] included for Northern Ireland due to “the differences in market structure”. Petroleum products are the largest contributor to these other sources of consumed energy, generally accounting for around 90% of consumption in each year 2005-2013.

Imports, exports and transfers of electricity

Northern Ireland is connected to the Republic’s electricity networks via the North/South tielines. Table 9 illustrates trends in annual imports, exports and transfers of electricity between the two jurisdictions over the periods 2002 – 2014 and 2015 Q1 to Q3. It shows that Northern Ireland was typically a net exporter of electricity to the Republic between 2002 to 2013 with the exception of 2003. As shown above, total electricity consumption in Northern Ireland was around 8,000 GWh in 2014.

The position was reversed in 2014, when the Republic exported more electricity to Northern Ireland than it received in imports from this source. Data for the first three quarters of 2015 show this new trend continuing with the Republic exporting more electricity to Northern Ireland than it imported.

211 Available at https://www.economy-ni.gov.uk/sites/default/files/publications/deti/energy-northern-ireland-2016.pdf.

212 Department of Enterprise, Trade & Investment (2016) *Energy in Northern Ireland 2016*. Available at https://www.economyni.gov.uk/sites/default/files/publications/deti/energy-northern-ireland-2016.pdf

Table 9: Annual imports, exports and transfers of electricity (GWh), 2002 – 2014 and 2015 Q1 to Q3

Year	Imports	Exports	Transfers	
	Ireland → NI	NI → Ireland	Scotland → NI	NI → Scotland
2002	140.43	147.98	815.51	0.00
2003	119.35	86.28	1011.92	0.00
2004	0.32	1574.21	2793.08	0.00
2005	1.14	2074.16	1687.02	0.17
2006	9.93	1787.94	941.01	35.69
2007	53.27	1381.99	1729.77	2.22
2008	151.56	373.33	700.14	155.25
2009	85.30	452.20	1950.88	14.17
2010	146.31	378.12	2298.14	0.69
2011	119.56	365.86	1769.07	0.00
2012	140.72	293.99	2164.31	1.93
2013	156.49	203.19	1551.37	10.74
2014[66]	229.65	118.67	1108.81	64.77
2015 Q1-Q3[67]	210.84	65.98	532.43	341.70

Source: Department of Enterprise, Trade & Investment (2016) *Energy in Northern Ireland 2016*.[135]

Notes: Northern Ireland has connection to the Scottish electricity networks via the Moyle Interconnector.

It is not clear what impact UK withdrawal from the EU would have on the energy market at present. Any increase in energy prices would be a concern for policy makers given the importance of energy prices for households and the wider economy. Should future trade arrangements increase the cost of importing energy into the UK, this could negatively impact domestic and business consumers in Northern Ireland. With 42% of households in Northern Ireland in fuel poverty (the highest proportion in the UK), a sustained rise in fuel prices could have a significant impact on households. Electricity prices in the Republic also currently benefit from access to the cheaper UK market.

All-island Single Electricity Market (SEM)

An All-island Single Electricity Market (SEM) has existed since 2007, operating in the Republic and Northern Ireland. The SEM is a wholesale electricity market that allows energy to be freely tradeable across the island. It serves to reduce the cost of electricity whilst enhancing security of supply and reliability.

[135] Available at https://www.economy-ni.gov.uk/sites/default/files/publications/deti/energy-northern-ireland-2016.pdf.

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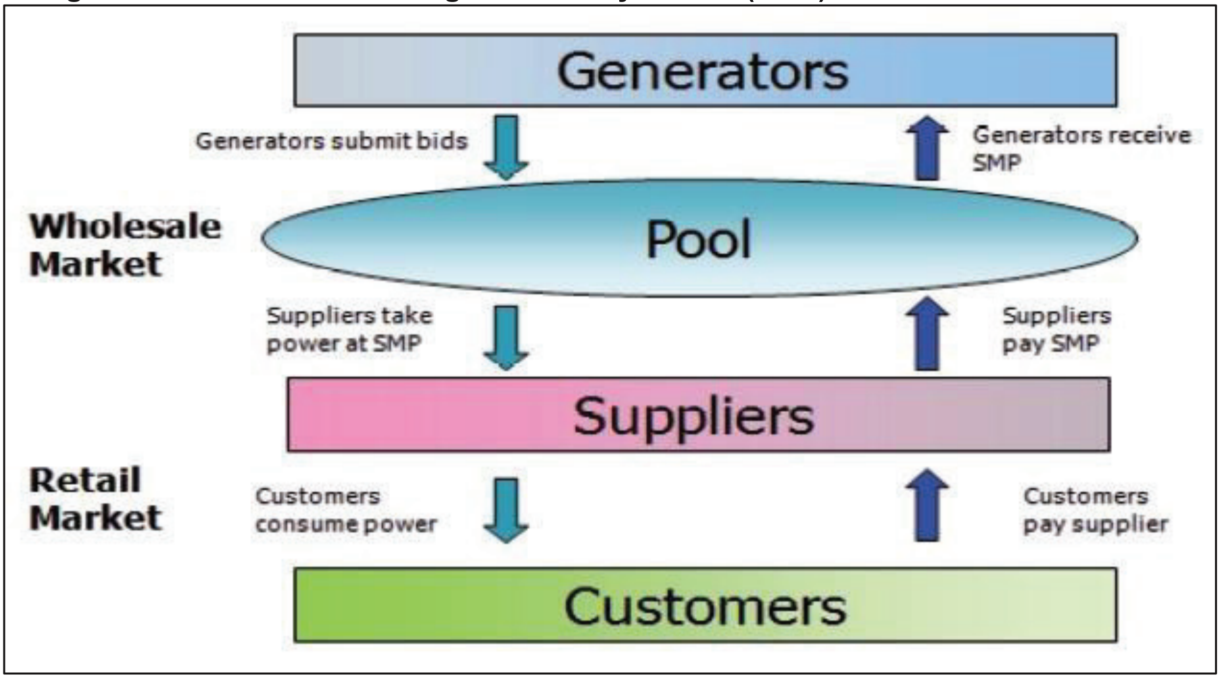
All electricity across the island is bought and sold through a single pool, which has increased competition, efficiency and security of supply.[136] The operation of the single wholesale market requires the physical connection of the grids in Northern Ireland and the Republic. The design of the SEM includes two main components - energy and capacity. Figure 5 provides a high level overview of how the SEM operates.

Figure 5: Overview of the Single Electricity Market (SEM)



Source: CER (2011), *CER Factsheet on the Single Electricity Market*.[137] **Notes:** System Marginal Price (SMP).

The SEM is jointly regulated by the CER (the Republic) and the Utility Regulator (Northern Ireland). The Single Electricity Market Committee (SEMC) is the decision making authority for all Single Electricity Market (SEM) matters.[138] It consists of three CER and three Utility Regulator representatives along with an independent and a deputy independent member.[139]

The SEM is operated by the Single Electricity Market Operator, a joint venture between EirGrid[218] and SONI.[140] It has been noted that the SEM became one of the first of its kind in Europe when it combined what were two separate jurisdictional

[136] Utility Regulator webpage, *SEM*. Available at https://www.uregni.gov.uk/sem

[137] Available at https://www.cer.ie/docs/000262/cer11075.pdf.

[138] Established in 2007 following the introduction of the SEM, legislation required the establishment of SEM governance in the form of a SEM Committee.

[139] More information is available on the website of the SEMC at https://www.semcommittee.com/about-us [218] EirGrid website: http://www.eirgridgroup.com/about/.

[140] SONI website: http://www.soni.ltd.uk/.

electricity markets.[141] The 2014 *Green Paper on Energy Policy in Ireland* by the Republic's government also highlighted the achievements of the SEM: The successful establishment in 2007 and subsequent operation of the all-island Single Electricity Market (SEM) has been hailed as an exemplar of regional cooperation by the EU and has provided cost reflective wholesale electricity, competition, transparency, greater consumer choice, diversity of generation, security of supply and increased renewable penetration. It has exerted downward pressure on electricity prices and has also attracted new market entrants.[175] On the operation of the SEM, the CER has stated: Since its establishment on 1st November 2007, the SEM has delivered transparent and efficient wholesale electricity prices and has provided for the dispatch of the cheapest generators across the island to meet demand. This has helped to attract new investment in modern generation capacity, for example gas-fired plants and wind farms. Overall the SEM has helped to keep electricity prices competitive, ensure security of supply and provide environmental benefits. In the future the SEM is expected to continue to develop through incremental changes, with the SEM Committee working to address the key challenges such as accommodating increased levels of intermittent renewable generation and further integration of the European electricity market.[222] It is unclear whether the All-island Single Electricity Market and the current process of redesign will continue to be feasible post-Brexit.[142] It has been suggested that arrangements on the SEM would be a matter for future negotiation: As there is a voluntary SEM on the island of Ireland – going beyond any EU requirements – arrangements to preserve the status quo would also have to be negotiated, assuming that the UK and Irish authorities would wish to continue with the SEM in the first place. Vivid Economics has assessed the impact of the UK being excluded from the SEM on the UK economy at £500m per annum in the medium term.[143] Commenting on the future viability of the SEM in evidence to the Northern Ireland Affairs Committee, the Northern Ireland Utility Regulator, however, stated: Given that the genesis of the SEM was neither an EU nor a UK requirement...any decision by the UK to leave the UK would be unlikely to undermine the economic case for a wholesale electricity market on the island […] in principle, there is no reason why wholesale electricity

[141] CER (2011), *CER Factsheet on the Single Electricity Market*. Available at https://www.cer.ie/docs/000262/cer11075.pdf [175] Department of Communications, Energy and Natural Resources (2014) *Green Paper on Energy Policy in Ireland*. Available at http://www.dccae.gov.ie/energy/SiteCollectionDocuments/Energy-Initiatives/DCENRGreenPaperonEnergyPolicyinIreland.pdf [222] CER (2011), *CER Factsheet on the Single Electricity Market*. Available at https://www.cer.ie/docs/000262/cer11075.pdf

[142] RaISe (2016) *EU Referendum Update*. Available at http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2016-2021/2016/executive_office/4616.pdf

[143] PPAN (2016), *Brexit – Energy and Carbon Implications*. Available at http://www.ppan.ie/wpcontent/uploads/2016/07/Brexit-Energyand-Carbon-5-July.pdf

flows between ROI and NI, or between either part of the island and the UK mainland should be affected by Brexit.[144]

A similar view was put forward in an Oxford Institute for Energy Studies paper in February 2016:

> Since 2007 there has been an all-Ireland electricity market, with the state-owned Eirgrid of the Republic owning the grid north and south and acting as the transmission system operator. Northern Ireland increasingly imports electricity from the Republic which in turn is increasingly dependent on gas imports from the UK. In principle, there is no reason why these flows should be affected by a possible Brexit; by leaving the EU the UK would step outside the EU's common external tariff system, but wholesale energy trade is not subject to tariffs anyway. Moreover, the single Irish electricity market is underpinned by UK and Irish legislation, and not EU legislation.[226]

Gas market developments

Since 2008, relevant bodies had been engaged in the development of the Common Arrangements for Gas (CAG) project. The CAG is a cross-border project, lead by the CER and the Utility Regulator, the aims of which are to:

> create fair and transparent arrangements across the island of Ireland. Its aim is to deliver a market where stakeholders on the island of Ireland could buy, sell and transport natural gas and that the market could be operated, developed and planned effectively on an all-island basis for the benefit of consumers on the island.[227]

The CER and Utility Regulator signed a Memorandum of Understanding (MoU) on 14th February 2008 in relation to CAG under the All-Island Energy Market Development Framework.[228] Under the MOU, the Regulators worked to develop plans to operate the gas transmission systems in Ireland and Northern Ireland on a single, all-island network basis.

The CAG project has since been overtaken by EU internal gas market developments, specifically requirements to implement new European Gas Network

144 House of Commons, Northern Ireland Affairs Committee, written evidence to the Committee's inquiry into Northern Ireland and the EU, letter from the Northern Ireland Utility Regulator (24 March 2016). Available at

Code rules in each respective jurisdiction, i.e. the Republic and Northern Ireland.[229] This requires the implementation, within specified timeframes, of binding EU gas network codes set out in EU legislation and aim to enhance trading in gas between Member States.[230] These EU Network Codes will apply to gas interconnection points throughout Europe and include harmonised principles for tariffs, capacity allocation, congestion management, transparency requirements and balancing. [231] The Department, the Commission for Energy Regulation (CER) and the system operators for electricity and gas are working with their counterparts both at regional and EU levels towards electricity and gas market integration. The focus is currently on the development of Framework Guidelines and network codes (market rules) relating to both the electricity and gas markets which will apply across the EU.

http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/northern-ireland-affairscommittee/northern-ireland-and-the-eu-referendum/written/31435.html

226 The Oxford Institute for Energy Studies, the UK in the EU - Stay of Leave? The balance sheet on energy and climate policy (February 2016). Available at https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/02/The-UK-in-the-EU-%E2%80%93-Stay-or-Leave-The-balance-sheet-on-energy-and-climate-policy-1.pdf

227 Department of Communications, Climate Action and Environment webpage, *Common Arrangements for Gas (CAG)*. Available at http://www.dccae.gov.ie/energy/en-ie/gas/Pages/Common-Arrangements-for-Gas-(CAG)-.aspx

228 Available at http://www.cer.ie/docs/000426/cer08055.pdf

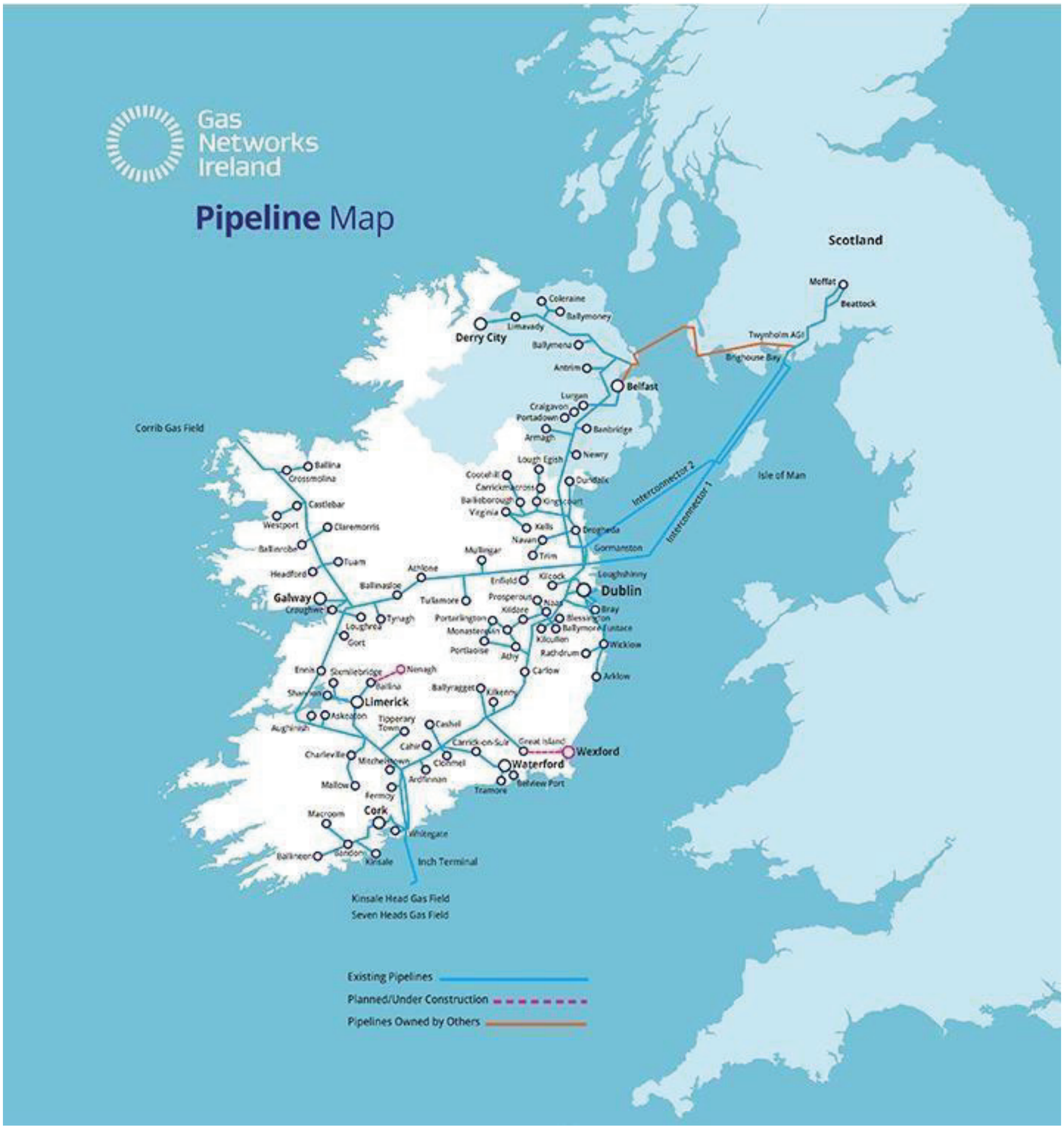
229 Department of Communications, Climate Action and Environment webpage, *Common Arrangements for Gas (CAG)*.

230 Department of Communications, Climate Action and Environment webpage, *Common Arrangements for Gas (CAG)*.

231 CER webpage, *Overview*. Available at http://www.cer.ie/electricity-gas/cag

According to the Department of Communications, Climate Action and Environment:

Map 1: Pipeline map



EU Energy Union

An EU Energy Union is one of the current priorities of the European Commission. It maintains that "a European Energy Union will ensure that Europe has secure, affordable and climate-friendly energy. Wiser energy use while fighting climate change is both a spur for new jobs and growth and an investment in Europe's future". The EU's Energy Union strategy is made up of 5 closely related and mutually reinforcing dimensions, which are reproduced in Text Box 6 below.

Text Box 6: Components of the EU Energy Union

Security, solidarity and trust

Diversifying Europe's sources of energy and ensuring energy security through solidarity and cooperation between Member States.

A fully-integrated internal energy market

Enabling a free flow of energy throughout the EU through adequate infrastructure and without any technical or regulatory barriers – an efficient way to secure supply and give consumers the best energy deal.

Energy efficiency

Energy efficiency first - improved energy efficiency will reduce our dependence on energy imports, reduce emissions and drive jobs and growth.

Climate action - decarbonising the economy

An ambitious climate policy is integral to creating the Energy Union. Actions include the EU Emissions Trading System (EU ETS), strong but fair national targets for sectors outside the ETS to cut greenhouse gas emissions, a roadmap towards low-emission mobility and an energy policy which makes the EU world leader in renewables. The EU is committed to a quick ratification of the Paris Agreement, an ambitious new global climate change agreement approved in Paris in December 2015.

Research, innovation and competitiveness

Supporting breakthroughs in low-carbon and clean energy technologies by prioritising research and innovation to drive the transition of the energy system and improve competitiveness.

Source: European Commission webpage, *Energy Union and Climate*[145].

Projects of common interest (PCIs) are part of the initiative to create an integrated EU energy market. These are key infrastructure projects, which “will help Member States to physically integrate their energy markets, enable them to diversify their energy sources and help bring an end to the energy isolation some of them are facing”.[146] The PCIs have the possibility of receiving financial assistance under the Connecting Europe Facility (CEF) in the form of grants and innovative financial instruments. A list of the selected projects can be found on the EU Commission’s website,[147] some of which relate to projects between the Republic and Northern Ireland. For projects to be become PCIs they must satisfy a number of criteria including have a significant impact on energy markets and market integration of at least two EU Member States. Given this context, the UK’s decision to leave the EU potentially puts in doubt such co-operation with EU support in the future. In addition, one of the components of the EU Energy Union relates to security of supply. This is an important issue for the Republic and Northern Ireland given the varying levels of energy dependence of each jurisdiction and specific features of each’s energy market. A recent paper by the Public Policy Advisors Network (PPAN), a network of specialists and specialist consultancies across the main areas of public policy in the

[145] Available at http://ec.europa.eu/priorities/energy-union-and-climate_en.

[146] European Commission - Fact Sheet, Projects of common interest in energy - questions and answers. Available at http://europa.eu/rapid/press-release_MEMO-15-6108_en.htm

[147] Annex to Commission Delegated Regulation amending Regulation (EU) No 347/2013 of the European Parliament and of the Council as regards the Union list of projects of common interest: https://ec.europa.eu/energy/sites/ener/files/documents/5_2%20PCI%20annex.pdf.

Republic, described security of supply in the context of Brexit and what it might mean for the Republic and Northern Ireland in the following terms: That part of Ireland's strategic oil reserve physically held in the UK might have to be moved if the UK opted out of the Oil Stocks Directive (2009/119). As it does not have an internal market dimension, it could also be assumed that the UK (and NI) will no longer be a party to the EU's energy security strategy, including the (revised) Security of Gas Supply Regulation. Ireland sources most of its gas from one of the most liquid gas hubs in the world (the North Sea) and transports it through two 100% Irish-owned gas pipelines that happen to be located mainly in the UK but which are covered by an inter-Governmental Treaty. Northern Ireland relies heavily on a gas pipeline that runs through Ireland and which is part of the NI system. The risk to the UK is much less as they have a diversified source of supply and surplus gas storage capacity.[148]

Renewables policy The Renewable Energy Directive establishes an overall policy for the production and promotion of energy from renewable sources in the EU. It requires the EU to fulfil at least 20% of its total energy needs with renewables by 2020, to be achieved through the attainment of individual national targets. All EU countries must also ensure that at least 10% of their transport fuels come from renewable sources by 2020.

Renewables policy

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[148] PPAN (2016), *Brexit – Energy and Carbon Implications*. Available at http://www.ppan.ie/wpcontent/uploads/2016/07/Brexit-Energyand-Carbon-5-July.pdf

The Republic has an overall renewables target of 16% of total final consumption to come from renewable energy in 2020. It is currently more than halfway towards this target, with

8.6% of total final consumption coming from renewable energy.

In Northern Ireland, the Renewable Energy Directive has been central to the development of renewable energy. The directive requires the UK to generate 15% of its energy from renewable sources by 2020. Northern Ireland contributes to the overall UK target and has set targets of generating 40% of electricity and 10% of heat from renewable sources by 2020.

Should the UK chose to diverge from EU renewable policy following its withdrawal from the EU this, coupled with changes to renewable electricity support which could make renewable development in Northern Ireland more difficult and serve to dampen growth in its renewable energy industry.

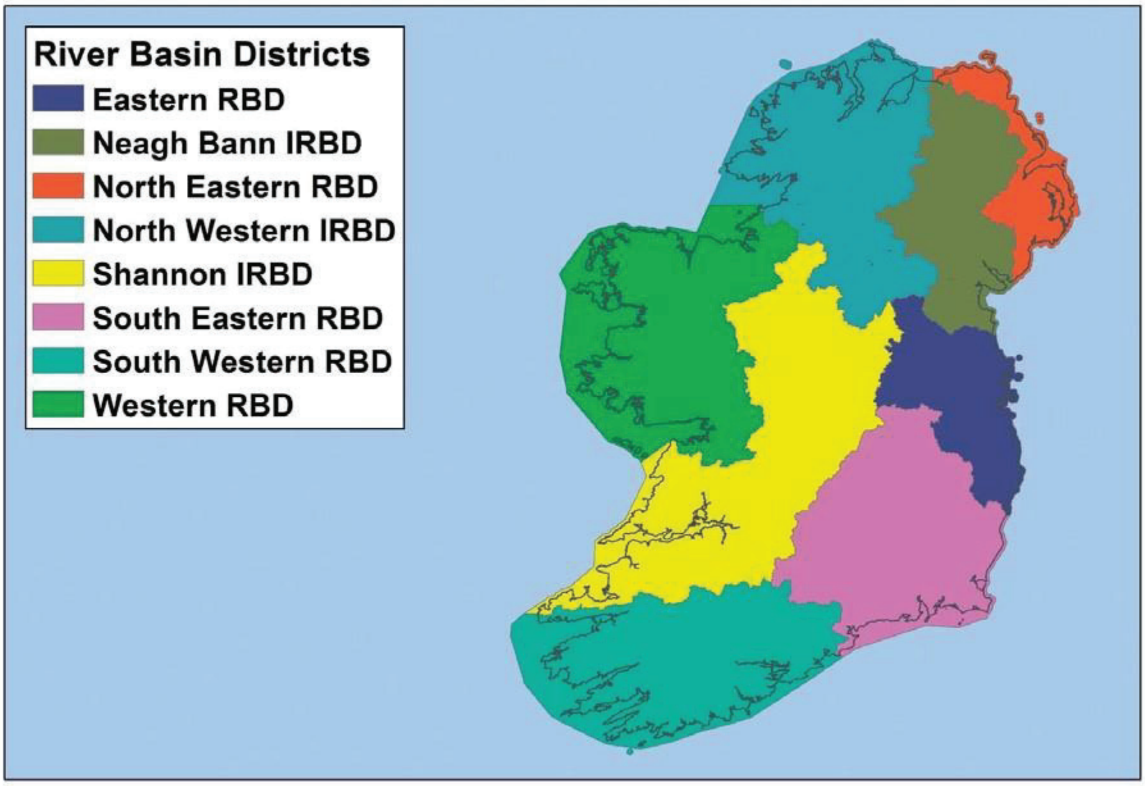
1.24 Environment

Water Quality

Water quality legislation and policy are largely driven by EU law. The primary piece of water quality legislation is the Water Framework Directive (WFD) (2000/60/EC) which requires that all Member States protect and improve water quality in all waters in order to achieve good ecological status by 2015 or, at the latest, by 2027. It also requires Member States to have an integrated approach to managing inland and coastal waters and applies to surface waters (lakes and rivers), transitional waters (estuaries), coastal waters (up to one nautical mile from land), and to ground waters (water below the surface of the ground).[149]

The WFD was transposed into Northern Ireland law through the Water Environment (Water Framework Directive) Regulations (Northern Ireland) 2003 (Statutory Rule 2003 No. 544) and through a variety of primary and secondary legislation in the South, but principally through the European Communities (Water Policy) Regulations, 2003 – 2014.[187] The implementation of the WFD includes the preparation River Basin Management Plans (RBDPs) for each River Basin District (RBD). The first RBMPs covered the period of 2010-2015 and the current RBMPs run from 2015-2021. The island of Ireland is split into eight RBDs as outlined in Map 2. Three of these RBDS - the North Western, Shannon and Neagh Bann RBDs cross the border and are managed in close co-operation between North and South.

Map 2: River Basin Districts



Marine conservation

The Marine Strategy Framework Directive (2008/56/EC) (MSFD) requires Member States to take action to protect the marine environment and to use marine resources sustainably. The MSFD aims to achieve Good Environmental Status (GES) of the EU's marine waters by 2020 and to protect

[149] http://www.basel.int/TheConvention/Overview/TextoftheConvention/tabid/1275/Default.aspx (Articles 1&2). [187] http://www.kildare.ie/CountyCouncil/Environment/WaterFrameworkDirective/

the resource base upon which marine-related economic and social activities depend.[150] The Marine Spatial Planning Directive requires marine plans to be completed by 2021. DAERA is currently preparing a marine plan for Northern Ireland.[151] There are currently 7 SAC and 8 SPA sites with marine components in Northern Ireland.[152] A consultation closed March 2016 on the designation of 4 possible MCZs in Northern Ireland: Carlingford, Outer Belfast Lough, Rathlin, and Waterfoot. Further detail on their designation is still awaited.[153] There is cross-Departmental responsibility for the MSFD in the Republic with input from the Marine Institute.[154] An Initial Assessment of the Republics marine waters was completed in 2013.[155]The Department of Housing, Planning, Community and Local Government (previously the Department of Environment, Community and Local Government) is the competent authority with responsibility for marine spatial planning in the Republic[156] and the Marine Spatial Planning Directive was transposed into law in the Republic through the EU (Framework for Maritime Spatial Planning) Regulations 2016. With an exit from the EU, the question remains as to whether the UK and Northern Ireland will seek to continue these areas of regulation. Should there be any difference in approaches either side of the border, will cross-border discussions and considerations be made to ensure a holistic approach is used for transboundary marine based industries and activities?

Invasive species

It is clear from the policy and scientific analysis that invasive alien (non-native) species
(IAS) can have serious economic and ecological impacts. Both *Irelands National Biodiversity Plan 2011-2016*[248] and the *Biodiversity Strategy for Northern Ireland to 2020*[157] formally recognise invasive non-native species as a significant threat to biodiversity on the island of Ireland. In response to the

[150] http://ec.europa.eu/environment/marine/eu-coast-and-marine-policy/marine-strategy-framework-directive/index_en.htm

[151] https://www.daera-ni.gov.uk/articles/marine-plan-northern-ireland

[152] https://www.daera-ni.gov.uk/articles/marine-protected-areas#toc-0

[153] https://www.daera-ni.gov.uk/consultations/marine-conservation-zones-consultation

[154] http://www.housing.gov.ie/water/water-quality/marine-strategy/marine#The%20Marine%20Strategy%20Framework%20Directive%20(MSFD)

[155] http://www.housing.gov.ie/sites/default/files/migrated-files/en/Publications/Environment/Water/FileDownLoad%2C34365%2Cen.pdf

[156] http://www.housing.gov.ie/planning/maritime-spatial-planning/maritime-spatial-planning-directive/maritime-spatial-planning

[248] https://www.npws.ie/sites/default/files/general/national-biodiversity-plan-english.pdf

[157] https://www.cbd.int/doc/world/gb/gb-nbsap-v3-p3-en.pdf

need for cross-border control and cooperation, advice on the management of invasive species is given by a joint venture between the Northern Ireland Environment Agency and the National Parks and Wildlife Agency in the Republic, known as Invasive Species Ireland.[158]

The new European Invasive Alien Species Regulation (1143/2014) entered into force on 1 January 2015.[159] Species identified as invasive are banned and Member States must draw up management plans aimed at their eradication, population control or containment.[252]

The EU Commission is responsible for drawing up a list of invasive alien species to which the requirements of the Invasive Alien Species Regulation must apply. However, Japanese knotweed, identified as a problem across the island of Ireland, has not been included on the list.[160]

Due to the cross-border implications of control and spread of invasive species, how will there be harmonisation of approaches between Northern Ireland and the Republic, where requirements may differ post exit?

Waste management

The Waste Framework Directive (2008/98/EC)[254] provides the overarching framework for all Member States in relation to waste management and includes definitions of waste, sets a hierarchy for waste management, introduces the "polluter pays" principle and "extended producer responsibility" and sets recycling targets. It requires Member States to have in place a waste strategy and waste management plans reflecting its requirements, both of which must be revised every six years.

While local councils north and south of the border are the statutory waste management authorities and are responsible for waste disposal and collection, they have come together to form sub-regional waste management groups.[161] These waste management groups are responsible for drawing up the waste management plans for their constituent councils.

The waste management groups and councils involved in the cross-border area include:

Northern Ireland

158 http://invasivespeciesireland.com/background/about/

159 EC (November 2014) Brochure on LIFE and Invasive Alien Species p.6. Available from http://ec.europa.eu/environment/nature/invasivealien/index_en.htm [252] Article 19 of the Regulation

160 The list and further information can be found at http://ec.europa.eu/environment/nature/invasivealien/index_en.htm [254] Waste Framework Directive (2008/98/EC): http://ec.europa.eu/environment/waste/framework/.

161 Except for the area formerly covered by the South West Waste Management Group (SWaMP 2008), which was dissolved in 2015. The three new councils previously covered by this area (Armagh City, Banbridge and Craigavon; Fermanagh and Omagh and Mid Ulster) are still to determine whether they will collaborate on waste either formally or informally.

- NWRWMG (North West Region Waste Management Group); ARC21; Armagh City, Banbridge and Craigavon; Fermanagh and Omagh; Mid Ulster;

Republic

- Connacht and Ulster Region; and Eastern Midlands Region.

The co-ordinated approach to waste management both sides of the border is essential with controlling the movement and disposal of legal and illegal waste. Given that post- Brexit the Republic will continue to work to EU requirements and regulation, discussion may be needed in relation to the impact, either side of the border, given that Northern Ireland could potentially work to a different framework with fundamental differences in levies, controls and levels of regulation.

1.25 Health

Healthcare systems in EU member states are a matter of national responsibility and therefore health is not an area of major EU competence, when compared to areas such as agriculture or the environment. In spite of this, however, it has been argued that 'Over the last 20 years, it has become clear that EU law has had a considerable impact on health care, despite the limited EU competence to legislate in this field'.[162] Whilst EU membership through financial support may facilitate cross-border cooperation, it is not a necessary prerequisite, as examples of other cooperation detailed below show:

Mutual recognition of professional qualifications - This enables health professionals from EU countries to work in the healthcare systems of other EU Member States.

Reciprocal Access to Healthcare - EU citizens who can show that they are either employed or self-employed in the UK, or non-active in terms of employment but are ordinarily resident in the UK, are entitled to free healthcare in the UK. Any changes to the free movement rights could make it more difficult for EU citizens to obtain free healthcare on the basis of residence in the UK. Similarly, the rights of UK nationals living in the EU to

[162] Willem van de Gronden et al Eds (2011) Health Care and EU Law. page vii

access state healthcare will be subject to the terms under which the UK leaves the EU.[163][164]

Unplanned Care - European Health Insurance Card (EHIC) - This is a free card that gives an individual access to medically necessary, state-provided healthcare during a temporary stay (including holidays) in any of the EU countries and in addition Iceland, Lichtenstein, Norway and Switzerland, under the same conditions and at the same cost as to people insured in that country. The cards are issued by the national health insurance provider [165] in the country of the insured person[166].

Planned and Unplanned Care - EU Directive on patients' rights in cross-border healthcare. In 2011 EU Directive 2011/24/EU introduced scope for citizens to apply for reimbursement of cross-border healthcare treatment for planned and unplanned care. It came into force on 25th October 2013 in the EU and then on 1st August 2015 also in the EEA. It does not apply to Switzerland.

Organ Donation – EU-wide standards exist for organ donation to ensure organs are safe and that data requirements are fulfilled. Brexit could affect the UK's access to EU organs and for UK organs to go to the EU.

UK withdrawal from the EU, therefore, has the potential to impact indirectly on mobility of persons across the border through changes to the provision of cross-border health services and the way in which these services are accessible to users. The EU, for example, has supported the development of cross-border projects and provided a legislative basis for cross-border access to services in specific circumstances.

Under the Directive, once a Northern Ireland patient has been assessed as needing treatment and eligible to have that treatment in Northern Ireland, they have the right to obtain that treatment in another EU member state, either privately or in the state sector. Patients pay the treatment costs directly to the provider and the HSCB will reimburse the patient for the actual cost of the treatment or the equivalent cost of treatment locally, whichever is the lesser. No other costs will be met, including travel.[167] Patients are advised to have medical insurance cover in the event of an emergency associated with the planned treatment as well as a valid EHIC card.

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[163] Brexit: impact across policy areas (Edited by Vaughne Miller), House of Commons Library, Briefing Paper, Number 07213,

[164] August 2006, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7213

[165] Applying for a card, Commission website: http://ec.europa.eu/social/main.jsp?catId=563&langId=en#nationalinfo.

[166] European Health Insurance Card, European Commission, Employment, Social Affairs and Inclusion, http://ec.europa.eu/social/main.jsp?catId=559

[167] Cross-border EU Healthcare Directive, webpage updated 01/07/16, BMA, https://www.bma.org.uk/collectivevoice/influence/uk-governments/northern-ireland-assembly/ni-assembly-latest-evidenceandbriefings/cross-border-euhealthcare-directive

UK withdrawal from the EU might also have implications in terms of EU Regulations. For example, under Article 28 of EU Regulation 883/2004[168], cross-border (frontier) workers who retire in the Republic due to 'old age or invalidity' are entitled to access continuing medical treatment for a condition for which they are already receiving services from Northern Ireland.

EU-Funded Cross-Border Projects

Fears for the future of EU-funded cross-border health projects were expressed in the following Assembly Question to the Minister of Health[262]:

Mr Daniel McCrossan (SDLP - West Tyrone) To ask the Minister of Health (i) to detail all projects (a) being completed and (b) scheduled for the future, that have received European Union funding or are scheduled to receive European Union funding; (ii) for his assessment of whether this funding is now at risk following the decision to vote to leave the European Union; and (iii) whether this funding, if at risk, will be provided through the Northern Ireland Executive or her Department.

The question was answered (on 5 July 2016) as follows:

> The Interreg VA funding programme runs from 2014 to 2020 and has allocated €53m to support health and social care projects across the north of Ireland, the border area of the south and western Scotland. The north would expect to receive €31.8m from the programme in the period to 2020 and applications for funding are currently undergoing assessment. The implications of the outcome of the EU referendum for this funding programme are as yet unclear. However, it is anticipated that theExecutive will contribute to the negotiations with the EU on this issue and my aim will be to ensure that the programme is implemented and that we maximise drawdown of the available EU funding.

> Co-operation and Working Together (CAWT) is the cross-border health and social care partnership for the Health Service Executive in the Republic and the Southern and Western Health and Social Care Trusts, the Health and Social Care Board and the Public Health Agency in Northern Ireland[169]. The CAWT partnership evolved from an initial informal arrangement into an effective cross-border delivery and implementation structure for the partner

[168] EU Coordination of social security systems - Regulation (EC) No 883/2004 [262] AQW 1822/16-21, 27 June 2016.

[169] CAWT (2014) *CAWT Strategic Plan 2014-2020*, http://www.cawt.com/Site/11/Documents/Publications/Corporate/CAWT%20Strategic%20Plan%2014-19%20PDF.pdf.

organisations[170]. Since its inception in 1992, CAWT has created and sustained a variety of EU funded cross-border projects and services and has enhanced service provision to many rurally isolated and peripheral areas. Following the referendum, an immediate priority for CAWT is to co-operate with the Special EU Programmes Body (SEUPB) and the respective involved Departments of Health in Belfast, Edinburgh and Dublin in relation to ensuring a positive outcome to the implementation of the Health & Social Care Measure in INTERREG VA. CAWT advise that the INTERREG VA planning process is continuing as originally prescribed. The CAWT Partnership has made a number of submissions to the new INTERREG cross-border co-operation programme for the Border Region of Ireland, Northern Ireland and Western Scotland (2014-2020). These submissions, if successful, will involve the statutory health and social care services working in partnership with other sectors, in particular with the voluntary and community sector, in order to reach the vulnerable and socially excluded sections of the populations.

The CAWT partner organisations (Health Service Executive, HSCB, PHA, Southern HSC Trust and the Western HSC Trust), along with their Scottish partners, remain committed to the implementation of these submissions.

Both the UK and Irish Governments have indicated that they will continue to subscribe to the European Union up until the date of any exit from current arrangements. Article 50 has not been activated and there is no prerequisite alternative course of action to be initiated. Clearly there are a plethora of administrative and legislative changes to be effected and considered. Meanwhile, from a CAWT perspective, all work will continue as scheduled.

Information was supplied by CAWT on the 12 projects from the EU INTERREG IVA funding regarding the extent to which the service has been mainstreamed/adapted into core services after the EU funding concluded (and therefore are now funded by the relevant Departments)[209]:

A substantial proportion of services funded by the EU INTERREG IVA programme have continued after the conclusion of EU funding as planned.

CAWT delivered a 12-project programme called 'Putting Patients, Clients and

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[170] Heenan, D. and Birrell, D. (2011) *Social work in Northern Ireland: conflict and change*. Bristol: The Policy Press. p.96. [209] Email Response to RaISe request from Sadie Bergin, Communications and Corporate Governance Manager Co-operation and Working Together (CAWT) Cross Border Health and Social Care, 5th August 2016.

> *Families First' which enabled a suite of cross border services and initiatives to be delivered in the border region which benefitted 53,000 service users. CAWT estimates that up to 80% of services/projects have been either fully or partially mainstreamed or adapted into core services. This high level of mainstreaming activity in a difficult economic climate is viewed by the CAWT Partnership as a successful outcome. In addition, 43,587 health and social care staff received training as part of the overall programme.*

It is noteworthy that there are other cross-border health projects that do not rely on EU funding and a number of them have been orchestrated through The North South Ministerial Council (NSMC).[171] Since 2000, in the area of health, actions have focused on five key areas:

- Emergency planning;
- Accident and Emergency services;
- Cooperation on high technology equipment;
- Cancer research; and
- Health promotion.

Two of the recent examples are now briefly outlined below:

The Radiotherapy unit at Altnagelvin Area Hospital provides an example of crossborder provision in specialist care funded by the relevant Departments in NI and the Republic. Planning permission for the new facility was granted in March 2013, and construction work began in July 2014. The service will be managed by the Western Health and Social Care Trust, working with the Cancer Centre, Belfast, the Northern Health and Social Care Trust, and Letterkenny General Hospital.[172] The then Health Minister, Simon Hamilton, announced in March 2016 that £1.5million would be made available to allow for the recruitment of 35 posts to facilitate the opening of the Altnagelvin Radiotherapy Centre in autumn 2016.[173]

In a second example, the first formal all-island clinical network has been established to treat congenital heart disease. On 3 March 2015, the then Ministers for Health in Northern Ireland and the Republic, published the framework for the All-island Congenital Heart Disease Network based on proposals by an International Working Group (IWG).[174] The new all-island children's heart surgery network is to benefit from £42m worth of investment announced at the opening of a new hybrid cardiac catheterisation laboratory at Our Lady's Children's Hospital, Dublin. In the future, children from Northern Ireland and the Republic

[171] North South Ministerial Council (2006) *Welcome to the North South Ministerial Council* [Online] Available from: http://www.northsouthministerialcouncil.org/.

[172] Western Health and Social Care Trust (2012) *Radiotherapy Unit Altnagelvin Hospital* [Online] Available from: http://www.westerntrust.hscni.net/pdf/RadioTexhibit.pdf [Accessed: 4 March 2015].

[173] Recruitment underway for new radiotherapy centre at Altnagelvin, Department of Health, Press Release, 24th March 2016, https://www.health-ni.gov.uk/news/recruitment-underway-new-radiotherapy-centre-altnagelvin.

[174] Framework for All Island Clinical Network for Congenital Heart Disease, Department of Health, Republic.

will all receive treatment there. Children's heart surgery services at Belfast's Royal Victoria Hospital (RVH) ceased in 2015.[175] The £42m investment includes contributions from both Northern Ireland's and the Republic's health departments, £1m of which will enhance existing facilities in Belfast. The phased implementation of the transfer of all urgent surgical cases from Northern Ireland to the new Dublin centre should be complete by the end of 2017, with all elective surgical cases transferred by the end of 2018.[176]

175 'Children's heart surgery: Formal end to NI service', *BBC News* 3 March 2015: http://www.bbc.co.uk/news/uk-northernireland-31709441.

176 Children's heart surgery: £42m for all-island congenital heart disease service, BBC News, online, 4th July 2016, http://www.bbc.co.uk/news/uk-northern-ireland-36708448 .

1.26 Education

Under Article 6 of the Treaty on the Functioning of the European Union (TFEU)[177], the EU has competence to support, coordinate or supplement the actions of Member States across a number of areas, including: *"education, vocational training, youth and sport."*[178]

Article 165 states that the Union shall:[179]

> *Contribute to the development of quality education by encouraging cooperation between Member States and, if necessary, by supporting and supplementing their action, while fully respecting the responsibility of the Member States for the content of teaching and the organisation of education systems and their cultural and linguistic diversity.*

This means that that the EU has limited competence in the areas of education and youth, and cannot adopt legally binding acts requiring member states to harmonise their laws and regulations in these areas.[180] The EU's actions in the area of education and youth work include:[181]

- **Developing a European dimension in education**, particularly through the teaching and dissemination of languages;
- **Encouraging teacher and student mobility**, including though recognition of qualifications;
- **Developing information exchanges** on education; and
- **Encouraging youth exchanges**.

EU funding

In 2012-13 the Department received almost £2m from the EU Building Sustainable Prosperity programme which includes a focus on skills development. In the past ten years it has also accessed funds from PEACE II.[182]

Under the PEACE IV programme running from January 2016 to 2020 (with eligibility until December 2023), shared education is due to receive €35.3m covering Northern Ireland and the border region of the Republic. This comprises €30m through the European Regional

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177 Eur-Lex *Consolidated version of the Treaty on the Functioning of the European Union* [online] Available at: http://eurlex.europa.eu/legalcontent/EN/TXT/?uri=celex%3A12012E%2FTXT

178 The other areas are: protection and improvement of human health; industry; culture; tourism; civil protection; and administrative cooperation

179 Eur-Lex *Consolidated version of the Treaty on the Functioning of the European Union* [online] Available at: http://eurlex.europa.eu/legalcontent/EN/TXT/?uri=celex%3A12012E%2FTXT

180 European Commission (2016) *FAQ on the EU competences and the European Commission powers* [online] Available at: http://ec.europa.eu/citizens-initiative/public/competences/faq#q2

181 Eur-Lex *Consolidated version of the Treaty on the Functioning of the European Union* [online] Available at: http://eurlex.europa.eu/legalcontent/EN/TXT/?uri=celex%3A12012E%2FTXT

182 Information provided by the Department of Education, December 2014

Development Fund and €5.3m government matched funding.[183] Depending on the timing, a UK withdrawal from the EU could restrict access to this funding.

In 2014 the then Minister for Education, John O'Dowd MLA, stated that the Department was *"proactively exploring"* the potential for accessing EU structural funds to support intervention activities in science, technology, engineering and mathematics (STEM) and business education.[184] On the 29th June, Minister for Education, Peter Weir MLA, noted that the

Department *"has focused on maximising the support available from the EU's Erasmus+ programme."*[185]

Erasmus+ is the new education, training, youth and sport funding programme for the period 2014-2020. It replaces previous funding programmes including Comenius and Youth in Action programmes, the main sources of EU funding accessed by the Department of Education. The key areas of the programme are:[186]

- Joint working and the sharing of good practice across organisations;
- Support for policy reform (any activity aimed at facilitating the modernisation of education systems);
- Learning mobility for individuals;
- Jean Monnet Activities (supporting excellence in European integration studies);
- Sport (funding is available to support grassroots activities).

EU programmes such as Erasmus+ may be affected by a UK withdrawal from the EU, but this may be dependent on the outcome of negotiations, as there are non-EU states which are involved in Erasmus+.

Qualification recognition and student mobility

The European Commission adopted the European Qualifications Framework (EQF) in 2008. The framework aims to facilitate the comparison of qualifications across countries in order to promote student and worker mobility and lifelong learning.

Its implementation is voluntary, however each member state has chosen to take part, and the Council for the Curriculum, Examinations and Assessment (CCEA) acts as the National Coordination Point for Northern Ireland. Northern Ireland has

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183 Northern Ireland Assembly Hansard *Minister for Education response to an Assembly Question by Mr Robin Swann MLA, 29th June 2016*

184 Northern Ireland Assembly Hansard *Minister for Education response to an Assembly Question by Mr Daithí McKay MLA*, *14th January 2014*

185 Northern Ireland Assembly Hansard *Minister for Education response to an Assembly Question by Mr Robin Swann MLA, 29th June 2016*

186 Stewart, J. (2014) *European Funding Streams: Education* Belfast: Northern Ireland Assembly

received EU funding to support its implementation, including work on qualifications referencing, communication and European liaison.[187]

It is possible that a UK withdrawal from the EU could have consequences for qualification recognition across EU member states, with implications for students wishing to study, train and work abroad.

Department of Education actions

The Minister for Education, Peter Weir MLA, noted that the Department of Education had set up a team at a *"senior level"* to consider the potential implications of a UK withdrawal from the EU for the Department's functions, and to explore future challenges and opportunities.
He noted:[188]

> *Until such times as a withdrawal agreement from the EU is negotiated and takes effect, I will not be in a position to fully assess the implications.*

The EU has limited competence in the area of education and youth work. As such, it is likely that a UK withdrawal from the EU would have limited impact on school education and youth services in Northern Ireland.

However, a withdrawal would likely have implications for shared education funding under the PEACE IV programme, as well as in relation to future access to EU funding for educational and youth programmes. Other potential issues could relate to cross-jurisdiction cooperation and the recognition of qualifications, leading to implications for students wishing to study, train and work abroad.

Further Questions Raised by Brexit

The UK withdrawal from the EU raises a number of questions with regard to education that remain unanswered until the outcome of UK-EU negotiations are known. Examples of these are as follows:

- Payment of fees for students studying across the border: Will students have to pay non-EU fees for college registration?[189]
- Grants for research: will there still be access for university research projects?[190]

[187] CCEA (2016) *EQF Implementation in the UK* [online] Available at: http://ccea.org.uk/regulation/european/european_qualifications_framework/eqf_uk

[188] Northern Ireland Assembly Hansard *Minister for Education response to an Assembly Question by Mr Robin Swann MLA, 29th June 2016*

[189] 'Irish students in UK could face hike in fees after Brexit vote', *Irish Times* 24 June 2016: http://www.irishtimes.com/news/education/irish-students-in-uk-could-face-hike-in-fees-after-Brexit-vote-1.2699027.

[190] 'Brexit fears may see 15% of UK university staff leave, group warns', *The Guardian* 25 September 2016: https://www.theguardian.com/education/2016/sep/25/Brexit-may-force-15-of-staff-at-uk-universities-to-leave-warns-group.

- Recognition of teacher qualifications: This was the subject of a previous N/SIPA paper[286] - post-Brexit, will recognition of teacher's qualifications across the border change?

NORTHERN IRELAND EU FUNDING VERSUS EU CONTRIBUTION

What fiscal flexibility does the Northern Ireland executive have to deal with Brexit and what impact will Brexit have on the most vulnerable sectors?

The NERI paper on 'The Economic Implication of Brexit for Northern Ireland' and the Congressional Memorandum for Congressman Boyle illustrates the complexity of the Northern Ireland budget. It shows the near impossible task of untangling joint liabilities and the lack of granular publicly available detail on revenue collection.

Take one philosophical question; what part of the national debt accrued due to UK overseas military campaigns should Northern Ireland be liable for? The Financial Times reported in 2013 (How much as Britain spent on military interventions in two decades?) that the government estimated it had spent £33 billion on overseas military campaigns in the previous 20 years. These were unfunded (by taxpayers) wars in so far as the government ran a fiscal deficit for most of the period and no specific war taxes were levied. While the UUP and DUP voted for the war in Iraq in 2003, there was no vote taken for the Afghan war in 2001. Therefore, how should the resulting costs be apportioned?

Does one assume the UK government was acting in the name of all subjects equally or can one argue for some alternative redistribution based on GVA, or one based on government representation or MPs' voting record when allocating interest payments on the government debt or liability towards the total government debt? Were one to follow the latter two lines of argument then regional solidarity within the UK may disintegrate and a region may be held liable for a share of debt commensurate with their historic budget deficit record. These are theoretical questions at this point. In the context of the Scottish independence referendum being successful such issues were to be negotiated with the new Scottish state. The UK Treasury pledged to honour all debts regardless of the outcome of that negotiation.

With Brexit in mind we have to focus on the reality of the finances of Northern Ireland. A discussion around the right approach to attribute certain costs or how exactly to attribute revenue is an abstract exercise to a large degree. The budget is clear on the majority of the spending; under the block grants (DEL) departmental spending amounts to £10.9 billion and under the Annually Managed Expenditure (AME) there is an additional spending of £8.8 billion. If we estimate revenue at £15 billion and excluding the Non-identifiable and Accounting Adjustments there is a £5 billion deficit, funded by the UK government.

This illustrates what little fiscal room for manoeuvre there is available to the Northern Ireland executive. There will also be added pressure from the planned cut in corporate tax from 2018 (to match the lower 12.5% rate in Ireland) and the offsetting reduction in the block grant to compensate the UK Treasury for this revenue loss. Any benefits through the lower corporate tax attracting foreign investment will be long-term. The immediate result is departmental spending cuts to make up for the decrease in the block grant.

When financial support from the European Union for various sectors in Northern Ireland is stopped there are few reliable automatic stabilisers to neutralise the impact. Theoretically, the end of the UK financial contribution to the EU should increase the annual block grant as the UK Treasury has more financial flexibility. In addition the AME should increase if job losses ensue as such job losses will result in an increase in social welfare spending. However, the block grant increase may be limited as the UK government is currently running a large general government deficit of 3.4% and intends to generate a surplus in the next parliament. It may also transpire that any savings arising from the ending of UK contributions to the EU are offset by the final divorce bill along with the potential for tax revenue losses should Brexit result in a slowing of economic growth. The increase in AME spending is also not the type of financial support that helps the long-term health of the Northern Ireland economy, paying unemployment benefit while allowing the destruction of important economic sectors will decrease future living standards.

With limited fiscal flexibility and unreliable automatic stabilisers and wishing to avoid the impact of these first order losses from Brexit the Northern Ireland executive will require the UK Treasury to replace the terminated EU programmes with the UK's own programmes and thus directly compensate sectors affected or alternatively increase the block grant (potentially requiring a rewrite of the Barnett Formula) recognising the disproportionate impact and allowing the Northern Ireland executive to administer such support.

The second order financial impact is a greater unknown arising from the loss of primary export markets. Agriculture is a prime example with such a loss a major concern for Northern Ireland’s farmers, geographic proximity being of particular importance (55% of exports going to Ireland, 24% of milk and milk products go to the EU ex UK and ex Ireland). Such a demand shock through a sudden loss in consumer markets (economically if not legally as the EU external agricultural tariffs of 30% to 45% would make Northern Ireland farmers wholly uncompetitive with farmers in Ireland and the rest of the EU) will cause a decline in prices and ultimately production capacity. Prices are likely to decline severely in certain produce (such as milk due to large supply and limited processing capabilities in Northern Ireland) and capacity will need to come out of those areas in particular to rebalance the market as new markets and processing capability will take time to come on line.

It should also be noted that EU farmers have been insulated from global agricultural prices through tariffs for many decades, thus making them ill prepared to face those that have operated in such a competitive environment and difficult to envisage an easy entry to new markets for Northern Ireland farmers. Even prior to joining the EEC in 1973 the UK subsidised farmers with direct payments as UK farmers were unable to compete with cheap agricultural produce from other Common Wealth countries, such as cheap New Zealand butter and cheap Common Wealth sugar. Were the UK government to follow their stated policy of free trade with countries outside of the EU after Brexit then it is likely that farmers in Northern Ireland and the rest of the UK would really struggle to thrive in this competitive environment.

This second order loss for the agricultural sector will require much additional support from the UK government if it is to remain viable and ultimately recover and grow in the long-term, as will a host of other sectors impacted by Brexit require similar support. While it is relatively easy to estimate the lost monetary amount of EU funding (for instance the loss of £320 million as mentioned in the NERI report for just three areas; the Common Agriculture Fund, the Common Fisheries Fund and the Investment for Growth and Jobs Initiative) it is much more difficult to estimate these second order losses the Northern Ireland economy will face when its primary and its most proximate markets are lost and while external tariffs may be lifted allowing global competitors access to the domestic market. The Northern Ireland executive does not have the fiscal flexibility itself to deal with the fallout but needs to be proactive in lobbying the UK government for the additional resources.

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Public Expenditure in Northern Ireland

Research for Senator Mark Daly

Abstract

This research request sought information relating to the economy of Northern Ireland and the dependence of the Northern Ireland economy on public sector spending. However, as GDP figures for Northern Ireland are not recorded by the Department of Finance or the Office for National Statistics, this briefing note will provide figures for public spending as a percentage of Gross Value Added (GVA), employment levels within the public sector, and an overview of the level of rationalisation that has occurred within the public sector.

Date: Friday, 03 February 2017
Enquiry Number: 2017/142
Library & Research Service central enquiry desk: Tel – 618 4701

Contents

Executive Summary

- Public expenditure as a percentage of Gross Value Added (GVA) was 72.7 per cent for the latest available financial period 2013-14
- Public expenditure was reduced from 75.5 per cent of GVA in 2011-12
- Public sector employment accounts for 24.8 per cent of total employment as of September 2016
- Public sector employment as a percentage of total employment has fallen from 31 per cent in June 2009

Public Spending in Northern Ireland

Aggregate expenditure figures are obtained from the Department of Finance Net Fiscal Balance Report 2012-13 And 2013-14 in Northern Ireland. This report includes data from 2012-13 and 2013-14 and updates previous estimates for the years 2009-10, 2010-2011 and 2011-12. [Aggregate expenditure includes identifiable expenditure (expenditure recognised as benefiting individuals, enterprises, or communities within Northern Ireland), non-identifiable expenditure (expenditure incurred on behalf of the UK as a whole), and accounting adjustments[1]]

As GDP figures for Northern Ireland are not recorded by the Department of Finance or the Office for National Statistics, GDP figures will be replaced by Gross Value Added (GVA)[2] figures obtained from the Office for National Statistics (ONS).

It should be noted that public expenditure figures from the Department of Finance are presented for the financial year (01 April to 31 March) whereas GVA figures from the Office for National Statistics are presented for the calendar year (01 January to 31 December). Because of this public expenditure figures will be presented as a percentage of the previous calendar year's GVA.

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[1] Main component of accounting adjustments is the depreciation of fixed capital resources from public service provision.

[2] GVA is the difference between the goods and services produced in a region and their cost. It is commonly used as a measure of regional economic performance. GVA + taxes on products - subsidies on products = GDP. See page 7 of fiscal report for further explanation.

Table 1 presents Aggregate Expenditure figures for the periods 2009-10 to 2014-15. Aggregate expenditure as a percentage of GVA was 72.7 per cent for the latest available period, 2013-14, down from 75.5 per cent in 2011-12.

Table 1: NI Fiscal Position 2009-10 to 2013-14

			NI		
£ Million	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Aggregate Expenditure	22,774	23,357	23,703	24,292	24,083
Aggregate Expenditure as a % of calendar year GVA	73.5%	75.3%	75.5%	75.5%	72.7%

Public Sector Employment

Table 2 presents figures obtained from the Office for National Statistics and shows public sector employment figures from 2008 to 2016.[3] Public sector employment as a percentage of total employment reached 31 per cent in 2009 but has reduced to 25.3 per cent by June 2016. As of June 2006 there are 206,000 people employed in the public sector of Northern Ireland.

Table 2: NI Public Sector employment 2008 to 2016

	NI		
	Public Sector employment (000s)	**Total employment (000s)**	**Public Sector employment as a % of Total Employment**
2008	223	770	29.0%
2009	230	741	31.0%
2010	227	765	29.7%
2011	222	785	28.3%
2012	218	769	28.3%
2013	218	786	27.7%
2014	212	789	26.9%
2015	211	800	26.4%
2016	206	815	25.3%

[3] Annual figures relate to June quarter

The latest UK Public sector employment statistical bulletin provides updated public sector employment figures for UK regions up to September 2016. Figures 1 and 2, (as extracted from the bulletin), presents figures for regional public sector employment for September 2016 and the change in public sector employment between September 2015 and September 2016.

Figure 1: Public Sector Employment (September 2016), not seasonally adjusted

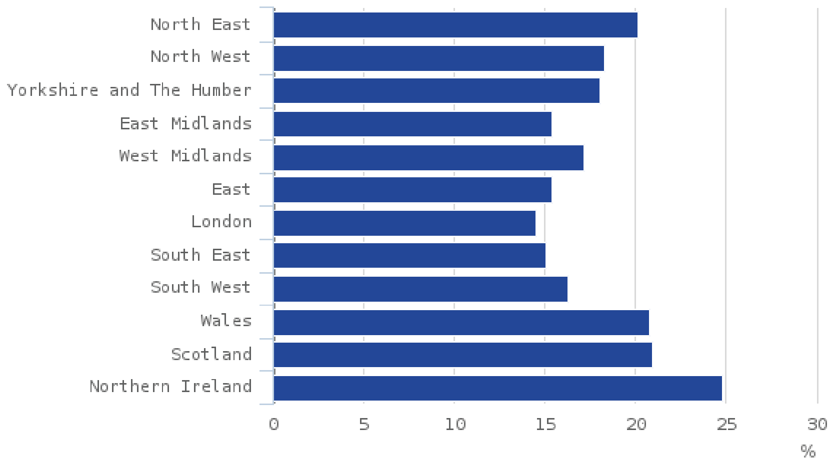

Figure 2: Change in Public Sector Employment (Sep 2015-16), not seasonally adjusted

As of September 2016, public sector employment in Northern Ireland was 24.8 per cent. This accounts for a reduction of 5,000 (2.5 per cent) in public sector employment from the same period in 2015.

Rationalisation of Public Sector

Referring back to Table 2, public sector employment has fallen from 230,000 in 2009 to 206,000 by June 2016. This represents a fall in the percentage of public sector employment from 31 per cent to 25.3 per cent of total employment.

Reductions in public expenditure appear to be predominately determined by capital expenditure reductions. Tables 3 and 4 (as extracted from the Northern Ireland Net Fiscal Balance Report 2012-13 and 2013-14) present figures for current and capital expenditure between the periods 2009-10 and 2013-14.

Table 3 shows that capital expenditure has fallen from £2.1 billion in 2009-10 to £1.5 billion by 2013-14, while current expenditure has increased from £19.6 billion to £21.5 billion in this period. Table 4 shows that capital expenditure accounts for 6.6 per cent of total expenditure by 2013-14, down from 9.7 per cent in 2009-10.

Table 3: Total Current/Capital Expenditure on services 2009-10 to 2013-14 (£m)[4]

	NI					UK				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Current	19,574	20,371	20,836	21,196	21,471	572,754	600,131	606,732	617,044	629,721
Capital	2,105	1,820	1,602	1,509	1,522	65,125	55,133	45,967	42,761	47,651
Total [1]	**21,679**	**22,191**	**22,438**	**22,705**	**22,993**	**637,879**	**655,264**	**652,699**	**659,805**	**677,372**

1. The sum of the constituent items may not always agree exactly with the total shown due to rounding. The UK total presented is taken directly from PESA.

Table 4: Current/Capital Expenditure (% of Total Expenditure) 2009-10 to 2013-14

	NI					UK				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Current	90.3%	91.8%	92.9%	93.4%	93.4%	89.8%	91.6%	93.0%	93.5%	93.0%
Capital	9.7%	8.2%	7.1%	6.6%	6.6%	10.2%	8.4%	7.0%	6.5%	7.0%

Source: See page 25 of the Northern Ireland Net Fiscal Balance Report 2012-13 and 2013-14 to view these tables.

[4] Total expenditure for 2013-14 is stated as £23 billion. This differs from the Table 1 aggregate expenditure figure of £24.1 billion due to £1.1 billion in accounting adjustments.

The report shows that the largest reductions in capital expenditure between the periods 2009-10 to 2013-14 came from:

- Social Protection: 92.6 per cent reduction (£27m to £2m)
- Enterprise and Economic Development: 81.6 per cent reduction (£256m to £47m)
- Education: 52 per cent reduction (£271m to £130m)
- Housing and Community amenities: 34 per cent reduction (£592m to 391m)

It should be noted however that current expenditure increased during this period for Social Protection, Enterprise and Economic Development, and Education by the following values:

- Social Protection: 13.7 per cent increase (£7.6bn to £8.6bn)
- Enterprise and Economic Development: 8 per cent increase (£250m to £270m)
- Education: 7.3 per cent increase (£2.4bn to £2.6bn)

Current expenditure for Housing and Community amenities decreased during this period by 18.1 per cent (£530m to £434m).

Other Reading Resources

UK Public Spending

This website provides details on UK Public Spending by region.

Public Expenditure Statistical Analysis 2016

HM Treasury Public Expenditure Statistical Analysis 2016 provides statistics on identifiable expenditure for UK regions for general public services, health, education and other sources of public expenditure.

Public expenditure by country and region

This House of Commons Library Briefing Paper provides figures for public spending per head in England, Scotland, Wales, and Northern Ireland.

NORTHERN IRELAND
NET FISCAL BALANCE REPORT
2012-13 AND 2013-14

October 2015

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EXECUTIVE SUMMARY

- This report provides an analysis of the public finances in Northern Ireland (NI), focusing on the expenditure and revenue generated within the region. The report includes data on 2012-13 and 2013-14 (the latest year for which data is available) for the first time and also updates estimates for earlier years (2009-10 to 2011-12).

Revenue

- Total (non-north Sea) public sector revenue collected in NI was estimated to be £14.8 billion in 2012-13 or 2.5 per cent of the UK total. Revenue collected grew slightly to £14.9 billion in 2013-14, or 2.5 per cent of the equivalent UK total

- Over the period 2009-10 to 2013-14 NI public sector revenue grew relatively significantly, showing an increase of 13.1 per cent. In comparison, UK revenue grew by 15.8 per cent over the same time period.

Expenditure

- In 2012-13, total public sector expenditure in NI was estimated to be £24.3 billion, or 3.4 per cent of the equivalent UK total. This figure decreased slightly to £24.1 billion in 2013-14, equivalent to 3.3 per cent of the UK total.

- 'Identifiable' public sector expenditure in NI was estimated to be £19.8 billion in 2012-13 or 3.6 per cent of the corresponding UK total. This increased slightly in 2013-14 to £20.1 billion, or 3.5 per cent of the UK total.

- 'Non-identifiable' expenditure was estimated at £2.9 billion in 2012-13 (2.8 per cent of the UK total). Accounting adjustments amounted to a further £1.6 billion or 2.7 per cent of the overall UK accounting adjustment. For 2013-14 non-identifiable expenditure was estimated at £2.9 billion or 2.8 per cent of the equivalent UK total. Accounting adjustments amounted to a further £1.1 billion or 2.5 per cent of the UK accounting adjustment figure.

- Total public sector expenditure in NI grew slightly from 2009-10 to 2013-14, increasing by 5.7 per cent. A similar trend was recorded in the UK where total public sector expenditure grew by 5.8 per cent.

Overall Fiscal Balance

- For 2012-13 the estimated fiscal balance in NI was a deficit of £9.5 billion (29.1 per cent of GVA). The 2013-14 'fiscal deficit' decreased to £9.2 billion (27.9 per cent of GVA).

- In 2012-13 the net fiscal balance or fiscal deficit in NI was equivalent to £5,187 per head, a figure considerably higher than the UK figure of

£1,999. As a percentage of GVA, the NI fiscal deficit was 29.1 per cent, again higher than the UK equivalent of 8.7 per cent.

- In 2013-14 the fiscal deficit was equivalent to £5,006 per head. This compared to a UK per head figure of £1,763. The NI fiscal deficit, as a percentage of GVA, was 27.9 per cent, which remained significantly higher than the UK equivalent of 7.5 per cent.

- Unless otherwise stated all estimates exclude North Sea oil revenue.

- The calculations employed to derive this net fiscal balance figure for NI require the estimation of several expenditure and revenue items. Therefore, the net fiscal balance estimates presented in this report are subject to some statistical uncertainty.

- The estimations throughout this report are not National Statistics.

SECTION 1: INTRODUCTION AND OVERVIEW

1.1 The purpose of this report is to provide an overview of public sector finances in Northern Ireland (NI) for the financial years 2009-10 to 2013-14. The expenditure and revenue analysis determines the 'net fiscal balance' for NI, estimated as aggregate public sector revenue less aggregate public sector expenditure.

1.2 As with previous reports in this series, the methodology applied continues to be generally consistent with that adopted by the Scottish Government in its annual publication 'Government Expenditure and Revenue in Scotland' (GERS)[1]. While actual data has been used where possible, it has been necessary to make a number of apportionments based on NI's share of United Kingdom (UK) Gross Value Added (GVA)[2], population share or alternative methods.

1.3 The figures within this report are estimates and should therefore be viewed as such[3]. Variations in methodologies or the subsequent provision of more actual data could produce a more accurate reflection of the true fiscal balance. Particular caution should be used in relation to individual components of the fiscal balance as many revenue streams have been estimated and are not true values.

1.4 Users may be aware that HM Revenue and Customs (HMRC) published its third report providing a disaggregation of tax receipts between England, Scotland, Wales and Northern Ireland[4] in October 2015. This report apportioned total UK tax receipts, tax credits and benefit payments administered by HMRC to England, Wales, Scotland and Northern Ireland. While the HMRC were able to draw on administrative data where it was available, comprehensive actual data on Northern Ireland receipts is not routinely available. Therefore as with the Net Fiscal Balance and GERS reports, HMRC also had to estimate the tax attributable to Northern Ireland using a variety of statistical techniques, including apportionment assumptions and adjustments where necessary. In some instances these are similar to those employed by DFP in producing the Net Fiscal Balance Report, while others differ. HMRC has acknowledged that a variety of alternative methodologies could justifiably be applied, which would lead to different estimates.

1.5 In terms of this 2012-13 and 2013-14 report for NI, the main estimates are produced using the methodology developed for the GERS report to

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[1] Scottish Government (March 2015) 'Government Expenditure and Revenue in Scotland 2013-14' http://www.gov.scot/Resource/0047/00472877.pdf

[2] Gross Domestic Product data is not available for Northern Ireland so Gross Value-Added (GVA) data is used instead. GVA + taxes on products - subsidies on products = GDP. Further note that the GVA figures used exclude Extra-Regio (off-shore contribution to GVA that cannot be assigned to any region).

[3] Estimates have been revised from previous reports as a result of changes in methodology, the use of alternative data sources and revision of previous figures used.

[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285765/disagg-info.pdf

maintain consistency with that and previous reports in the Net Fiscal Balance series. However a separate estimate of the net fiscal balance position based on the HMRC revenue data is also provided for comparison and completeness.

1.6 The remainder of this report is structured as follows:

Section 2: NI's Public Sector Accounts

1.7 Section 2 provides overall estimates of net fiscal balances in NI based on aggregate public sector revenue and expenditure estimates for the financial years 2009-10 to 2013-14.

Section 3: Public Sector Revenue

1.8 Section 3 presents estimates of NI's public sector revenue raised over the financial years 2009-10 to 2013-14.

Section 4: Public Sector Expenditure

1.9 Section 4 provides public sector expenditure estimates for NI over the financial years 2009-10 to 2013-14.

Section 5: Conclusion

1.10 This section summarises the main results of the analysis.

Annex A: Fiscal Background

1.11 Annex A contains a brief background to the public sector fiscal framework in NI and the UK.

Annex B: Public Sector Revenue Methodology

1.13 Annex B provides details on the methodology employed in this report to produce estimates of public sector revenue in NI.

Annex C: Public Sector Expenditure Methodology

1.14 Annex C presents details on the methodology employed to produce estimates of public sector expenditure in NI.

Annex D: NI's Public Sector Accounts (Exc. Non-Id & Acc. Adjustment)

1.15 Annex D illustrates an estimate of the NI fiscal balance based on identifiable expenditure only.

Annex E: NI's Public Sector Accounts (Inc. North Sea Oil)

1.16 Annex E illustrates an estimate of the NI fiscal balance including a per capita share of North Sea oil revenue.

SECTION 2: NI'S PUBLIC SECTOR ACCOUNTS

Introduction

2.1 This section presents an overview of NI's public sector accounts for the period 2009-10 to 2013-14, including estimates of the net fiscal balance over this five year period. It is important to bear in mind that the figures set out in this report are estimates subject to a margin of error and should be treated accordingly. Furthermore, as well as providing 2012-13 and 2013-14 figures for the first time, this report provides revised estimates for 2009-10 to 2011-12. Year-on-year comparisons should be made on the basis of the consistent estimates provided in this report.

Net Fiscal Balance 2012-13 and 2013-14

2.2 The 'net fiscal balance' shows the difference between total public sector revenue and total public sector expenditure (including accounting adjustments).

2.3 In 2012-13, NI recorded a negative net fiscal balance of £9.5 billion (or 29.1 per cent of GVA). In 2013-14, NI recorded a slightly lower negative fiscal balance of £9.2 billion, 27.9% of GVA.

2.4 Applying the NI methodology, in 2012-13 the total UK current budget deficit (excluding North Sea oil revenues) amounted to approximately £127 billion. This figure reduced to £113 billion in 2013-14.

2.5 The net fiscal balance or 'fiscal deficit' in NI was equivalent to £5,187 per head in 2012-13 and £5,006 per head in 2013-14. This compares to per head figures in the UK of £1,999 and £1,763 in 2012-13 and 2013-14 respectively. The NI fiscal deficit as a percentage of regional GVA was 29.1 per cent in 2012-13 and 27.9 per cent in 2013-14. In both years these were higher than the UK equivalent of 8.7 per cent and 7.5 per cent respectively.

2.6 Table 2.1 contains headline public sector revenue and expenditure figures relating to 2012-13 and 2013-14 estimates for NI and the UK.

Table 2.1: Net fiscal balance estimates: NI and the UK, 2013-14 (£m)

	2012-13		2013-14	
£ Million	NI	UK	NI	UK
Aggregate Expenditure	24,292	717,916	24,083	720,487
Aggregate Revenue	14,833	590,571	14,923	607,466
Net Fiscal Balance	-9,459	-127,345	-9,160	-113,021
Net Fiscal Balance per capita (£)	-5,187	-1,999	-5,006	-1,763
Net Fiscal Balance as a % of financial year GVA	-29.1%	-8.7%	-27.9%	-7.5%

Net Fiscal Balance 2009-10 to 2013-14

2.7 The remainder of this section profiles NI's fiscal position over the period 2009-10 to 2013-14, identifying trends in aggregate expenditure and revenue.

2.8 Table 2.2 shows how NI's fiscal deficit has decreased by approximately £0.4 billion over the period; from £9.6 billion in 2009-10 to £9.2 billion in 2013-14. As a percentage of regional GVA, the deficit decreased by 3.0 percentage points from 2009-10 to 2013-14. Within that 5 year period, the deficit dipped to a low of £8.9 billion in 2011-12 before increasing in 2012-13 to £9.5 billion.

Table 2.2: NI Fiscal Position 2009-10 to 2013-14

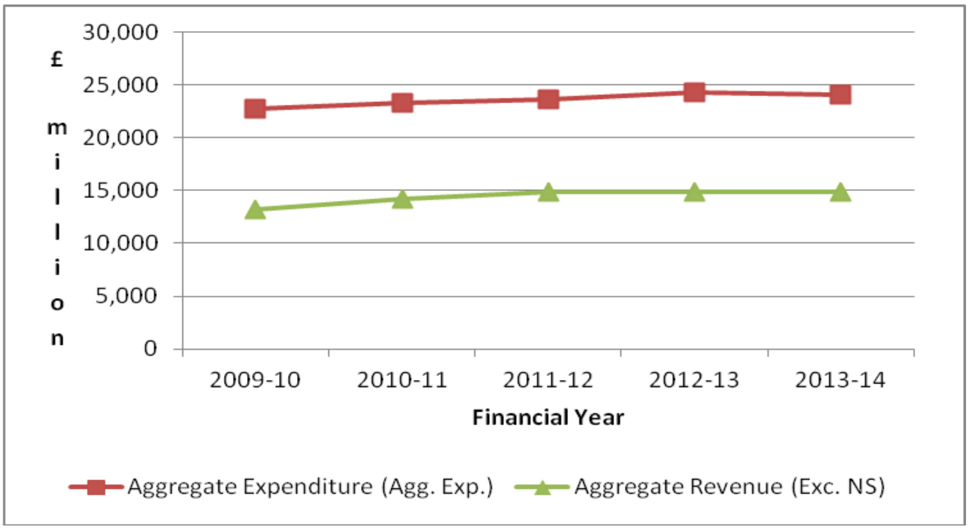
	NI				
£ Million	2009-10	2010-11	2011-12	2012-13	2013-14
Aggregate Expenditure	22,774	23,357	23,703	24,292	24,083
Aggregate Revenue	13,191	14,247	14,848	14,833	14,923
Net Fiscal Balance	-9,583	-9,110	-8,855	-9,459	-9,160
Net Fiscal Balance per capita (£)	-5,344	-5,048	-4,881	-5,187	-5,006
Net Fiscal Balance as a % of financial year GVA	-30.9%	-28.9%	-27.6%	-29.1%	-27.9%

2.9 The information provided in this table is further illustrated in figures 2.3 and 2.4.

2.10 Figure 2.3 presents aggregate expenditure and revenue, highlighting NI's negative budget balance or 'deficit'. The gap between these two lines indicates the size of the NI deficit over the period 2009-10 to 2013-14.

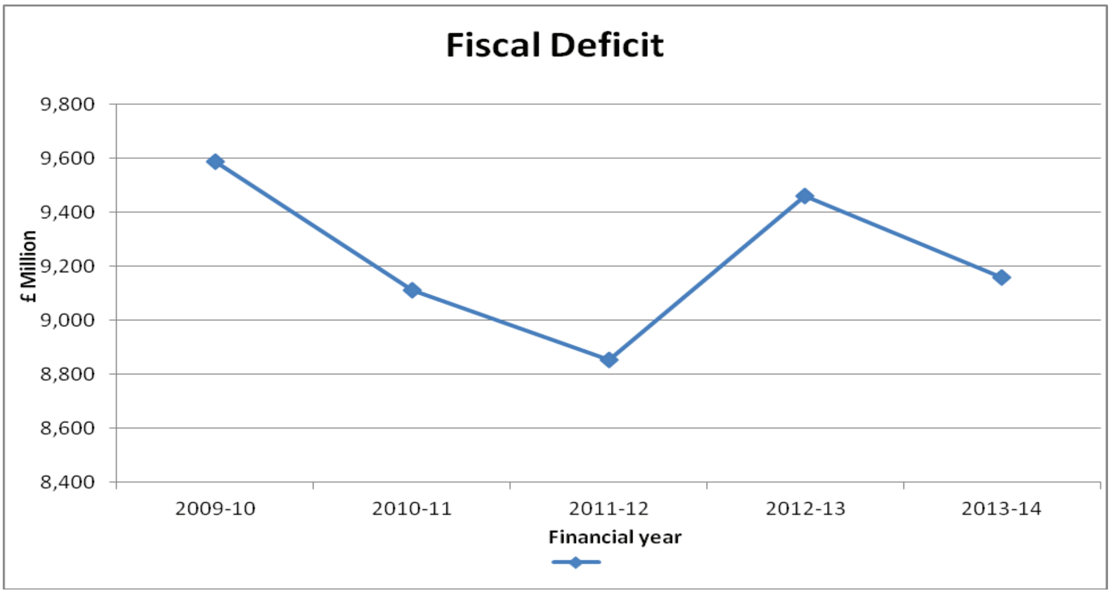
2.11 Over the five year period, total spending increased by £1.3 billion (5.7 per cent) while estimated aggregate revenue increased by £1.7 billion (13.1 per cent), giving a net decrease in the NI fiscal deficit of approximately £0.4 billion (4.4 per cent).

Figure 2.3: NI Trends in Aggregate Revenue and Aggregate Expenditure, 2009-10 to 2013-14



2.12 Figure 2.4 illustrates the trend of the 'fiscal deficit' over the five year period 2009-10 to 2013-14. Decreases were recorded between 2009-10 and 2011-12. This coincides with increases in the 3 main revenue streams for Northern Ireland - income tax, NICs and VAT - and a decreasing rate of growth in government expenditure over this time period. Although an increase was recorded in the 'fiscal deficit' from 2011-12 to 2012-13, due to stagnant revenue and increased expenditure, it decreased over the most recent time period (2012-13 to 2013-14) by 3.2 per cent. This can be attributed to a decrease in expenditure coupled with increased revenue. Overall, the period of 2009-10 to 2013-14 witnessed a decrease in the 'fiscal deficit' of approximately 4.4 per cent.

Figure 2.4: NI Fiscal Deficit Position, 2009-10 to 2013-14



2.13 The NI fiscal position from 2009-10 to 2013-14 shows a broadly similar trend to that seen in the UK public finances where revenue grew by 15.8 per cent, while expenditure rose by 5.8 per cent.

Revenue

2.14 Table 2.5 details the main components of public sector revenue in NI over the period 2009-10 to 2013-14. A further disaggregation of revenue is presented in section 3.

2.15 In 2013-14, total estimated public sector revenue in NI was approximately £14.9 billion representing a significant increase of 13.1 per cent from 2009-10. Increased revenue from VAT contributed most in absolute terms to the increase in tax revenues.

Table 2.5: Summary of Total Public Sector Revenue in NI, 2009-10 to 2013-14 (£m)

Revenue Stream £ Million	NI 2009-10	2010-11	2011-12	2012-13	2013-14
Income tax	2,469	2,593	2,509	2,479	2,605
VAT	2,325	2,794	3,170	3,119	3,271
National Insurance Contributions (NICs)	2,051	2,091	2,173	2,235	2,295
Local Authority Revenue	1,000	1,028	1057	1105	1,123
Corporation tax (excluding NS revenues)	685	808	729	755	768
Fuel duties	876	901	886	869	880
Gross operating surplus & rent	1,908	1,989	2,090	2,191	1,982
Other Revenues	1,877	2,044	2,234	2,080	2,000
Current receipts (excluding NS revenues)	**13,191**	**14,247**	**14,848**	**14,833**	**14,923**

Note: figures may not sum to totals due to rounding.

Expenditure

2.16 Table 2.6 presents a summary of Total Expenditure on Services (TES) for the main spending functions in NI over the period 2009-10 to 2013-14. A more detailed breakdown of expenditure is provided in section 4, including the estimation of the accounting adjustment required to bring TES in line with Total Managed Expenditure (TME) – the principal public sector expenditure aggregate used in UK Public Finance Accounts.

Table 2.6: Summary of Total Public Sector Expenditure on Services (TES) in NI, 2009-10 to 2013-14 (£m)

Expenditure Category	NI				
	2009-10	2010-11	2011-12	2012-13	2013-14
Social protection	7,580	7,572	7,954	8,331	8,586
Health	3,466	3,621	3,658	3,863	3,899
Education	2,714	2,826	2,793	2,849	2,751
Public order and safety	1,367	1,499	1,488	1,442	1,410
Defence	1,089	1,133	1,107	1,039	1,038
General public services [1]	1,578	1,972	1,939	1,810	1,888
Other [2]	3,885	3,568	3,499	3,371	3,419
Total	**21,679**	**22,191**	**22,438**	**22,705**	**22,993**

Note: figures may not sum to totals due to rounding.
1. This category is comprised of public and common services, international services, and debt interest.
2. This category is comprised of EU transactions, enterprise & economic development, science & technology, employment policies, agriculture, fisheries & forestry, transport, environment protection, housing & community amenities, and recreation, culture & religion.

Alternative Net Fiscal Balance 2013-14 estimate based on HMRC regional tax figures

2.17 As indicated in Section 1, HMRC has produced a report providing a disaggregation of tax receipts between England, Scotland, Wales and Northern Ireland. This provides alternative estimates for most tax revenues (except some that are locally raised such as rates income, and the non-cash item, gross operating surplus). The effect of applying these alternate HMRC estimates (where available) is to reduce total aggregate revenue for NI in 2013-14 from the £14.9bn included at Table 2.2 to £14.3bn. This in turn would increase the 2013-14 net fiscal balance from £9.2bn to £9.8bn.

SECTION 3: PUBLIC SECTOR REVENUE

Introduction

3.1 This section focuses on public sector revenues. As mentioned previously, there are a number of practical and theoretical difficulties that arise when allocating shares of UK tax revenue to each of its constituent countries as data on taxation is generally not available on a regional basis. Therefore, it has been necessary in some cases to estimate regional shares using reasoned assumptions. If more actual data was available this would lead to a more accurate reflection of total revenue raised in NI.

3.2 The data used to derive the figures for this report is taken from the Office for National Statistics (ONS) PSAT2 Database. Details of the methodology employed and the various sources of data used in estimating total public sector revenue in NI are provided in Annex B. In particular, table B1 provides a summary of the apportionment method applied and the source of data used to estimate each revenue stream.

3.3 North Sea oil revenues are excluded from this public sector revenue estimation. For a hypothetical exercise including a per capita share of North Sea revenues allocated to NI, refer to Annex E.

Estimated Revenue 2013-14

3.4 The estimates of revenue generated in NI and the UK for 2013-14 are presented in Table 3.1. The table also shows the estimated contribution from each revenue stream and the proportion of UK revenue raised in NI. Based on the calculations, NI revenues are estimated at £14.9 billion in 2013-14 or 2.5 per cent of the UK total non-North Sea revenue.

Table 3.1: Current Revenue: NI and UK 2013-14

Revenue Stream	UK (£ million)	NI (£ million)	Share of UK
Income tax (net of tax credits)	156,011	2,605	1.7%
Corporation tax (excluding North Sea revenues)	35,623	768	2.2%
Capital gains tax	3,907	86	2.2%
Inheritance tax	3,401	43	1.3%
Stamp duties	12,479	147	1.2%
National Insurance Contributions (NICs)	107,306	2,295	2.1%
VAT	120,226	3,271	2.7%
Fuel duties	26,881	880	3.3%
Tobacco duty	9,556	436	4.6%
Alcohol Duties	10,308	238	2.3%
Betting & Gaming duties	1,645	72	4.4%
Air Passenger duty	3,003	83	2.8%
Insurance Premium tax	3,018	78	2.6%
Land fill tax	1,179	30	2.5%
Climate Change Levy	1,200	27	2.3%
Aggregates levy	294	6	2.2%
VED	6,121	174	2.8%
Business rates (non-domestic rates)	24,493	566	2.3%
Council Tax (domestic rates)	27,360	557	2.0%
Other taxes & royalties[1]	12,677	333	2.6%
Interest & dividends	5,592	161	2.9%
Gross operating surplus and rent	31,939	1,982	6.2%
Other taxes on income and wealth	3,247	84	2.6%
Current Receipts (excluding North Sea Revenues)	**607,466**	**14,923**	**2.5%**
North Sea Revenues (NI on a per capita basis)[2]	4,766	136	2.9%
Current Receipts (including North Sea Revenues)	**612,232**	**15,059**	**2.5%**

[1] Includes money paid into the National Lottery Distribution Fund.
[2] Consists of North Sea corporation tax, petroleum revenue tax and royalties.

3.5 The main sources of NI estimated tax receipts were: income tax (net of tax credits) amounting to £2.6 billion; Value-Added Tax (VAT) amounting to £3.3 billion; and National Insurance Contributions (NICs) amounting to £2.3 billion. Collectively, these estimated receipts accounted for around 55 per cent of NI public sector revenue in 2013-14.

3.6 Table 3.2 shows NI receipts and their respective proportion of total estimated NI public sector revenue.

Table 3.2: Current Revenue in NI 2013-14

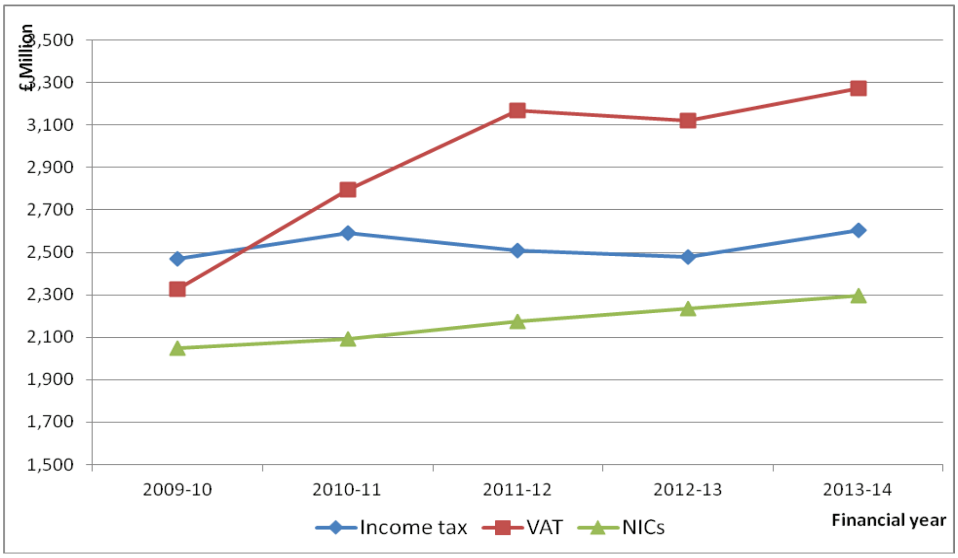
Revenue Stream	NI (£ million)	Share of NI Total
Income tax (net of tax credits)	2,605	17.5%
Corporation tax (excluding North Sea revenues)	768	5.1%
Capital gains tax	86	0.6%
Inheritance tax	43	0.3%
Stamp duties	147	1.0%
National Insurance Contributions (NICs)	2,295	15.4%
VAT	3,271	21.9%
Fuel duties	880	5.9%
Tobacco duty	436	2.9%
Alcohol Duties	238	1.6%
Betting & Gaming duties	72	0.5%
Air Passenger duty	83	0.6%
Insurance Premium tax	78	0.5%
Land fill tax	30	0.2%
Climate Change Levy	27	0.2%
Aggregates levy	6	0.0%
VED	174	1.2%
Business rates (non-domestic rates)	566	3.8%
Council Tax (domestic rates)	557	3.7%
Other taxes & royalties[1]	333	2.2%
Interest & dividends	161	1.1%
Gross operating surplus & rent	1,982	13.3%
Other taxes on income and wealth	84	0.6%
Current Receipts (excluding North Sea Revenues)	**14,923**	**100.0%**

Note: figures may not sum to totals due to rounding.
[1] Includes money paid into the National Lottery Distribution Fund.

Estimated Revenue 2009-10 to 2013-14

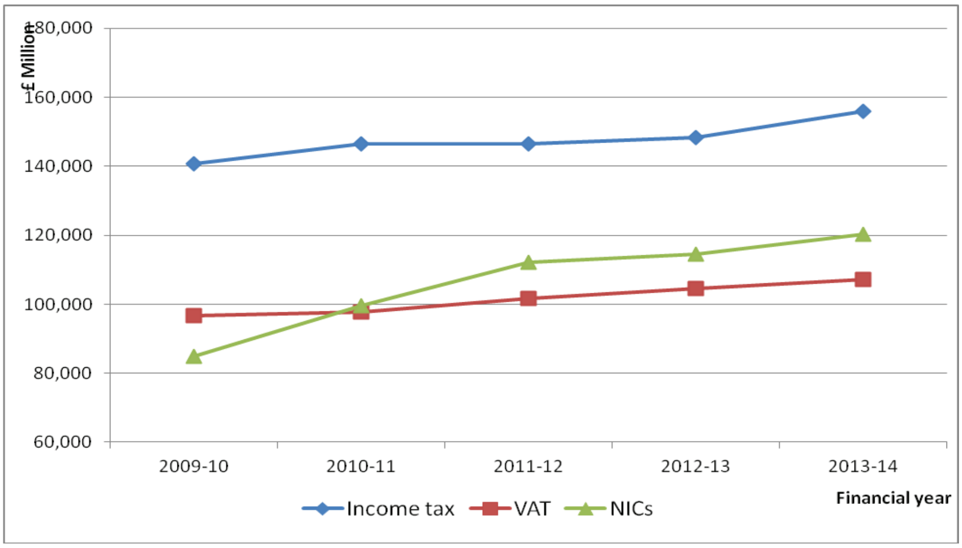
3.7 Figures 3.3 and 3.4 illustrate the trends in NI and the UK respectively for each of the three largest revenue categories (namely income tax, VAT, and NICs).

Figure 3.3: Trend of NI Largest Revenue Categories, 2009-10 to 2013-14



3.8 In NI income tax, VAT and NICs have all experienced growth in the 5 years from 2009-10 to 2013-14. VAT in particular has experienced significant growth from 2009-10 to 2011-12, which can be partly attributed to the rise in the VAT rate from 17.5% to 20% in January 2011.Likewise, income tax, VAT and NICs have experienced growth in the UK over the same period. Figure 3.3 shows that NI VAT revenues are now higher than income tax revenues. Comparatively, in the UK income tax receipts continue to be substantially higher than the other main sources of revenue.

Figure 3.4: Trend of UK Largest Revenue Categories, 2009-10 to 2013-14



3.9 Table 3.5 shows estimates of UK and NI revenue for the period 2009-10 to 2013-14.

Table 3.5: Estimated Revenue Trend for UK and NI 2009-10 to 2013-14

	UK					NI				
£ Million	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Income tax (net of tax credits)	140,606	146,628	146,548	148,435	156,011	2,469	2,593	2,509	2,479	2,605
Corporation tax (excluding NS revenues)	30,737	35,173	33,225	34,977	35,623	685	808	729	755	768
Capital gains tax	2,504	3,589	4,336	3,926	3,907	58	82	98	87	86
Inheritance tax	2,386	2,716	2,905	3,106	3,401	36	34	30	39	43
Stamp duties	7,904	8,931	8,919	9,140	12,479	132	135	124	112	147
National Insurance Contributions (NICs)	96,638	97,747	101,597	104,483	107,306	2,051	2,091	2,173	2,235	2,295
VAT	84,825	99,523	112,067	114,465	120,226	2,325	2,794	3,170	3,119	3,271
Fuel duties	26,197	27,256	26,798	26,571	26,881	876	901	886	869	880
Tobacco duty	9,462	9,305	9,878	9,590	9,556	516	475	504	437	436
Alcohol duties	9,246	9,434	10,180	10,139	10,308	223	223	405	354	238
Betting & Gaming duties	1,029	1,069	1,221	1,228	1,645	28	43	49	54	72
Air Passenger duty	1,870	2,183	2,637	2,818	3,003	60	66	73	78	83
Insurance Premium tax	2,262	2,509	3,002	3,033	3,018	59	67	80	79	78
Land fill tax	944	1,094	1,075	1,116	1,179	29	32	28	29	30
Climate Change Levy	687	660	678	663	1,200	14	13	17	15	27
Aggregates levy	276	294	283	261	294	6	7	6	6	6
VED	5,692	5,789	5,930	6,003	6,121	164	167	171	170	174
Business rates (non-domestic rates)	21,500	21,527	22,691	23,865	24,493	510	524	533	557	566
Council Tax (domestic rates)	25,069	25,555	25,767	26,118	27,360	490	504	524	548	557
Other taxes & royalties[1]	13,287	13,716	14,902	14,077	12,677	359	393	410	379	333
Interest & dividends	4,852	5,493	5,648	5,510	5,592	141	159	164	160	161
Gross operating surplus and rent	34,605	35,428	36,307	37,932	31,939	1,908	1,989	2,090	2,191	1,982
Other taxes on income and wealth	2,037	6,050	2,901	3,115	3,247	52	149	76	81	84
Current receipts (excluding NS revenues)	**524,615**	**561,669**	**579,495**	**590,571**	**607,466**	**13,191**	**14,247**	**14,848**	**14,833**	**14,923**
North Sea revenues (per capita basis)[2]	5,991	8,406	10,958	6,214	4,766	173	242	314	178	136
Current Receipts (including NS revenues)	**530,606**	**570,075**	**590,453**	**596,785**	**612,232**	**13,363**	**14,489**	**15,162**	**15,011**	**15,059**

See footnotes 1 & 2 at Table 3.1

3.10 Table 3.6 identifies the growth rate of each revenue category over the periods 2009-10 to 2013-14 and 2012-13 to 2013-14 for both the UK and NI.

Table 3.6: % Growth in Revenue between 2009-10 and 2013-14

	2009-10 to 2013-14		2012-13 to 2013-14	
£ Million	UK % Growth	NI % Growth	UK % Growth	NI % Growth
Income tax (net of tax credits)	11.0%	5.5%	5.1%	5.1%
Corporation tax (excluding NS revenues)	15.9%	12.1%	1.8%	1.7%
Capital gains tax	56.0%	47.2%	-0.5%	-2.0%
Inheritance tax	42.5%	19.4%	9.5%	10.3%
Stamp duties	57.9%	11.4%	36.5%	31.4%
National Insurance Contributions (NICs)	11.0%	11.9%	2.7%	2.7%
VAT	41.7%	40.7%	5.0%	4.9%
Fuel duties	2.6%	0.4%	1.2%	1.2%
Tobacco duty	1.0%	-15.5%	-0.4%	-0.4%
Alcohol duties	11.5%	6.7%	1.7%	-32.9%
Betting & Gaming duties	59.9%	155.2%	34.0%	34.0%
Air Passenger duty	60.6%	38.3%	6.6%	6.4%
Insurance Premium tax	33.4%	33.6%	-0.5%	-0.5%
Land fill tax	24.9%	2.1%	5.6%	4.0%
Climate Change Levy	74.7%	89.5%	81.0%	80.0%
Aggregates levy	6.5%	0.5%	12.6%	11.0%
VED	7.5%	6.1%	2.0%	2.4%
Business rates (non-domestic rates)	13.9%	11.0%	2.6%	1.6%
Council Tax (domestic rates)	9.1%	13.7%	4.8%	1.6%
Other taxes & royalties[1]	-4.6%	-7.1%	-9.9%	-12.0%
Interest & dividends	15.3%	14.1%	1.5%	1.1%
Gross operating surplus & rent	-7.7%	3.9%	-15.8%	-9.5%
Other receipts & accounting adjustments	59.4%	63.5%	4.2%	3.4%
Current receipts (excluding NS revenues)	15.8%	13.1%	2.9%	0.6%
North Sea revenues (per capita basis) [2]	-20.4%	-21.2%	-23.3%	-23.5%
Current Receipts (including NS revenues)	15.4%	12.7%	2.6%	0.3%

See footnotes 1 & 2 at Table 3.1

HMRC Revenue estimates for Northern Ireland

3.13 Table 3.7 compares the 2013-14 tax revenue estimates from the NI Net Fiscal Balance report and the HMRC report. It has not been possible to compare all revenue streams as some are included in the NI Net Fiscal balance report but not in the HMRC report and vice versa. The comparison highlights a number of differences in the estimates, however the most significant revenue stream not included in the HMRC report is Gross Operating Surplus & Rent (a non-cash item), which accounts for almost £2.0bn of the total revenue estimate in the Net Fiscal Balance report.

Table 3.7: Comparison of Revenue Estimates – NFB and HMRC

Tax Revenue Stream	NFB 2013-14 (£million)	HRMC 2013-14 (£million)
Income tax (net of tax credits)	2,605	2,620
Corporation tax (excluding NS revenues)	768	478
Capital gains tax	86	34
Inheritance tax	43	38
Stamp duties	147	37
National Insurance Contributions (NICs)	2,295	2,282
VAT	3,271	2,972
Fuel duties	880	905
Tobacco duty	436	434
Alcohol duties	238	312
Betting & Gaming duties	72	61
Air Passenger duty	83	87
Insurance Premium tax	78	78
Land fill tax	30	29
Climate Change Levy	27	9
Aggregates levy	6	34
VED	174	N/A
Business rates (non-domestic rates)	566	N/A
Council Tax (domestic rates)	557	N/A
Other taxes & royalties	333	N/A
Interest & dividends	161	N/A
Gross operating surplus & rent	1,982	N/A
Other taxes on income and wealth	84	N/A
Customs Duties	N/A	64
Child and Working Tax Credits	N/A	1,055
Child Benefit	N/A	377
Swiss Capital Tax	N/A	13
Annual tax on enveloped dwellings	N/A	2

3.14 Table 3.8 shows that the NI fiscal deficit is estimated at £9.8bn using the HMRC tax revenue estimates. This is a difference of 6.9 per cent compared to the estimate using the methodology developed through the GERS report. As a percentage of GVA, the fiscal deficit estimate using HMRC data is 2.0 percentage points higher than the estimate calculated using the GERS methodology and the fiscal deficit per capita is 6.9 per cent higher at £5,365.

Table 3.8: Net Fiscal Balance estimates using HMRC revenue data

£ Million	2013-14 NI
Aggregate Expenditure	24,083
Aggregate Revenue	14,267
Net Fiscal Balance	-9,816
Net Fiscal Balance per capita (£)	-5,365
Net Fiscal Balance as a % of financial year GVA	-29.9%

SECTION 4: PUBLIC SECTOR EXPENDITURE

Introduction

4.1 This section provides a more detailed analysis of public expenditure in NI. The estimates presented are based on data contained in the November 2014[5] Country and Regional Analysis (CRA) of HM Treasury's 'Public Expenditure Statistical Analysis' publication[6] (hereafter referred to as PESA).

4.2 In accordance with PESA, public expenditure data has been disaggregated into three components: identifiable expenditure; non-identifiable expenditure; and an accounting adjustment. Identifiable expenditure is that which can be recognised as benefiting individuals, enterprises or communities within particular regions. Examples of identifiable expenditure include welfare payments and most health and education expenditure.

4.3 Non-identifiable expenditure is incurred on behalf of the UK as a whole and cannot be apportioned to an individual country or region. The largest element of non-identifiable expenditure is defence expenditure. For example, defence spend benefits the UK as a single entity rather than specific parts. Debt interest payments, defence, and international services are typically the largest elements of non-identifiable expenditure.

4.4 A hypothetical exercise estimating the NI fiscal balance excluding non-identifiable spending and the accounting adjustment is attached at Annex D of this report. However, clearly there are aspects of total UK public expenditure that need to be considered.

4.5 Both identifiable and non-identifiable expenditure consist of current and capital expenditure. Current expenditure includes items such as welfare payments and public sector pay. Capital expenditure largely comprises spend on infrastructure such as roads, schools and hospitals. Total identifiable and total non-identifiable expenditure sum to produce an estimate of Total Expenditure on Services (TES). An accounting adjustment is then required to bring TES into line with Total Managed Expenditure (TME), the principal public sector expenditure aggregate used in UK Public Finance Accounts.

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[5] See Annex C for more detail

[8] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/380589/Country_and_Regional_Analysis_November_2014_Combined.pdf

In Summary:

- **Identifiable (Current + Capital) + Non-Identifiable (Current + Capital) = Total Expenditure on Services**

- **Total Expenditure on Services + Accounting Adjustment = Total Managed Expenditure**

Total Expenditure on Services

4.6 Table 4.1 shows estimated public sector TES for NI by expenditure category in 2013-14. Based on the methodologies adopted in this report, TES was estimated at £23.0 billion in NI. This was equivalent to 3.4 per cent of total UK public sector expenditure. The largest expenditure component was social protection, which accounted for 37.3 per cent of NI TES. Health and education were the next largest spending categories, accounting for respective TES shares of 17.0 per cent and 12.0 per cent.

Table 4.1: NI Total Expenditure on Services (TES), 2013-14

	Northern Ireland	
	Expenditure £ million	Share of Total Expenditure
Public and common services	542	2.4%
EU transactions	93	0.4%
International services	288	1.3%
Debt interest	1,059	4.6%
Defence	1,038	4.5%
Public order and safety	1,410	6.1%
Enterprise and economic development	316	1.4%
Science and technology	98	0.4%
Employment policies	176	0.8%
Agriculture, fisheries and forestry	537	2.3%
Transport	541	2.4%
Environment protection	267	1.2%
Housing and community amenities	825	3.6%
Health	3,899	17.0%
Recreation, culture and religion	565	2.5%
Education	2,751	12.0%
Social protection	8,586	37.3%
Total[1]	**22,993**	**100.0%**

1. The sum of the constituent items may not always agree exactly with the total shown due to rounding.

4.7 Table 4.2 details total current and capital expenditure for NI and the UK over the period 2009-10 to 2013-14.

Table 4.2: Total Current and Capital Expenditure on Services (TES): NI and the UK 2009-10 to 2013-14 (£m)

	NI					UK				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Current	19,574	20,371	20,836	21,196	21,471	572,754	600,131	606,732	617,044	629,721
Capital	2,105	1,820	1,602	1,509	1,522	65,125	55,133	45,967	42,761	47,651
Total [1]	**21,679**	**22,191**	**22,438**	**22,705**	**22,993**	**637,879**	**655,264**	**652,699**	**659,805**	**677,372**

1. The sum of the constituent items may not always agree exactly with the total shown due to rounding. The UK total presented is taken directly from PESA.

4.8 Table 4.3 provides the shares of NI TES attributed to current and capital expenditure. From 2009-10 to 2013-14, capital expenditure decreased as a proportion of total expenditure annually, from 9.7 per cent in 2009-10 to 6.6 per cent in 2013-14.

Table 4.3: Current and Capital Expenditure (% of Total Expenditure): NI and the UK 2009-10 to 2013-14

	NI					UK				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Current	90.3%	91.8%	92.9%	93.4%	93.4%	89.8%	91.6%	93.0%	93.5%	93.0%
Capital	9.7%	8.2%	7.1%	6.6%	6.6%	10.2%	8.4%	7.0%	6.5%	7.0%

4.9 Tables 4.4 and 4.5 present TES by current and capital expenditure for NI and the UK.

4.10 Over the period 2009-10 to 2013-14, estimated TES increased from £21.7 billion to £23.0 billion in NI, an increase of 6.1 per cent. UK TES increased from £637.9 billion to £677.4 billion over the same period, a similar increase of 6.2 per cent.

4.11 Current expenditure by the NI public sector accounts for approximately 93 per cent of TES in both NI and the UK. Between 2009-10 and 2013-14 current expenditure increased by 9.7 per cent in NI and by 9.9 per cent in the UK.

4.12 In comparison, NI public sector capital expenditure accounts for around 7.0 per cent of TES. Overall, capital expenditure declined by 27.7 per cent in Northern Ireland and by 26.8 per cent in the UK as a whole over the period 2009-10 to 2013-14.

Table 4.4: NI Total Expenditure on Services (TES), 2009-10 to 2013-14 (£m)

	Current					Capital					Total				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Public and common services	509	524	475	474	494	74	62	38	31	48	583	586	513	505	542
EU transactions	80	97	100	92	93	0	0	0	0	0	80	97	100	92	93
International services	189	210	211	212	270	17	21	17	16	17	206	231	228	228	287
Debt interest	789	1,155	1,198	1,077	1,059	0	0	0	0	0	789	1,155	1,198	1,077	1,059
Defence	972	1,009	1,003	940	945	117	124	104	99	93	1,089	1,133	1,107	1,039	1,038
Public order and safety	1,285	1,418	1,399	1,364	1,341	82	81	89	78	69	1,367	1,499	1,488	1,442	1,410
Enterprise and economic development [1]	250	195	205	267	270	256	82	63	40	47	506	277	268	307	317
Science and technology	84	86	78	84	86	8	7	8	4	12	92	93	86	88	98
Employment policies	133	170	158	152	176	1	0	0	0	0	134	170	158	152	176
Agriculture, fisheries and forestry	540	506	470	459	485	22	24	32	35	52	562	530	502	494	537
Transport	260	296	301	305	294	329	409	309	273	248	589	705	610	578	542
Environment protection	244	240	253	242	238	9	19	16	18	29	253	259	269	260	267
Housing and community amenities	530	403	486	445	434	592	431	476	375	391	1,122	834	962	820	825
Health	3,278	3,418	3,463	3,548	3,648	188	203	195	315	251	3,466	3,621	3,658	3,863	3,899
Recreation, culture and religion	435	483	459	488	431	112	120	85	92	133	547	603	544	580	564
Education	2,443	2,602	2,635	2,719	2,621	271	224	158	130	130	2,714	2,826	2,793	2,849	2,751
Social protection	7,553	7,559	7,942	8,328	8,584	27	13	12	3	2	7,580	7,572	7,954	8,331	8,586
Total	**19,574**	**20,371**	**20,836**	**21,196**	**21,471**	**2,105**	**1,820**	**1,602**	**1,509**	**1,522**	**21,679**	**22,191**	**22,438**	**22,705**	**22,993**

1. The sum of the constituent items may not always agree exactly with the total shown due to rounding.

Table 4.5: UK Total Expenditure on Services (TES), 2009-10 to 2013-14 (£m)

	Current					Capital					Total				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Public and common services	11933	11125	10465	10045	10305	1819	1635	1111	1267	1831	13752	12760	11576	11312	12136
EU transactions	904	3,628	2,034	4,307	5,174	0	0	0	0	0	904	3,628	2,034	4,307	5,174
International services	6,537	7,257	7,360	7,407	9,474	596	743	592	546	621	7,133	8,000	7,952	7,953	10,095
Debt interest	27,258	39,953	41,791	37,641	37,109	0	0	0	0	0	27,258	39,953	41,791	37,641	37,109
Defence	33,652	34,982	35,056	32,899	33,169	4,060	4,305	3,606	3,456	3,261	37,712	39,287	38,662	36,355	36,430
Public order and safety	31,432	31,014	30,509	29,936	28,674	2,686	2,002	1,525	1,364	1,491	34,118	33,016	32,034	31,300	30,165
Enterprise and economic development [2]	5,126	2,792	3,256	3,933	4,224	7,110	2,024	1,595	938	1,051	12,236	4,816	4,851	4,871	5,275
Science and technology	2,819	2,885	2,957	3,107	3,325	734	521	607	492	1,114	3,553	3,406	3,564	3,599	4,439
Employment policies	3,953	4,603	3,170	2,986	3,852	144	94	83	100	76	4,097	4,697	3,253	3,086	3,928
Agriculture, fisheries and forestry	5,549	5,150	5,522	4,990	5,044	273	329	270	305	439	5,822	5,479	5,792	5,295	5,483
Transport	9,767	8,830	8,375	7,861	8,055	13,204	12,660	11,667	10,910	12,319	22,971	21,490	20,042	18,771	20,374
Environment protection	8,188	8,145	8,212	7,716	8,141	2,209	2,784	2,250	2,888	3,374	10,397	10,929	10,462	10,604	11,515
Housing and community amenities	4,018	3,219	2,732	3,175	3,146	12,326	9,900	7,314	6,773	8,590	16,344	13,119	10,046	9,948	11,736
Health	110,737	114,437	116,987	119,491	124,772	6,180	5,389	4,249	4,782	4,710	116,917	119,826	121,236	124,273	129,482
Recreation, culture and religion	10,383	10,380	9,797	10,852	9,442	2,796	2,582	2,714	1,879	2,225	13,179	12,962	12,511	12,731	11,667
Education	78,550	82,351	79,108	80,652	84,263	9,934	9,148	7,789	6,633	6,758	88,484	91,499	86,897	87,285	91,021
Social protection	221,948	229,380	239,401	250,046	251,552	1,053	1,018	595	427	-208	223,001	230,398	239,996	250,473	251,344
Total[1]	**572,754**	**600,131**	**606,732**	**617,044**	**629,721**	**65,124**	**55,134**	**45,967**	**42,760**	**47,652**	**637,878**	**655,265**	**652,699**	**659,804**	**677,373**

1. The sum of the constituent items may not always agree exactly with the total shown due to rounding. The total presented is taken directly from PESA 2014.

4.13 Figures 4.6 and 4.7 show similar trends in the growth of the three largest expenditure categories in both NI and the UK respectively. The largest categories in both regions are social protection (which covers expenditure on welfare payments and so on), followed by health expenditure and then by expenditure on education.

Figure 4.6: Trend of NI Largest Expenditure Categories, 2009-10 to 2013-14

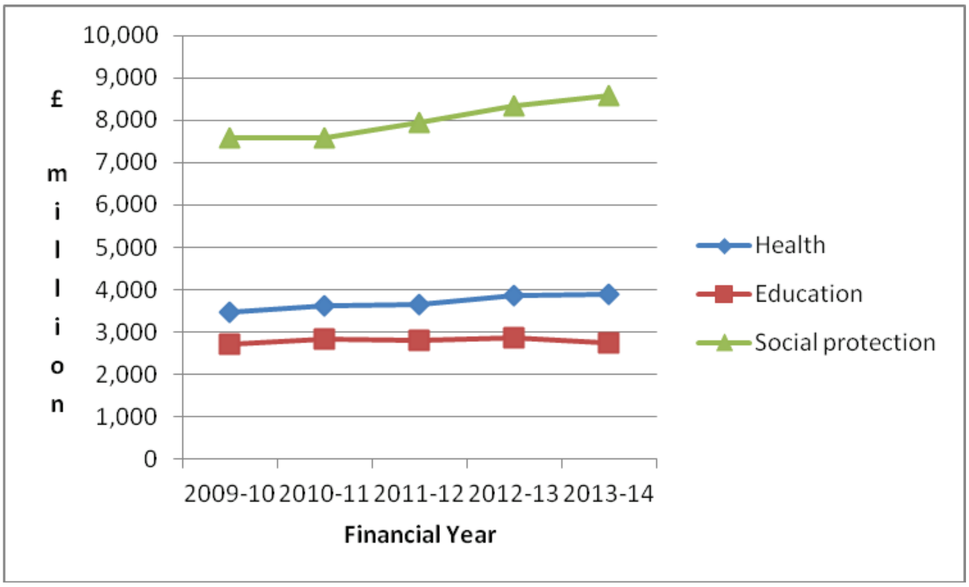
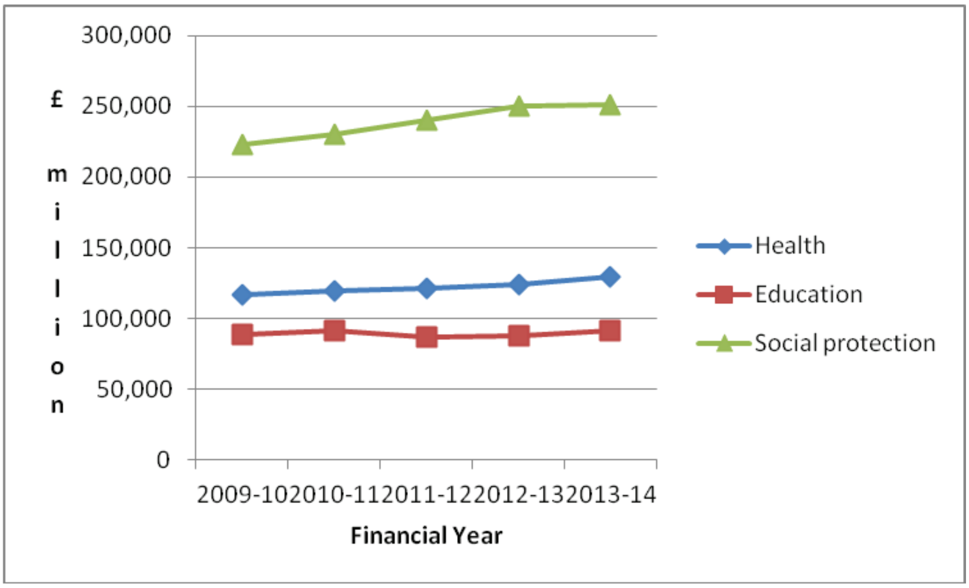


Figure 4.7: Trend of UK Largest Expenditure Categories, 2009-10 to 2013-14



4.14 Per capita TES spend for both NI and the UK is presented in Table 4.8. TES per capita for NI was estimated at £12,556 in 2013-14; 20.0 per cent (£2,052) higher than UK TES per capita.

4.15 TES per capita is generally higher in NI across most spending categories. In absolute terms, the greatest differences on a per capita basis occurred in social protection and public order & safety, which were £772 and £300 higher respectively in NI than in the UK.

Table 4.8: Total Expenditure on Services (TES) per capita: NI and UK, 2013-14 [1]

	NI (£)	UK (£)	Difference (NI less UK)	Relative Expenditure for NI (UK=100)
Public and common services	296	189	107	156
EU transactions	52	81	-29	64
International services	157	157	-1	100
Debt interest	579	579	0	100
Defence	567	568	-1	100
Public order and safety	771	471	300	164
Enterprise and economic development	173	82	91	211
Science and technology	54	69	-16	77
Employment policies	96	61	35	157
Agriculture, fisheries and forestry	293	86	208	343
Transport	296	318	-22	93
Environment protection	146	180	-34	81
Housing and community amenities	451	183	268	246
Health	2,131	2,020	111	106
Recreation, culture and religion	308	182	126	169
Education	1,504	1,420	84	106
Social protection	4,693	3,921	772	120
Total	**12,556**	**10,504**	**2,052**	**120**

1. Figures in this table have been rounded to the nearest whole number.

4.16 As might be expected public expenditure on services varies across the UK regions. NI public expenditure per capita differs from the UK average for a number of reasons. Higher public expenditure per capita in NI may be a reflection of the relative importance of particular activities, such as agriculture, forestry and fisheries. NI also has a lower population density than the UK which may partly explain the relative cost of providing a given level of public services, particularly in services such as health and education.

4.17 Furthermore, the range of activities classified within the public sector differs across the UK regions. This therefore affects the level of public expenditure required within those regions. For instance, water and sewerage services are within the public sector's remit in NI but are provided by the private sector in England.

Identifiable and Non-identifiable Expenditure

4.18 Public sector TES for NI may be disaggregated into identifiable expenditure and non-identifiable expenditure. In 2013-14, UK identifiable expenditure accounted for 81.8 per cent of UK TES. The remaining non-identifiable expenditure cannot be attributed directly to the UK regions because it is incurred for the benefit of the UK as a whole (e.g. defence spending). For the purposes of this analysis a share of UK non-identifiable expenditure may be apportioned to NI on a share of either UK population or UK Gross Value Added (GVA). Annex C of this paper further outlines the assumptions and methodologies employed in the apportionment of non-identifiable expenditure.

4.19 TES is shown by identifiable and non-identifiable expenditure for NI over the period 2009-10 to 2013-14 in Table 4.9. Identifiable expenditure amounted to £20.1 billion in 2013-14 while non-identifiable expenditure totalled £2.9 billion (12.8 per cent of TES).

Table 4.9: NI Total Expenditure on Services (TES), Identifiable and Non-identifiable, 2009-10 to 2013-14 (£m) [1]

	Identifiable (ID)					Non-identifiable (Non-ID)					Total (ID + Non-ID)				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Public and common services	441	456	383	379	417	142	131	130	125	126	583	587	513	504	543
EU transactions	0	0	0	0	0	80	97	100	92	93	80	97	100	92	93
International services	5	6	6	5	5	201	225	222	223	284	206	231	228	228	289
Debt interest	0	0	0	0	0	789	1,155	1,198	1,077	1,059	789	1,155	1,198	1,077	1,059
Defence	0	0	0	0	0	1,090	1,133	1,107	1,039	1,038	1,090	1,133	1,107	1,039	1,038
Public order and safety	1,302	1,448	1,440	1,398	1,382	64	51	48	44	28	1,366	1,499	1,488	1,442	1,410
Enterprise & economic development [2]	370	320	284	289	298	136	-42	-16	17	18	506	278	268	306	316
Science and technology	78	80	73	79	88	14	13	13	9	10	92	93	86	88	98
Employment policies	134	171	158	152	176	0	0	0	0	0	134	171	158	152	176
Agriculture, fisheries and forestry	559	525	503	495	535	4	5	0	0	2	563	530	503	495	537
Transport	583	699	603	567	525	6	6	7	11	16	589	705	610	578	541
Environment protection	249	250	265	255	257	3	9	4	7	10	252	259	269	262	267
Housing & community amenities	1,122	834	962	820	824	0	0	0	0	0	1,122	834	962	820	824
Health	3,442	3,595	3,638	3,844	3,882	24	25	19	19	17	3,466	3,620	3,657	3,863	3,899
Recreation, culture and religion	412	463	416	462	458	135	140	128	118	106	547	603	544	580	564
Education	2,714	2,826	2,794	2,849	2,750	0	0	0	0	0	2,714	2,826	2,794	2,849	2,750
Social protection	7,478	7,460	7,839	8,207	8,458	102	112	115	124	129	7,580	7,572	7,954	8,331	8,587
Total	**18,889**	**19,133**	**19,364**	**19,801**	**20,055**	**2,790**	**3,060**	**3,075**	**2,905**	**2,936**	**21,679**	**22,193**	**22,439**	**22,706**	**22,993**

1. Non-identifiable expenditure figures above have apportioned 'Outside the UK' and 'Non-identifiable spending' figures from PESA.
2. The sum of the constituent items may not always agree exactly with the total shown due to rounding.

Identifiable Expenditure

4.20 Table 4.10 compares identifiable expenditure for NI and the UK in 2013-14. Identifiable expenditure in NI was similar to that of the UK, with social protection, health and education being the main spending categories.

Table 4.10: Identifiable Expenditure on Services: NI and UK, 2013-14

	NI		United Kingdom	
	Expenditure £ million	Share of Identifiable Expenditure	Expenditure £ million	Share of Identifiable Expenditure
Public and common services	417	2.1%	7,713	1.3%
International services	5	0.0%	159	0.0%
Defence	0	0.0%	70	0.0%
Public order and safety	1,382	6.9%	29,183	5.1%
Enterprise and economic development	298	1.5%	4,640	0.8%
Science and technology	88	0.4%	4,064	0.7%
Employment policies	176	0.9%	3,658	0.6%
Agriculture, fisheries and forestry	535	2.7%	5,405	0.9%
Transport	525	2.6%	19,666	3.4%
Environment protection	257	1.3%	11,159	1.9%
Housing and community amenities	824	4.1%	11,736	2.0%
Health	3,882	19.4%	128,894	22.5%
Recreation, culture and religion	458	2.3%	7,967	1.4%
Education	2,750	13.7%	91,017	15.9%
Social protection	8,458	42.2%	247,507	43.2%
Total	**20,055**	**100.0%**	**572,838**	**100.0%**

4.21 Table 4.11 presents a NI/UK per capita comparison of identifiable expenditure. In 2013-14, identifiable expenditure per capita in NI was £10,961, which was 22.7 per cent higher than the corresponding UK figure. In absolute terms, the greatest differences occurred in public order and safety, social protection and housing and community amenities.

Table 4.11: Identifiable Expenditure per capita, 2013-14 [1]

	NI	UK	Difference (NI less UK)	Relative Expenditure (UK = 100)
Public and common services	228	120	108	189
International Services	3	2	0	110
Defence	0	1	-1	0
Public order and safety	755	455	300	166
Enterprise and economic development	163	72	90	225
Science and technology	48	63	-15	76
Employment policies	96	57	39	169
Agriculture, fisheries and forestry	292	84	208	347
Transport	287	307	-20	94
Environment protection	140	174	-34	81
Housing and community amenities	450	183	267	246
Health	2,122	2,011	111	106
Recreation, culture, and religion	250	124	126	201
Education	1,503	1,420	83	106
Social protection	4,623	3,861	762	120
Total	**10,961**	**8,936**	**2,025**	**123**

1. Figures in this table have been rounded to the nearest whole number.

Non-identifiable expenditure

4.22 This section presents a breakdown of non-identifiable expenditure on services in NI and the UK.

4.23 PESA contains data on non-identifiable expenditure as well as on expenditure incurred on programmes outside the UK. In order to ensure that the data is comparable, expenditure incurred outside the UK has been included within non-identifiable expenditure for both NI and the UK. The rationale for including such expenditure in non-identifiable expenditure rests on the fact that benefits are shared among the UK constituent countries. An example of this is the service provided by overseas UK embassies to all UK residents.

4.24 Table 4.12 provides estimates of non-identifiable expenditure for NI and the UK over the period 2009-10 to 2013-14. Tables 4.13 and 4.14 disaggregate non-identifiable expenditure into its current and capital components both for NI and the UK respectively.

4.25 In 2013-14, total non-identifiable expenditure attributed to NI was estimated at £2.9 billion, 2.8 per cent of the UK figure. Defence and debt interest were the largest elements, accounting for 71.4 per cent of non-identifiable expenditure apportioned to NI.

4.26 Tables 4.13 and 4.14 indicate that in 2013-14 current expenditure accounted for 95.2 per cent of non-identifiable expenditure in NI and for 95.9 per cent in the UK.

Table 4.12: NI and UK Non-identifiable expenditure, 2009-10 to 2013-14 (£m) [1]

	NI					UK				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Public and common services	142	131	130	125	126	4894	4533	4518	4370	4423
EU transactions	80	97	100	92	93	904	3,628	2,034	4,307	5,174
International services	201	225	222	223	284	6,954	7,786	7,748	7,780	9,936
Debt interest	789	1,155	1,198	1,077	1,059	27,258	39,953	41,791	37,641	37,109
Defence	1,090	1,133	1,107	1,039	1,038	37,634	39,212	38,601	36,288	36,360
Public order and safety	64	51	48	44	28	2,199	1,773	1,668	1,533	981
Enterprise & economic development	136	-42	-16	17	18	4,711	-1,457	-572	607	634
Science and technology	14	13	13	9	10	505	484	492	330	375
Employment policies	0	0	0	0	0	0	1	1	1	1
Agriculture, fisheries and forestry	4	5	0	0	2	151	179	38	4	78
Transport	6	6	7	11	16	246	243	271	475	709
Environment protection	3	9	4	7	10	120	296	156	234	355
Housing & community amenities	0	0	0	0	0	0	0	0	0	0
Health	24	25	19	19	17	817	881	675	677	589
Recreation, culture and religion	135	140	128	118	106	4,676	4,841	4,463	4,109	3,700
Education	0	0	0	0	0	2	3	3	3	4
Social protection	102	112	115	124	129	3,521	3,866	4,003	4,315	3,837
Total[2]	**2,790**	**3,060**	**3,075**	**2,905**	**2,936**	**94,592**	**106,222**	**105,890**	**102,674**	**104,265**

1. This includes the categories in PESA 'Outside the UK' and 'Non-identifiable Spending'.
2. The sum of the constituent items may not always agree exactly with the total shown due to rounding.

Table 4.13: NI Non-identifiable expenditure, 2009-10 to 2013-14 (£m)

	Current					Capital				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Public and common services	135	125	123	119	120	7	5	7	6	6
EU transactions	80	97	100	92	93	0	0	0	0	0
International services	184	204	205	208	266	17	21	17	15	17
Debt interest	789	1,155	1,198	1,077	1,059	0	0	0	0	0
Defence	972	1,009	1,003	940	945	117	124	104	99	93
Public order and safety	55	44	42	39	26	9	7	6	5	2
Enterprise and economic development	-5	-48	-22	9	18	141	6	6	9	1
Science and technology	11	10	9	8	8	3	3	4	1	2
Employment policies	0	0	0	0	0	0	0	0	0	0
Agriculture, fisheries and forestry	4	5	0	0	2	0	0	0	0	0
Transport	3	3	4	8	11	3	3	3	3	6
Environment protection	1	1	1	1	1	3	8	4	5	9
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	24	25	19	19	17	0	0	0	0	0
Recreation, culture and religion	114	118	108	116	101	21	22	20	1	4
Education	0	0	0	0	0	0	0	0	0	0
Social protection	102	112	115	124	129	0	0	0	0	0
Total[1]	**2,469**	**2,860**	**2,905**	**2,760**	**2,796**	**321**	**199**	**171**	**144**	**140**

1. Note that the sum of the constituent items may not always agree exactly with the total shown due to rounding.

Table 4.14: UK Non-identifiable expenditure, 2009-10 to 2013-14 (£m)

	Current					Capital				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Public and common services	4,659	4,338	4,294	4,172	4,217	236	194	224	199	206
EU transactions	904	3,628	2,034	4,307	5,174	0	0	0	0	0
International services	6,362	7,046	7,165	7,253	9,330	592	739	583	527	607
Debt interest	27,258	39,953	41,791	37,641	37,109	0	0	0	0	0
Defence	33,576	34,909	34,990	32,834	33,095	4,058	4,303	3,611	3,454	3,265
Public order and safety	1,904	1,534	1,472	1,373	894	295	238	196	161	87
Enterprise and economic development	-167	-1,662	-773	300	614	4,878	205	202	307	20
Science and technology	390	380	336	290	298	116	103	156	40	76
Employment policies	0	1	0	0	1	0	0	0	0	0
Agriculture, fisheries and forestry	151	179	38	4	74	0	0	0	0	4
Transport	142	150	178	370	482	104	95	92	105	225
Environment protection	20	21	23	44	31	100	275	133	189	325
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	817	881	675	677	586	0	0	0	0	3
Recreation, culture and religion	3,937	4,094	3,774	4,064	3,550	739	748	689	45	150
Education	2	3	3	3	3	0	0	0	0	0
Social protection	3,521	3,866	4,003	4,315	4,537	0	0	0	0	-700
Total[1]	**83,476**	**99,321**	**100,003**	**97,647**	**99,995**	**11,118**	**6,900**	**5,886**	**5,027**	**4,268**

1. Note that the sum of the constituent items may not always agree exactly with the total shown due to rounding

4.27 Table 4.15 highlights similarities in the composition of non-identifiable expenditure for NI and the UK which is expected as NI's non-identifiable expenditure is estimated by apportioning a percentage share of the UK figure.

Table 4.15: Non-identifiable expenditure: NI and the UK, 2013-14 (£m)

	NI		UK	
	Expenditure	Share of non-identifiable expenditure	Expenditure	Share of non-identifiable expenditure
Public and common services	126	4.3%	4,423	4.2%
EU transactions	93	3.2%	5,174	5.0%
International services	284	9.7%	9,936	9.5%
Debt interest	1,059	36.1%	37,109	35.6%
Defence	1,038	35.4%	36,360	34.9%
Public order and safety	28	1.0%	981	0.9%
Enterprise and economic development	18	0.6%	634	0.6%
Science and technology	10	0.3%	375	0.4%
Employment policies	0	0.0%	1	0.0%
Agriculture, fisheries and forestry	2	0.1%	78	0.1%
Transport	16	0.5%	709	0.7%
Environment protection	10	0.3%	355	0.3%
Housing and community amenities	0	0.0%	0	0.0%
Health	17	0.6%	589	0.6%
Recreation, culture and religion	106	3.6%	3,700	3.5%
Education	0	0.0%	4	0.0%
Social protection	129	4.4%	3,837	3.7%
Total[1]	**2,936**	**100.0%**	**104,265**	**100.0%**

1. Note that the sum of the constituent items may not always agree exactly with the total shown due to rounding.

4.28 Table 4.16 presents non-identifiable expenditure for NI and the UK in 2013-14 on a per capita basis. NI non-identifiable expenditure was estimated to be £1,605 per capita and was almost identical to the UK figure (£1,626 per capita) which is expected given the method of apportionment.

Table 4.16: Non-identifiable Expenditure per capita: NI and UK, 2013-14 [1]

	NI (£)	UK (£)
Public and common services	69	69
EU transactions	51	81
International services	155	155
Debt interest	579	579
Defence	567	567
Public order and safety	15	15
Enterprise and economic development	10	10
Science and technology	5	6
Employment policies	0	0
Agriculture, fisheries and forestry	1	1
Transport	9	11
Environment protection	5	6
Housing and community amenities	0	0
Health	9	9
Recreation, culture and religion	58	58
Education	0	0
Social protection	71	60
Total	**1,605**	**1,626**

1. Figures in this table have been rounded to the nearest whole number.

Accounting Adjustments

4.29 The public sector expenditure figures presented in this section have focused on Total Expenditure on Services (TES). However, Total Managed Expenditure (TME) is the main spending aggregate used in UK public sector finances. Therefore, an accounting adjustment is required to bring TES in line with TME. The largest component of this adjustment is general government capital consumption which is depreciation of fixed capital resources from public service provision. General government capital consumption represents approximately half of the total accounting adjustment. The other main component of the adjustment is certain VAT refunds.

4.30 Table 4.17 sets out total UK accounting adjustments for the years 2009-10 to 2013-14. In 2013-14, total UK accounting adjustments were estimated at £43.4 billion. The accounting adjustments range from 6.0 per cent to 8.1 per cent of TME throughout this period.

Table 4.17: UK Accounting Adjustment, 2009-10 to 2013-14 (£m)

	2009-10	2010-11	2011-12	2012-13	2013-14
UK TME	680,739	700,892	701,163	717,919	720,361
UK TES	637,876	655,262	652,702	659,808	676,977
UK Accounting Adjustment	42,863	45,630	48,461	58,111	43,384

Source: November 2014 PESA Release - Country and Regional Analysis, Table A1

4.31 Table 4.18 provides a disaggregation of NI accounting adjustments for the years 2009-10 to 2013-14. In 2013-14, the total public sector accounting adjustment for NI was estimated at £1.1 billion, or 2.5 per cent of the total UK accounting adjustment. UK accounting adjustments have been apportioned to NI using a variety of methods. Further detail on the calculation of the accounting adjustment is provided in Annex C of this report.

Table 4.18: NI Accounting Adjustment, 2009-10 to 2013-14 (£m)

	2009-10	2010-11	2011-12	2012-13	2013-14
Capital consumption					
Central Government Capital Consumption	506	535	571	589	592
Local Government Capital Consumption	257	272	293	310	322
Current Expenditure					
Current VAT refunds	257	312	330	315	316
Capital VAT refunds	50	58	63	58	57
VAT receipts paid to EU	31	64	64	37	59
Student Loans subsidy	-40	-124	-66	-105	-180
Imputed subsidy from Local Authorities to the Housing Revenue Account	-46	-52	-31	-8	-8
Imputed flows for renewable obligation certificates	32	37	42	62	72
Capital Expenditure					
Bank of England Asset Purchase Facility Flows	-191	-261	-301	-415	-427
Royal Mail Pension Plan	0	0	0	326	0
Local Authority Pensions	-55	-62	-65	-68	-63
Network Rail	0	0	0	0	0
Tax Credits	161	159	135	85	78
Residual (Current & Capital)	133	229	229	400	271
Total accounting adjustment	**1095**	**1166**	**1265**	**1587**	**1090**
Percentage of UK accounting adjustment	**2.6%**	**2.6%**	**2.6%**	**2.7%**	**2.5%**

Aggregate Expenditure

4.33 Table 4.19 shows the breakdown of aggregate expenditure in NI. In 2013-14, TME was estimated at £24.1 billion; of this £20.1 billion was identifiable, £2.9 billion was non-identifiable, and £1.1 billion represented accounting adjustments. This equated to aggregate expenditure per head of £13,162.

Table 4.19: NI Expenditure, 2013-14 (£m)

£ million	NI
Identifiable Expenditure	20,055
Non-Identifiable Expenditure	2,938
Total Expenditure on Services	22,993
Accounting Adjustments	1,090
Total Managed Expenditure	24,083
TME per capita (£)	13,162

SECTION 5: CONCLUSION

5.1 This report provides an estimate of the net fiscal balance position for NI over the five year period from 2009-10 to 2013-14, with a particular focus on 2012-13 and 2013-14 (the most recent years for which financial outturn data is available).

5.2 Table 5.1 summarises the fiscal positions of NI and the UK. In 2013-14, the estimated net fiscal balance for the public sector in NI was a deficit of £9.2 billion (27.9 per cent of GVA).

5.3 In 2009-10 the estimated fiscal position for NI excluding North Sea revenue was a deficit of £9.6 billion. The 2013-14 estimation represents a decreased deficit of £0.4 billion over the period 2009-10 to 2013-14.

Table 5.1: Net Fiscal Balance Estimates: NI and the UK, 2013-14 (£m)

£ Million	NI	UK
Aggregate Expenditure	24,083	720,487
Aggregate Revenue	14,923	607,466
Net Fiscal Balance	-9,160	-113,021
Net Fiscal Balance per capita (£)	-5,006	-1,763
Net Fiscal Balance as a % of financial year GVA	-27.9%	-7.5%

5.4 As noted previously, HMRC published statistics on regional tax revenue in the UK. Using this data, the fiscal deficit is estimated at £9.7bn for 2013-14. This estimate has been derived simply by replacing our figures with HMRC figures where possible and therefore both the statistics and alternative fiscal deficit estimate should be used with caution.

ANNEX A: FISCAL BACKGROUND

Total Managed Expenditure (TME) in the UK

In the current UK public finance framework Total Managed Expenditure (TME) is the key spending aggregate. This is a measure of public sector expenditure drawn from components in National Accounts produced by the Office for National Statistics (ONS). TME includes the current and capital expenditure of the whole public sector, including local government and public corporations (but excludes financial transactions).

TME comprises two components:

- Departmental Expenditure Limits (DEL) – DEL expenditure is planned on a multi-year basis, normally three years in successive Spending Reviews which apply to the UK as a whole. It is divided into: Capital DEL, which is capital spending that adds to the Government's fixed assets; and Resource DEL, which reflects the ongoing costs of providing services, including pay, the cost of depreciation, grants paid to the private sector and so on.

- Annual Managed Expenditure (AME) – spending that cannot be constrained within firm multi-year limits and is therefore adjusted and allocated annually by the UK Government. For example AME includes social protection. This is spending that is 'demand-led' and cannot be planned far in advance. AME is also disaggregated into capital and resource components.

DEL makes up the majority of TME. The sum of DEL and AME plus an 'accounting adjustment' is equal to TME.

Public Expenditure Data

Information on the allocation of Government expenditure on services between the UK regions is provided annually in the HM Treasury PESA exercise.

Public Expenditure in NI

HM Treasury is responsible for managing and implementing UK fiscal and macroeconomic policy, as well as determining public expenditure allocations across the UK regions. As a result, NI's Budget, along with that for Scotland and Wales, continues to be determined within the framework of public expenditure control in the UK. However, once overall public expenditure budgets for the regions have been determined, the Devolved Administrations have freedom to make their own spending decisions on evolved programmes within that budget.

For programmes within the remit of DEL (for each of the Devolved Administrations) the block grant allocated by the UK Government in Westminster is currently determined by application of the ‘Barnett Formula’. Under this formula, budget allocations are determined by a population-based share of funding increases on comparative government spending programmes in Whitehall departments.

UK Public Sector Revenues

The majority of public sector revenue raised in NI is under the control of the UK Government and is collected by HM Revenue and Customs. The largest sources of tax revenue are income tax, value added tax and national insurance contributions.

Local government in NI can raise its own revenue from domestic rates and non-domestic rates (also known as business rates).

Net Fiscal Balance

The ‘net fiscal balance’ is estimated as the difference between total public sector revenue and total public sector expenditure (including accounting adjustments).

ANNEX B: METHODOLOGY FOR PRODUCING ESTIMATES OF PUBLIC SECTOR REVENUE

This annex details the apportionment methodologies and sources used to estimate public sector revenue in NI.

UK fiscal revenues are taken from the Office for National Statistics (ONS) Public Sector Finance Statistics. Detailed components, revenue by revenue, are taken from an ONS database (PSAT2) which is produced on a quarterly basis. The UK revenue figures presented in this report are consistent with outturns published by ONS in 2015 Quarter 1.

In some cases, revenue figures can be directly attributed to NI and require no further estimation. Examples include inheritance tax revenue and national insurance contributions. However, the majority of public sector revenues are collected centrally and their distribution by region is often unavailable. In these instances, UK figures are apportioned to NI using specific methodologies. It should be noted that in certain cases a variety of alternative methodologies could be applied each leading to variations in estimates. Where possible, the most accurate and up to date apportionment methods have been applied.

In March 2015, the Scottish Government published fiscal deficit estimates covering the period 2009-10 to 2013-14 in '*Government Expenditure & Revenue Scotland 2013-14*'[7] *(GERS)*. Strictly speaking, NI's fiscal deficit estimate is not directly comparable to Scotland's as a result of differing methodologies for certain revenue streams. Caution should therefore be used in making any such comparisons. However, NI apportionment methods have been updated to reflect revisions in the methodology employed by the Scottish Government, where it was relevant and practical to do so. This has led to an improved NI fiscal deficit estimation.

There are two stages in estimating a revenue stream for NI. In the first stage, the UK outturn figure is obtained from PSAT2. In the second stage, NI's share is estimated according to a specific methodology. Note that generally information comes from survey data for the UK. Examples include the Survey of Personal Incomes and the Family Spending Survey.

Table B.1 summarises the various apportionment methodologies and sources used to estimate public sector revenues in NI.

[7] GERS Report, 2013-14: http://www.gov.scot/Resource/0047/00472877.pdf

Table B.1: Apportionment methodologies and sources used to estimate Public Sector Revenues in NI

Revenue	Methodology	Source	Revised
Income tax (net of tax credits)	NI's share of UK income tax liabilities	Survey of Personal Incomes (SPI): HRMC	No
Corporation tax (exc. North Sea Oil)	NI's share of profits (less holding gains) of UK corporations	Supplied directly by ONS	No
Capital gains tax	NI's share of UK GVA (less extra regio)	Regional Accounts: ONS	No
Inheritance tax	Actual Outturns for NI	Supplied directly by HMRC	No
Stamp duties	Land and property stamp duty: actual outturns Stocks and shares: NI/UK ratio of adults owning stocks, shares, unit trusts, PEPs and ISAs	Land and property stamp duty: HMRC Stocks and shares: DWP Family Resources Survey	No
National Insurance Contributions (NICs)	Employee and Employer estimates in NI and UK	Supplied directly by HMRC	No
VAT	Household VAT: NI's share of UK household VAT expenditure Business & Housing sector VAT: NI share of UK GVA Government VAT: NI share of UK government expenditure LG VAT Refunds: NI share of UK local government expenditure CG VAT refunds: Various	Family Spending Survey: ONS	Yes
Fuel duties	Petrol: NI's share of UK road traffic petrol consumption Diesel: NI's share of UK road traffic diesel consumption	Road Transport Energy Consumption at Regional and Local Authority Level: BERR	Yes
Tobacco duties	NI's share of UK expenditure on tobacco	Family Spending Survey: ONS	No
Alcohol duties	NI's share of UK consumption of alcohol	Family Spending Survey: ONS	Yes
Betting & Gaming duties	NI's share of UK expenditure on betting and gaming	Family Spending Survey: ONS	No
Air Passenger duty	NI's share of UK population	PESA 2014: HMT	No
Insurance Premium tax	NI's share of UK expenditure on insurance	Family Spending Survey: ONS	Yes
Land fill tax	NI's share of UK landfill tax supplied by HMRC	HMRC Disaggregated Tax Receipts	Yes
Climate Change Levy	Electricity: NI's share of UK electricity consumption Solids & other fuels: NI's share of UK GVA (less extra regio)	Electricity: BERR Solids & other fuels: HMRC	No
Aggregates Levy	NI share of UK GVA	Regional Accounts: ONS	No
Vehicle Excise Duty	As reported by DVLNI (less refunds)	DVLNI Annual Reports & Accounts	No
Business rates (non-domestic)	Actual data	Supplied by DFP Officials in Rating Policy Division	No

Council Tax (domestic)	Actual data	Supplied by DFP Officials in Rating Policy Division	No
Other Taxes & Royalties	Various	ONS UK Blue Book (2008): ONS	Yes
Interest & dividends	NI's share of UK public sector GVA	Regional Accounts: ONS	No
Gross Operating Surplus & Rent and other current transfers	CG: NI's share of UK CG NMCC LG: NI's share of UK LG NMCC PC: NI's share of UK public sector GVA	NMCC data: supplied directly by ONS GVA data: Regional Accounts ONS	Yes
Other taxes on income and wealth	Various	Various	No

The following describes the methodology employed in estimating each source of NI receipts.

Income tax

The UK figure for income tax is taken from the PSAT2 database published by ONS, and is presented net of tax credits.

NI's share of UK income tax is derived from the Survey of Personal Incomes (SPI) produced by HM Revenue and Customs (HMRC)[8]. This share is then applied to the UK figure for income tax published by HM Treasury.

The latest SPI survey was published by HMRC in January 2015 and provided data for 2012-13. Further note that the SPI data includes some records which cannot be allocated to a particular region - these have been excluded from the total used to estimate the NI share.

Corporation tax

The UK figure for total corporation tax is taken from the PSAT2 databank published by ONS. The estimate of NI corporation tax excludes North Sea corporation tax.

NI's share of UK corporation tax (excluding North Sea revenues) is taken to be its share of profits (less holding gains) of all public and private corporations in the UK. Information on profits (less holding gains) is directly supplied by ONS.

Capital gains tax (CGT)

The UK capital gains tax figure, taken from the PSAT2 databank published by ONS, is apportioned to NI according to its share of UK GVA (less extra-regio).

Inheritance tax (IHT)

The UK figure for IHT is taken from the PSAT2 databank published by ONS. HMRC directly provides actual outturn revenue figures raised from inheritance tax in NI.

Stamp duties

The UK figure for stamp duty is taken from the PSAT2 databank published by ONS.

NI stamp duty is estimated based on NI's share of UK revenue raised from (1) land and property stamp duties and (2) stocks and shares stamp duties.

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[8] The latest SPI data is available from:
https://www.gov.uk/government/collections/personal-incomes-statistics

Stamp duty land tax (SDLT) is published by HMRC[9] and is disaggregated by government office region (GOR). NI's share of UK households who own stocks, shares, unit trusts, PEPs and ISAs as recorded in the Family Resources Survey[10], produced by the Department for Work and Pensions (DWP), is used to estimate stamp duty from stocks and shares in NI.

National insurance contributions (NICs)

NI national insurance contributions (NICs) are based on an analysis of a 1 per cent sample of National Insurance Recording System (NIRS) data, supplied by HMRC, which is aggregated to represent the population using Government Actuary's Department (GAD) estimates of total NIC (employee and employer) accruals for each year. NI's share of employer and employee contributions in this sample is applied to the UK NICs figure to estimate NICs in NI. NI's apportionment ratio for 2011-12 was also used for 2012-13 and 2013-14. This figure will be revised in future editions as up-to-date data becomes available.

Value added tax (VAT)

The UK figure for VAT is taken from the PSAT2 database. The total figure is comprised of: net VAT, local government VAT refunds and central government VAT refunds. Net VAT is then split into VAT paid by households, businesses, government and the housing sector.

NI's share of UK household VAT revenues is estimated based on average weekly household expenditure data in the ONS Family Spending Report publications.[11] The 2014 edition of the Family Spending Report is used for 2012-13 and 2013-14. The 2013 edition is used for 2010-11 and 2011-12 and for 2009-10 the 2012 edition is used. The appropriate VAT rating (standard rate, reduced rate, zero-rate or exempt) is applied to each expenditure item to estimate average household VAT revenues in NI and the UK. These average VAT revenues per household are then scaled up by the number of households to estimate total VAT revenues in NI and the UK. The NI/UK ratio of total VAT revenues is then applied to apportion UK VAT receipts (as given in the PSAT2 databank) to NI. The methodology has been amended since the previous report and VAT refunds are now included in this figure as opposed to 'other taxes and royalties.' This is to maintain consistency with the GERS methodology.

NI share of business and housing sector VAT is apportioned by NI share of UK GVA. VAT paid by Government is apportioned by NI share of UK government expenditure.

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[9] Latest SDLT figures available from: https://www.gov.uk/government/collections/stamp-duties-statistics
[10] Family Resources Survey available from: https://www.gov.uk/government/statistics/family-resources-survey-2012-to-2013
[11] Family Spending Reports available from: http://www.ons.gov.uk/ons/rel/family-spending/family-spending/index.html

Local government VAT refunds are apportioned through NI share of UK local government final consumption expenditure. Central government VAT refunds are apportioned as such:

- Ministry of Defence – NI share of UK population
- NHS – NI share of UK TES health
- Other government departments – NI share of UK TES (less defence and health)

Fuel duties

UK fuel duty revenue is apportioned to NI according to its share of UK fuel consumption. This is split into duty paid on petrol and diesel using data from HMRC's Hydrocarbon Oils Duties Bulletin[12]. NI's share of petrol and diesel consumption is estimated using regional road traffic fuel consumption data published by the Department of Energy and Climate Change (DECC)[13]. The estimated NI/UK ratio of petrol and diesel consumption is then applied to apportion UK fuel duty to NI.

Tobacco duty

UK tobacco duty revenue is apportioned to NI based on regional household expenditure data in the ONS 'Family Spending Survey' publications. Average weekly household expenditure is scaled up by the number of households to estimate total weekly expenditure on tobacco in NI and the UK. The NI/UK ratio of total weekly expenditure on tobacco is used to apportion UK tobacco duty revenue (as published by in PSAT2 by ONS) to NI. Note that the Family Spending Survey editions used are the same as in VAT above.

Alcohol duty

UK figures are sourced from the PSAT2 database for spirits; cider and perry; wine; and beer. NI's share of total UK private household consumption of these products is then used to derive the proportion of duty attributable to NI.

Expenditure on alcoholic products is estimated using data from the DEFRA Family Food Survey.[14] Total weekly consumption for NI and UK is then calculated by multiplying average consumption in NI and UK with their respective population estimates. The ratios of NI to UK consumption are then used to apportion UK alcohol duty revenues to NI.

[12] Source: HMRC Hydrocarbon Oils Duties Bulletin, available from: https://www.uktradeinfo.com/Statistics/Pages/TaxAndDutyBulletins.aspx

[13] Source: DECC - Regional and local use of road transport fuels, available from: https://www.gov.uk/government/publications?departments%5B%5D=department-of-energy-climate-change&publication_filter_option=statistics

[14] https://www.gov.uk/government/collections/family-food-statistics

Betting and gaming duty

UK betting and gaming duty revenue is apportioned to NI based on regional household expenditure data in the ONS Family Spending Reports. Average weekly household expenditure is scaled up by the number of households to estimate total weekly expenditure in NI and the UK. The NI/UK ratio of total weekly expenditure on gambling is used to apportion UK betting and gaming duty revenue (as published by ONS) to NI. Note that the Family Spending Reports used are the same as in VAT above.

Air passenger duty (APD)

UK air passenger duty revenue (APD), as published by ONS, is apportioned to NI according to its share of the UK population. Population figures are sourced from ONS.[15]

Insurance premium tax (IPT)

UK insurance premium tax (IPT), as published by ONS, is apportioned to NI according to its share of the UK weekly expenditure on insurance. Expenditure on insurance is estimated using the Living Costs and Food Survey, presented in the Family Spending Report. Weekly spend is then estimated by multiplying average household spend by the number of households in Northern Ireland and the UK. The ratio of weekly spending on insurance is then used to apportion NI share of UK insurance premium tax revenues. Note that the Family Spending Reports used are the same as in VAT above.

Landfill tax

The UK landfill tax figure is taken from PSAT2. This is then apportioned to NI based on the ratio of NI to UK landfill tax calculated from landfill tax data in the HMRC Disaggregated Tax Receipts publication.

Climate change levy

In apportioning the UK total for climate change levy (CCL), NI's consumption of electricity, gas and solids & other fuels are considered. The UK Climate Change Levy is taken from the PSAT2 database. Climate change levy receipts from electricity consumption are apportioned to NI according to its share of UK electricity consumption, which is derived from the 'Digest of UK energy statistics' (DUKES)[16] published by the DECC. UK revenues from the consumption of gas and solids & other fuels[17] are apportioned on the basis of NI's share of UK GVA (less extra regio). Note that up until 31 March 2011 supplies of gas in Northern Ireland have been exempt from CCL.

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[15] Population figures taken from: http://www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/2013/index.html

[16] Electricity consumption data is available from: https://www.gov.uk/government/statistics/electricity-section-5-energy-trends

[17] Available from: https://www.uktradeinfo.com/Statistics/Pages/TaxAndDutyBulletins.aspx

Aggregates levy

The UK figure for the Aggregates Levy is taken from the ONS PSAT2 Database and apportioned to NI according to its share of GVA (less extra regio). The NI figure does not reflect the impact of the suspension of the Aggregates Levy Credit Scheme on 1st December 2010.

Vehicle excise duty

NI vehicle excise duty (VED) is recorded net of refunds in annual reports published by the Driver and Vehicle Licensing NI (DVLNI).

Domestic and Non-Domestic rates

NI domestic and non-domestic rates revenues for 2009-10 to 2013-14 were provided by the Department of Finance and Personnel (DFP) officials in Rating Policy Division (RPD) and require no further estimation.

For the financial years 2008-09 onwards the split between domestic and non-domestic rates has not been available for regional rates. Therefore, the respective shares of total rates in 2007-08 have been applied to the 2009-10 to 2013-14 total regional rates data. A breakdown of the district regional rate has also not been available for 2009-10 to 2010-11 and 2012-13 to 2013-14. Therefore the respective shares of total rates in 2007-08 have been applied to 2009-10 and 200-11 total district rates data and the respective shares of total rates in 2011-12 have been applied to 2012-13 and 2013-14. However it is important to note that the total domestic and non-domestic rates figure is an actual figure provided by RPD.

Other taxes and royalties

The UK figure for other taxes and royalties is comprised of a number of small revenues. UK figures for the sub categories of revenue listed below are taken from the PSAT2 database. Separate apportionment methods are used to allocate these revenues to NI.

1. Consumer Credit Act fees are apportioned to NI on a population share basis.

2. UK revenues paid to levy funded bodies are apportioned to NI according to its share of UK agricultural GVA. This is taken from ONS ‘Regional Accounts’[18] – GVA industry group ‘Agriculture, forestry & fishing’.

3. Regulatory fees are apportioned to NI on a population share basis.

[18] Available from: http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2014/index.html

4. UK TV licence revenue is apportioned based on NI's share of UK private households. This has been estimated using the ONS 'Family Spending Survey' publications (NI number of weighted households/UK number of weighted households). This share is then applied to the UK TV licence revenue as reported in the PSAT2 database by ONS.

5. National lottery revenues are apportioned according to NI's share of UK expenditure on gambling from the ONS 'Family Spending Survey' publications.

6. Renewable energy obligations are apportioned using the NI share of UK electricity consumption. This is taken from DECC as referenced above in the climate change levy methodology.

7. Fishing licence fees are apportioned to NI on a population share basis.

8. Passport Fees are apportioned to NI on a population share basis.

9. Fossil Fuel Levy is apportioned to NI on GVA share basis

Other Taxes on Income and Wealth

The UK figure for other taxes on income and wealth is comprised of a number of small revenues. UK figures for the sub categories of revenue listed below are taken from the PSAT2 database. Separate apportionment methods are used to allocate these revenues to NI, shown in table B2 below

Table B2: Apportionment methodologies for Other Taxes on Income and Wealth

Other Taxes on Income & Wealth	Apportionment Methodology
Company income tax receipts, net of repayments	GVA
Household charitable donations via gift aid and covenant tax reliefs	As for income tax
Betting and gaming duty (those elements that are classified as tax on income)	As for betting and gaming duty
OFGEM tax on Non-Fossil Purchasing Agency renewable energy income	As for other renewable energy obligations
Inland Revenue: Company IT withheld	As for corporation tax
Horserace betting levy board	As for betting and gaming duty
Central government contributions to payroll giving to charities	GVA
Tax credits - insurance and pension funds	As for income tax
Corporation tax credit expenditure	As for corporation tax
Company tax credits	As for corporation tax
Non-Profit Institutions Serving Households tax credits	As for income tax

Interest and dividends

UK figures for interest and dividend revenue received by Public Corporations, Local Government and Central Government, are obtained from the ONS PSAT2 database. The UK Public Corporation figure is apportioned to NI by share of UK public sector GVA. Public sector GVA is derived from the ONS 'Regional Accounts' – GVA industry groups 'Public administration and defence', 'Education', and 'Health and social work'. UK Local government and central government figures are apportioned using NI's share of UK population.

Gross operating surplus & Rent and other current transfers

In calculating gross operating surplus (GOS) for NI, separate UK figures for central government, local government and public corporations are taken from the ONS PSAT2 database. Central Government figures are apportioned to NI based on NI's share of UK Central Government Non-Market Capital Consumption (NMCC). Local Government figures are apportioned based on NI's share of UK Local Government NMCC. Public Corporation figures are apportioned to NI according to its share of public sector GVA.

The UK figure for rent and other current transfers is taken directly from GERS and is apportioned to NI according to its share of UK public sector GVA.

Current receipts (excluding North Sea revenues)

This is the total value of public sector revenues (excluding North Sea revenues) estimated for NI.

North Sea revenues

The UK Continental Shelf is included as a separate region of the UK (the extra regio territory) and is not allocated to specific regions.

Current receipts (including North Sea revenues)

This is the total value of public sector revenues (including North Sea revenues on a per capita basis) estimated for NI. Population figures are sourced from ONS, as previous. This apportionment method views North Sea revenues as non-identifiable UK revenue.

ANNEX C: METHODOLOGY FOR PRODUCING ESTIMATES OF PUBLIC SECTOR EXPENDITURE

This annex discusses the methodologies applied to allocate public sector expenditure to NI using data from official UK Government sources.

Estimates of public sector expenditure presented in this report are based on outturn data recorded in PESA November 2014

Total Expenditure on Services (TES) may be disaggregated into two components:

- Identifiable expenditure: expenditure that can be recognised as benefiting individuals, enterprises or communities within particular regions; and

- Non-identifiable expenditure: expenditure considered to occur on behalf of the UK as a whole and cannot be apportioned on an individual country or regional basis.

Note that both of these components can be separated further into current and capital expenditure.

TES accounted for approximately 83.3% of Total Managed Expenditure (TME) in 2013-14. TME is the total current and capital expenditure of the public sector on a national accounts basis. The other component of TME is referred to as the accounting adjustment.

Identifiable Expenditure

Identifiable expenditure is allocated on a ‘who benefits’ basis to the UK region where the expenditure is attributable. PESA November 2014 provides identifiable expenditure data by country and region of the UK. In this exercise the NI identifiable expenditure data is taken directly from Chapter A of PESA November 2014, ‘Analyses of public expenditure by country, region and function’. Tables A1 to A14 provide the expenditure figures required for NI.

Non-Identifiable Expenditure

Non-identifiable expenditure cannot be identified as benefiting a particular UK region. It is incurred on behalf of the UK as a whole, where the entire UK population benefits, regardless of where the funds are spent. It mainly comprises expenditure on defence, debt interest and international services.

In addition, it should be noted that PESA includes data on expenditure outside the UK. For the purposes of this exercise, this category is included in non-identifiable expenditure for both the UK and NI data. The inclusion of this data in non-identifiable expenditure is consistent with the view that expenditure outside the UK should be categorised as non-identifiable, given that the benefits are shared amongst the UK constituent countries.

Similarly, as for identifiable expenditure, the data required is provided in chapter A of PESA November 2014. However, to estimate non-identifiable expenditure, which as noted above includes figures from outside the UK, the PESA data needs to be apportioned as it is not disaggregated into regions.

EU Transactions

EU transactions consist of two components: (1) receipts from; and (2) payments to the EU. The EU Division within the Department of Finance and Personnel (DFP) provides the figures for actual receipts from the EU to NI. UK payments to the EU are apportioned to NI according to its share of UK GVA (less extra regio).

Table C1 summarises the apportionment methodologies used to estimate NI non-identifiable expenditure from UK data published in PESA November 2014.

Table C1: Apportionment Methodologies for Non-identifiable Expenditure in NI 2009-10 to 2013-14

Element of Non-ID Expenditure	Methodology	
	Non-identifiable	Outside the UK
Public and common services	Population	Population
EU transactions	Actual	GVA
International services	Population	Population
Debt interest	Population	N/A
Defence	Population	N/A
Public order and safety	Population	N/A
Enterprise and economic development [1]	Population	Population
Science and technology	GVA	Population
Employment policies	N/A	Population
Agriculture, fisheries and forestry	Population	Population
Transport	GVA	Population
Environment protection	GVA	Population
Housing and community amenities	Population	N/A
Health	Population	Population
Recreation culture, and religion	Population	Population
Education	N/A	Population
Social protection	Population	Population

1. Under the CRA (Country and Regional Analysis) section of PESA November 2014, UK Government financial sector interventions are categorised under 'enterprise and economic development' as non-identifiable expenditure and are apportioned by NI population share of the UK.

Population figures and GVA (less extra regio) figures are sourced from the ONS[19,20]. Note that GVA 'less extra regio' excludes income that cannot be satisfactorily assigned to any physical region.

[19] Population figures taken from: http://www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/2013/index.html

Accounting Adjustment

As mentioned previously, aggregate expenditure is termed Total Managed Expenditure (TME). This is calculated as TES summed with an accounting adjustment. To reiterate, TES for NI is the sum of NI identifiable expenditure taken directly from PESA November 2014 and the apportioned share of 'non-identifiable' and 'outside the UK' figures given in PESA November 2014, according to the methodologies presented in table C1. TES is produced on a different basis to TME, which is the primary measure of total public spending reported in the ONS National Accounts. TME includes general government capital consumption and reverses the deduction of certain VAT refunds. It also excludes a number of items in budgets which are captured by the TES, such as the grant equivalent element of student loans. The accounting adjustment is therefore used to ensure that estimates of total public spending for both Northern Ireland and the UK are reported on the basis of TME.

The accounting adjustment for the UK as a whole is given in PESA November 2014 Chapter A, Table A.1. To estimate the accounting adjustment for NI, the UK figure is apportioned using the methodologies set out in table C2. Note that the breakdown of the UK accounting adjustment figure into the elements below was provided by HM Treasury, courtesy of Scottish Government statisticians.

Table C2: Apportionment Methodologies for estimating the Accounting Adjustment in NI

Element of Accounting adjustment	Methodology
Central Government Capital Consumption	NI Share of UK TES
Local Government Capital Consumption	NI Share of UK TES
Current VAT refunds	NI Share of UK VAT
Capital VAT refunds	NI Share of UK VAT
VAT receipts paid to EU	NI Share of UK VAT
Student loans subsidt	Population
Imputed subsidy from Local Authorities to the Housing Revenue Account	NI Share of UK TES
Imputed flows for renewable obligation certificates	Population
Bank of England Asset Purchase Facility Flows	NI Share of UK TES
Royal Mail Pension Plan	NI Share of UK TES
Local Authority Pensions	NI Share of UK TES
Network Rail	N/A
Tax Credits	Population
Residual	NI Share of UK TES

[20] ONS Regional GVA (Nuts 1, 2 and 3) December 2014 (Table 1.1)
http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2014/index.html

ANNEX D: NI'S PUBLIC SECTOR ACCOUNTS – EXCLUDING NON-IDENTIFIABLE EXPENDITURE & ACC. ADJUSTMENT

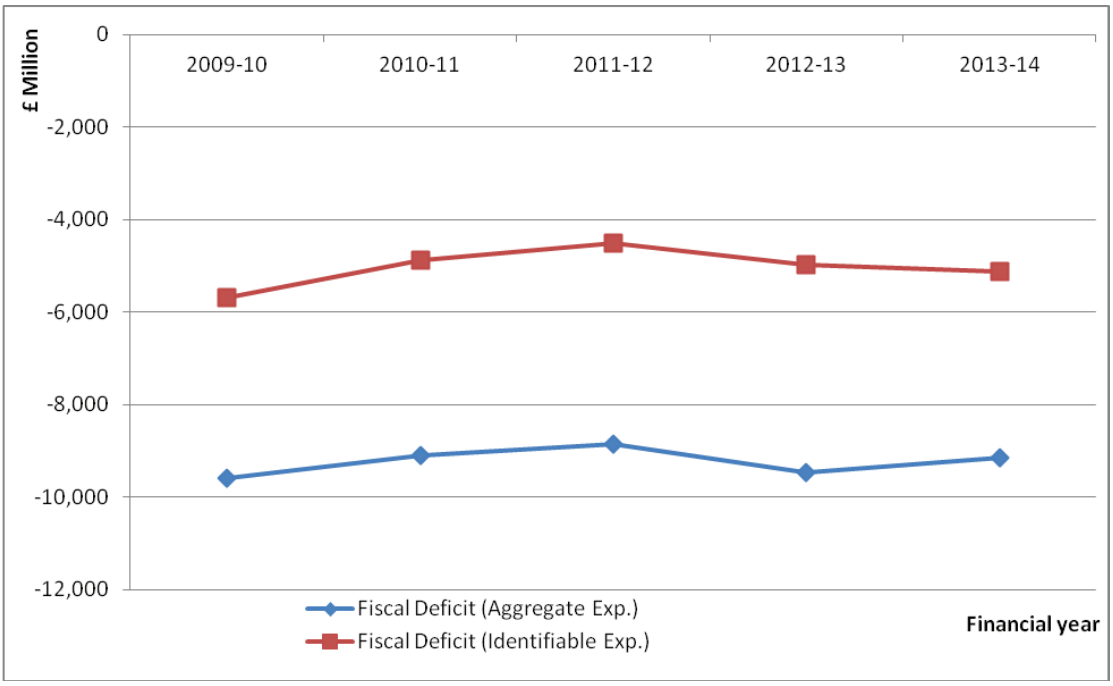
Non-identifiable expenditure is considered to occur on behalf of the UK as a whole and thus cannot be apportioned on an individual or regional basis. It is mainly comprised of defence expenditure and debt interest payments. For example, approximately 71.4 per cent of total NI non-identifiable expenditure was either attributed to defence or debt repayment expenditure in 2013-14. This exercise will examine the effect of removing this type of expenditure and in addition to this it will also exclude an accounting adjustment for depreciation and VAT refunds (i.e. not cash expenditure). The impact of such exclusion is demonstrated in the table and figure provided below, where in 2013-14 the impact was a considerable revision downwards in the NI fiscal deficit from 27.9 per cent to 15.6 per cent of GVA (12.3 percentage points).

Table D1: NI Net Fiscal Balance Estimates (Exc. Non-Identifiable Expenditure and Accounting Adjustment), 2009-10 to 2013-14 (£m)

	NI				
£ Million	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Aggregate Expenditure (Agg. Exp.)	22,774	23,357	23,703	24,292	24,083
Identifiable Expenditure (Id. Exp)	18,889	19,133	19,364	19,801	20,055
Aggregate Revenue (Exc. NS)	13,191	14,247	14,848	14,833	14,923
Net Fiscal Balance (Agg. Exp.)	-9,583	-9,110	-8,855	-9,459	-9,160
Net Fiscal Balance (Id. Exp.)	**-5,698**	**-4,886**	**-4,516**	**-4,968**	**-5,132**
Difference	*-3,885*	*-4,224*	*-4,339*	*-4,491*	*-4,028*
Net Fiscal Balance per capita (£) (Agg. Exp.)	-5,344	-5,048	-4,881	-5,187	-5,006
Net Fiscal Balance per capita (£) (Id. Exp.)	**-3,177**	**-2,707**	**-2,489**	**-2,724**	**-2,805**
Net Fiscal Balance as a % of financial year GVA (Agg. Exp.)	-30.9%	-28.9%	-27.6%	-29.1%	-27.9%
Net Fiscal Balance as a % of financial year GVA (Id. Exp.)	**-18.4%**	**-15.5%**	**-14.1%**	**-15.3%**	**-15.6%**

Figure D2 shows that both fiscal deficit methodologies of expenditure inclusion cause the overall position to follow the same approximate trend over the five year period.

Figure D2: NI Fiscal Deficit Position shown by Aggregate Expenditure and Identifiable Expenditure Estimates, 2009-10 to 2013-14 (£m)



ANNEX E: NI'S PUBLIC SECTOR ACCOUNTS - INCLUDING A HYPOTHETICAL PER CAPITA SHARE OF NORTH SEA (NS) OIL REVENUES

The inclusion of a per capita share of North Sea oil revenue revises downwards the overall NI negative net fiscal balance; from £9.2 billion excluding North Sea oil revenues to £9.0 billion in 2013-14, as presented in table E1. This decline represents a reduction of £0.2 billion or 1.5 per cent.

However, applying the assumption of a zero share of North Sea oil revenue to NI follows the most logical approach as NI's activity in North Sea oil fields is unclear. To include this revenue within the main analysis would not be a true representation of NI's public sector revenue as evidence suggests that NI is not listed as servicing any of the strictly NS oil fields.

Table E1: Net Fiscal Balance Estimates (Inc. North Sea oil): NI and the UK, 2013-14 (£m)

£ Million	NI	UK
Aggregate Expenditure	24,083	720,488
Aggregate Revenue	15,059	612,232
Net Fiscal Balance	-9,024	-108,256
Net Fiscal Balance per capita (£)	-4,932	-1,689
Net Fiscal Balance as a % of financial year GVA	-27.5%	-7.2%

Table E2 shows the impact of the inclusion of North Sea oil revenues on the NI fiscal position over the period 2009-10 to 2013-14.

Table E2: NI Fiscal Position (Inc. North Sea oil), 2009-10 to 2013-14 (£m) [1]

£ Million	NI				
	2009-10	2010-11	2011-12	2012-13	2013-14
Aggregate Expenditure	22,774	23,357	23,703	24,292	24,083
Aggregate Revenue	13,363	14,489	15,162	15,011	15,059
Net Fiscal Balance	-9,411	-8,868	-8,541	-9,281	-9,024
Net Fiscal Balance per capita (£)	-5,248	-4,914	-4,708	-5,090	-4,932
Net Fiscal Balance as a % of financial year GVA	-30.4%	-28.1%	-26.6%	-28.5%	-27.5%
Reduction in Fiscal Deficit when NS Oil Inc.	173	243	314	178	136
% Reduction in Fiscal Deficit (Exc. NS Oil vs. Inc NS Oil)	-1.8%	-2.7%	-3.5%	-1.9%	-1.5%

1. Note that the sum of the constituent items may not always agree exactly with the total shown due to rounding.

Queries

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(ENDNOTES)

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