Overview
The Construction Employers Federation (CEF) is the certified representative body for the construction industry in Northern Ireland. The organisation has over 800-member companies ranging from micro businesses employing a handful of people to the largest construction companies in Northern Ireland. In total, CEF member companies account for over 70% of construction output in Northern Ireland.

Comments on the Outlook
As the Federation has already said on the public record, there is a significant and increasingly harmful lack of governance within Northern Ireland.

Our industry is most exposed to this via approximately half of all construction turnover and related activities within Northern Ireland coming from public sector work.

For a significant number of our members, and accepting the welcome rebalancing of public-private work that has taken place over the last 2-3 years, public sector work continues to be their lifeblood.

The Budgetary Outlook is welcome in that it charts a very clear budgetary path for the next three financial years in respect of how Northern Ireland’s Capital budget could be spent. It is vital that this kind of budgetary planning takes place, both for industry and Government, especially as the last twelve months have led to complete uncertainty as to the spending profile in future years.

The Outlook does, however, very clearly detail the challenges presented because of the huge investment going into the Flagship projects over the next three years even though the overall Capital budget is going up. These are challenges that the industry has consistently said need to be reassessed, while we also note that the Capital budget is entirely predicated on the Capital money from the Conservative-DUP deal flowing as early as April. Any delay in this, accompanied by the expenditure on the Flagship projects, could present huge challenges for the bulk of our industry given its predominately small and medium sized contractor base.

Unquestionably, the Executive’s Flagship schemes stand on their very clear economic merits. However, and even allowing for the extra budgetary allocations made by the Chancellor in his Budget Statement of 22 November (of which most were Financial Transactions Capital – not something that has a direct, on the ground construction impact in the main), a balance must be struck in budgetary planning between how much resource is spent on these and other areas, such as roads maintenance, so to avoid a massive cliff edge for the vast majority of firms not engaged on the Flagship projects.
An additional issue that we must draw officials’ attention to is the downturn in private sector investment which has, of late, become a renewed and unwelcome factor. With Brexit uncertainty affecting institutional investment in Britain, private sector investment in Northern Ireland struggling to maintain its 2015-2017 boost and local contractors beginning to question how easy it will be to access the Republic of Ireland market post-March 2019, it is almost certain that contractors will, over the coming period, become more dependent on the public purse again. This Outlook strongly suggests that, outside of minor and major strategic/Flagship projects, there will be little additional new Capital available over the coming three years. That is of huge concern to an industry that is still fighting with fundamental concerns as to its own sustainability.

Further, not only do we barely have a budget for 2017/18 but we also face into a situation where, for the next three financial years to 2021, we know exactly how much we can spend on infrastructure works but have absolutely no legislative clarity on how, beyond the Executive’s Flagship projects, it will be spent.

Civil servants have been placed in an intolerable position. When we consider infrastructure, schemes require in many cases years of preparatory work and approvals. With little political direction beyond the Executive’s Flagship schemes, it is therefore impossible for future infrastructure planning across Government Clients to, properly, take place.

As we said in evidence we submitted to a Northern Ireland Affairs Committee inquiry on 18 December 2017, neither the construction industry, nor the Government Clients, can afford to be in a position in March, never mind once the financial year has started, of still not having a legislatively approved budget. We are aware that Clients have now been asked to put forward how they would prioritise Capital investment in 2018/19. So that this process can be done as efficiently and effectively as possible, it is vital that the 2018/19 budget be approved in January or, at worst, by mid-February and that, in the context of the ongoing impasse at Stormont, that Westminster must assume this responsibility will fall on them.

We have long said that the Secretary of State must now bring clarity. Decisions need to be prioritised and taken and a clear and accountable way of government taking these decisions needs to be established. Our preference is, of course, the establishment of a Northern Ireland Executive. However, failing that, we need to move to a position where the functions of government can be exercised in a way that any other part of these islands would expect as a matter of course.

Feedback on Budgetary Outlook

Given the nature of our membership, the responses to the Budgetary Outlook focus, primarily, on the Capital budget position:

- **The assumptions around the finance from the Confidence and Supply Agreement** – it is noted that all Resource and Capital budget planning is based on the full inclusion of all monies agreed in the Conservative-DUP Confidence and Supply Agreement of June 2017. While this is a deal that industry continues to welcome it is of course obvious to note that, as of January 2018, it is still unclear as to when exactly the agreed Capital allocation will begin to flow. Given the required Parliamentary approval process for these monies, and the length of time this tends to take, accompanied by ongoing political uncertainty, it is something of a surprise that the document does not contain planning for scenarios where either the money doesn’t flow or is in any way delayed. Considering the Capital budget alone, and the
significant expenditure on the Flagship schemes, were there to be any delay in the flow of money from the June 2017 agreement then this would have a significant negative effect on the local construction industry.

- **Resource budget implications** – throughout Chapter 5 of the Outlook, and while the detail provided is helpful, it is hard to really understand the level of implications under each of the three scenarios for each of the individual departments. While, unquestionably, exact detail is hard to provide with the ongoing lack of political decision-making, it is impossible to understand quite what level of housing funding would be cut/protected under each of the three scenarios, for instance.

- **The challenges to the Department for Infrastructure’s Resource budget** – industry fully understands the severity of the challenge that any of the three proposed scenarios presents for the Department. However, and even setting aside the Capital element of the Department’s budget, there is a strong reliance within the construction sector on the Resource spend of the Department. The Department, and its constituent bodies such as Northern Ireland Water, can ill afford further resource budget reductions given the direct and indirect economic impacts this would have, and we would urge that this be further considered in the next stage of budget discussions.

- **The position on Reinvestment and Reform Initiative borrowing** – since its introduction in 2002, the RRI facility has been of significant added value to the Executive’s Capital budget capabilities. Additional borrowing, if done so in a sustainable and prudent way (as has been the case over the 16 years of the facility) should be considered by an incoming Executive to further widen the Executive’s Capital budget capabilities – especially given the significant sums to be spent on the Flagship projects in the coming three years. Indeed, on the subject of borrowing, the industry would strongly support the greater use of local councils borrowing powers to grow again the wider public sector investment pot. Taking this a step further, the Budget Outlook also, and not for the first time, very clearly details the need to have a full and frank discussion about revenue raising options at the Executive’s disposal. Taking Northern Ireland Water’s budgetary requirements in isolation, we can see a wholly unsustainable budgetary outlook when you factor in the economic necessity that is the prompt delivery of the Living with Water programme. Without the delivery of the Living with Water programme it will be nigh on impossible for development within Greater Belfast to proceed as per our economic need and opportunity. No-one doubts that growing revenue raising options requires difficult decisions – however the alternative, where those decisions continue to be ducked, would be economically and socially catastrophic. That this appears not to have focused minds politically speaks volumes to the challenge that we are confronted with.

- **Flagship projects profile** – firstly, it is welcome to see an updated spend profile for each of the projects as this hadn’t be made available as part of the 2017/18 Budget process. However, as we have very clearly said before and as far back as in communication with the then Finance Minister in December 2016, the Outlook details the challenges presented because of the huge investment going into the Flagship projects over the next three years even though the overall Capital budget is going up. These are challenges that the industry has consistently said need to be reassessed. Unquestionably, the Executive’s Flagship schemes stand on their very clear economic merits. Indeed, from a contractual and building programme standpoint, there is now the case where commitments made over the coming three years must be met. However, a balance must be struck in budgetary planning between how much resource is spent on these and other areas, such as roads maintenance, so to avoid a massive cliff edge for the vast majority of firms not engaged on the Flagship projects.
We would again urge all Departments to reflect on this as we move towards agreeing the budget for future years.

- **A5 scheme** – while it is welcome that the long proposed A5 scheme will shortly commence, and that the Irish Government had pledged £75m over three years to Phase 1 of the scheme, it is vital that additional funds from the Irish Government are agreed before the remaining phases of the scheme commence. With a total proposed investment now north of £1bn it would be nigh on impossible for the scheme to be advanced as speedily as is needed without a recommitment on the part of the Irish Government to cover approximately 50% of the overall cost (as was the original plan). The case for the co-funding of the scheme continues to be positively heard – and it is crucial that this positivity is turned, once again, into an actual guarantee.

- **The unallocated Financial Transactions Capital funding** – industry has long supported the concept of the Northern Ireland Investment Fund and it is welcome that it is now operational. While its success with the initial tranche of £40 million of funding must be assessed before further monies are transferred, we would be strongly of the view that the initial £100 million outlined for the Fund should be realised in the medium term. In addition to this, and considering that some £95.5 million of FTC for 2018/19 remains currently unallocated, we would ask why the allocation towards the Department for Communities remains, in a comparative sense, low. Co-Ownership Housing is, for instance, an ongoing Northern Ireland success story and it is unclear why it couldn’t benefit from a higher level of funding in 2018/19 than currently outlined. Taking the subject of housing one step further, industry has long held the view that some form of greater government intervention in the local housing market could stimulate supply and, thus, home ownership. Quite how this could be advanced in the absence of an Executive is hard to see, but there is certainly the appetite and potential to consider some form of greater intervention, and this is something that FTC could be used in support of. Fundamentally, we need a viable and sustainable private housebuilding industry. Recent years have seen a welcome recovery in the number of builders building more than 100 units per year but, to meet pent up demand, we need to go much further and give greater encouragement to those smaller builders looking to grow. Industry would be keen, arguably through the Department for Communities Programme for Government work, to advance this idea further.

- **Department for Communities Capital budget** – in the context of the Belfast Streets Ahead Phase 3 project postponement this year, the first question to ask is whether the key deliverables outlined (such as Enniskillen Public Realm) have, at this stage, the necessary political authority to proceed? Industry must not again be put in a scenario, as it was with Belfast Streets Ahead Phase 3, where significant sums of money are wasted by contractors on tender bids only to be subsequently told that the scheme can’t proceed due to a combination of a lack of political approval and necessary budget. In addition, industry would be keen to ascertain what now is the plan for Belfast Streets Ahead Phase 3 given that it is no longer included as a key deliverable? The economic and social importance of the scheme is clear – so what is now the plan in relation to it if it isn’t to be advanced before April 2021? Similarly to our comments on Chapter 5 of the Outlook, it is also unclear what level of impact this budget would have on the Department’s housing allocation? While we understand that the top-level figure is ‘significantly short of the funding requested’, what are the practical implications of this?

- **Department for the Economy Capital budget** – industry had expected 2017/18 to see the progression to tender of three new further education colleges – SWC Enniskillen, SRC Armagh and SRC Banbridge. While the first two have progressed in line with expectations, it
came as a surprise that SRC Banbridge did not. We would therefore question what impact the proposed budget for the coming three years has on this scheme, as well as the additional SRC campus project due in Craigavon.

- **Department of Education Capital budget** – for the overwhelming majority of Northern Ireland’s small to medium sized contractor base, education and health projects are their absolute lifeblood. The budget outcome that the Department of Education has been left with is, therefore, wholly unsatisfactory. The delay of the hugely beneficial next tranche of the School Enhancement Programme into 2021/22 will be of hugely negative consequence both to the schools and pupils that have long needed refurbished facilities and the contractor firms, employees and their supply chains who have so successfully delivered on SEP projects to date. It also cannot be right that the Department now must assume full budget responsibility for the Strule Shared Education Campus. The campus was not planned on this basis and, even allowing for the delays that have occurred in its procurement, there has got to be a workaround to enable the Department to better spread its limited, comparatively, Capital pot. There is, of course, a fundamental need to reform our schools’ estate. However, given the lack of political direction in respect of this, the Department need to be able to maintain what they have, ensuring that facilities are, at the very least, stable and safe. To do this, the Strule project must be entirely funded from the monies in the Fresh Start Agreement – to do anything else would be absurd.

- **Department of Finance Capital budget** – the delivery of the Executive’s Asset Management Strategy is critical not just for continuing to realise much needed receipts for the public purse but also for ensuring that land that could be developed privately is afforded the chance to be so. Therefore, seeking to maintain a budget to drive the Strategy forward must be an absolute imperative by the Department and Executive more widely.

- **Department of Health Capital budget** – the Capital provided over the coming three years would, positively, enable key strategic projects such as the Mother and Children’s Hospital and Ulster Hospital Phase B Acute Service Block to be advanced and delivered. Arising from the budget outcome we would however ask what is now the position of the 2011 proposed 20 primary care facilities – and their funding model. We understand both the Newry and Lisburn facilities are sitting at preferred bidder stage but, with such pressure on the Resource budget, is the 3PD model still being proposed as the funding model? Or are the schemes to be funded from conventional Capital instead? Taking this a step further, what does this mean for the whole programme of ‘hub and spoke’ facilities? Much like in education, transformation in service provision and delivery is undoubtedly required in our health service. The construction industry is however somewhat unclear as to what this will look like from a contracting perspective.

- **Department for Infrastructure Capital budget** – as the Department itself notes, the impact of the Flagship schemes on the budget for the coming three years is clear. Again, let no-one doubt our support for the projects and the absolute need for contractual obligations and agreed build programmes to be met. However, this budget means that project delivery over the coming three years will amount to key projects on the strategic roads network. Given the budget as currently outlined, therefore, are we to assume that, currently, there is no actual budget for roads maintenance come April? This would have a devastating effect on a huge element of the industry, an element which employs thousands of people. In our view, hindsight would increasingly suggest that advancing all the strategic schemes at the same time, as well as the impact on the Department’s budget of the Belfast Transport Hub, should have been better thought through. That being said, it is now a situation which must be faced and it, once again, calls into open question the sustainability of Northern Ireland Water’s
current funding model at the very minimum. Growing the reliance on in-year monitoring to deliver the roads maintenance programme is something that must be avoided - this is something that we will comment further on. Finally, we would again ask what the impact would be on the Department’s budget were the Conservative-DUP Confidence and Supply Agreement monies not to flow as projected? It would appear sensible to plan for all plausible scenarios.

- **Greater accountability around the Northern Ireland Budget** – reflecting on the debate in the House of Commons at Second Reading of the 2017/18 Northern Ireland Budget Bill, we would agree with many MPs that there are currently no clear lines of accountability with respect to Capital expenditure. This needs to be addressed. The construction industry has a useful insight into Government Clients’ procurement and spending plans through its membership of the Construction Industry Forum Northern Ireland. However, this deals with projects at the procurement stage rather than contract award or construction on-site. Therefore, it is incredibly hard to ascertain, in-year, how exactly Capital budgets are being spent and what on. Normal accountability processes, via a functioning Northern Ireland Assembly, are not currently taking place. An alternative approach must be advanced.

- **Clarity around the rules the Civil Service operates under** – while we appreciate that, in the absence of Ministerial direction, it is not advisable for civil servants to take explicit new policy decisions (and certainly not decisions which could be overtly deemed as counter to the priorities of any Executive if established), the issue becomes much more confused with respect to advancing Capital works. Industry completely understands the need for elected politicians to drive infrastructure priorities and actual works. However, in their absence, this financial year has seen procurements commence and then be suspended (Belfast Streets Ahead Phase 3 as the most prominent example) at huge cost to contractors; officials consistently tell the industry that schemes currently at design or feasibility stage may not further advance due to a lack of political sign-off and; projects stall at tender award stage due to contractors’ prices coming in over the business case/pre-tender estimates with little clarity as to how they can then be advanced in the absence of Ministers. These issues need tidied up, and they need tidied up now. It is a reality that, with every week that passes, these challenges are only going to increase without being urgently addressed.

- **Widening the scope of Capital works business cases** – with approximately half of all construction materials used on sites in Northern Ireland being imported, the industry has been negatively hit by the fall of Sterling vis-à-vis the Euro since the 2016 EU Referendum. This has had an obvious impact in recent months on contractors’ prices. When you then set these prices against business cases and pre-tender estimates, some of which may have been done months if not over a year ago, you can quickly see a scenario where civil servants do not have the cover to advance projects because they are now, if awarded, so far over their original estimated, and Ministerially signed-off, price. In the context of the current impasse, where civil servants are convinced that projects should proceed, there must be an easier way for them to do so. Issuing extensions of tender validity period letters, as has been done in recent cases, is not a sustainable approach.

- **Renewing proposals around agreeing multi-year budgets** – with the overall Capital expenditure pot in Northern Ireland now in place for the next three financial years, there is a strong argument that elements of it should be agreed on a multi-year format. While the immediacy relates to passing a 2018/19 Budget, industry has long expressed concern at the peaks and troughs in expenditure on areas such as roads maintenance and social housing. Putting in place a floor now (both of Resource and Capital funding), and then seeking to top it up via the three-times annual monitoring round process would avoid the cliff edges that
many companies, year on year, have to face. Plans on taking such an approach were well
advanced before the Executive fell in January 2017 – it could therefore be argued that such a
direction given by civil servants/Westminster now would not be a policy departure so to
speak.

- **An assessment of how much of the Executive’s Programme for Government can be taken
  forward in the absence of an Executive** – the Department for Communities has recently
called stakeholders together to consider how to advance the Programme for Government
themes under their oversight in relation to housing. This is welcome; however, we need to
be clear how much of this detailed policy work can take place in the absence of Ministers.
Taking housing on its own, any shift towards addressing our shortfall in new build homes will
clearly require either policy interventions (such as the virtual delivery unit pilot proposed in
the Housing Supply Forum report of January 2016) or changes to existing approaches. The
industry does not believe our housing shortfall can in any way be addressed without political
buy-in and active support. It therefore begs the question, and this could be extended to
other aspects of the Programme for Government, as to how far can this important work be
advanced in the short to medium term?

- **Continued support for Industrial De-Rating** – while the industry fully appreciates the
pressures on the Northern Ireland Executive’s Resource Budget as are detailed throughout
the document, it would not support the full removal or even a modest change in the current
Industrial De-Rating policy. This has been of huge benefit to manufacturers over a significant
period and we would suggest greater focus must be put on so-called ‘super-parity’ areas
within the Resource budget as a priority for realising greater Executive income.

19 January 2018