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The Public Finance Scrutiny Unit

Draft Budget 2015-16: Lines of Questioning

This Briefing Note aims to support Assembly scrutiny of the Executive's Draft Budget 2015-16, providing potential lines of questioning for the Assembly's statutory committees.

Introduction

The Executive's Draft Budget 2015-16 will have significant social, economic and political impacts in Northern Ireland if agreed as currently proposed. Seeking to further inform the Assembly's discussions and deliberations, this Briefing Note provides possible lines of questioning on the Draft Budget 2015-16. The Note is presented in two parts:

- Part A provides possible questions for the Committee for Finance and Personnel in relation to the Draft Budget as a whole. It focuses mainly on strategic and cross-cutting themes; and,
- Part B provides possible questions for statutory committees in relation to scrutiny of their respective departments' positions.

Questions are grouped under broad headings or themes to facilitate structured scrutiny and responses to the Committee for Finance and Personnel in support of its proposed coordinated report on Draft Budget 2015-16. Questions relate to both the Draft Budget 2015-16 document dated 3 November 2014¹, and to the Minister of Finance and Personnel's Statement to the Assembly on the same day.²

For ease of reference throughout the Note, the following annotation system has been used:

- Questions relating to the Draft Budget 2015-16 documents are annotated DB, along with the relevant page number;
- Questions relating to the Minister of Finance and Personnel's Statement are annotated MS, along with the relevant page number; and,
- Questions relating to issues that were not mentioned in the Draft Budget or the Minister of Finance and Personnel's Statement are not annotated.

Also note the following term definitions, which are used repeatedly in this Note:

Departmental Expenditure Limits (DEL):

DEL is a spending aggregate that sets firm expenditure limits for a three or four year period. DEL includes that expenditure which is generally within the department's control and can be managed within multi-year limits.

These limits are set at a Northern Ireland level by UK Spending Reviews. The NI Budget then sets out individual NI departments' DEL controls which have been determined through the local Budget process.

DEL is split into Resource DEL (also known as current expenditure) which reflects the ongoing cost of providing services and Capital DEL which reflects investment in assets which will provide, or underpin, services in the

¹<http://www.northernireland.gov.uk/draft-budget-2015-2016.pdf>

²<http://www.dfpni.gov.uk/draft-budget-for-2015-2016.pdf>

longer term. Within the Resource DEL, HM Treasury impose separate controls on:

- *Depreciation/Impairments; and*
- *Student Loan subsidy Impairment*

Ring-Fenced

Expenditure that is specific to a particular policy or programme and cannot be used for any other purpose without the prior agreement. A ring-fence may be imposed by HM Treasury or locally by the Executive.³

³<http://www.dfpni.gov.uk/ced-public-expenditure-terminology.pdf>

Part A: Possible questions for the Committee for Finance and Personnel

This Part of the Briefing Note provides possible questions that the Committee for Finance and Personnel may wish to ask officials from the Department of Finance and Personnel (DFP) about a range of strategic and cross-cutting issues.

A1) The Northern Ireland Economy

A1.1 Has the Executive commissioned any economic analysis to assess the likely effect on consumer confidence and the economy in general after large scale public sector job losses, considering approximately 30%⁴ of all NI jobs are in the public sector?

A1.2 Has the Executive considered the negative multiplier effect on the economy of public sector pay restraint/workforce restructuring? (MS, 13)

A1.3 Has the Executive considered alternatives to workforce reductions, such as further pay restraint, or even pay cuts? Would such measures have less negative effect on consumer confidence and aggregate demand?

A1.4 The Minister of Finance and Personnel said that “*the Executive made the economy its top priority*” (MS, 2). Yet the proportion of total non-ringfenced resource DEL allocated to the Department of Health, Social Services and Public Safety (DHSSPS) has increased from 42.08% in 2010-11 to 46.84% in Draft Budget 2015-16. How does this increase support the Minister’s statement that the economy is the Executive’s top priority?

A1.5 The Minister stated that there were 4.2 million overnight trips to Northern Ireland between July 2013 and June 2014. (MS, 4) How do they compare to the numbers for the previous equivalent period?

A1.6 The Minister stated that “*4.5% of all FDI projects into the UK in 2013*” (MS, 5) were secured by Northern Ireland:

- The Minister gave no indication of the value of grants paid to secure this investment in comparison to the rest of the United Kingdom (UK). What was that value?; and,
- How will the new European rules in relation to Selective Financial Assistance affect this situation in the future?

⁴ Source for percentage: HM Treasury (2011) Rebalancing the Northern Ireland Economy.

A2) Financing the Draft Budget

Revenue Raising Policy Levers

A2.1 The Minister mentioned in his statement that “*our economy and therefore our tax base isn’t strong enough to stand on its own*”. Did the Executive/departments consider revenue raising measures to address the Northern Ireland (NI) fiscal deficit of £9.6 billion? If so, what measures were considered; and explain the rationale underpinning the decision to rule out such measures? (MS, 3). For example, given the stated deficit:

- Did the Executive consider raising revenue from an increase in the regional rate above the level of inflation? If so, why did it not propose such a policy? (MS, 6) (DB, 26)
- Did the Executive consider raising revenue by increasing the cap on maximum domestic rate value limits? If so, why did it not propose such a policy?

A2.2 “*The Draft Budget is predicated upon the continuation of a Small Business Rates Relief scheme offering £20 million of support to thousands of Northern Ireland’s small businesses*” (MS, 7):

- DFP commissioned a review of the Small Business Rates Relief scheme. The findings of the Review are expected shortly. What were they?
- If the scheme is to continue post-Review, how does it reflect the most efficient and effective use of the Executive’s scarce resources?

Borrowing

A2.3 The Executive is proposing that £100million of Reinvestment and Reform Initiative (RRI) borrowing is used to finance public sector “*workforce restructuring*” by capitalising related expenditure. RRI borrowing is designed to fund capital infrastructure projects (MS, 13):

- Is it prudent to fund redundancy or other restructuring measures by increasing debt? NI’s projected level of indebtedness in 2015-16 is £1.7billion, or £948 per head⁵ (DB, 29)
- The Executive is “*in the process of considering mechanisms for capping RRI borrowing to ensure that the overall level of borrowing remains within manageable limits.*” (DB, 30) Can DFP explain what the considerations entail and why there is a need for a mechanism to cap borrowing?
- Does the Executive have a ‘Plan B’ if the Treasury does not permit the capitalisation of workforce restructuring? What is it?

⁵ Source <http://www.northernireland.gov.uk/draft-budget-2015-2016.pdf>

A2.4 The Executive proposes to draw down the maximum amount available under RRI borrowing rules, to “*continue boosting the local economy and construction sector.*” (MS, 7) How does the Executive’s proposed use of half of the RRI facility (i.e. £100 million) for “workforce restructuring” support either boosting the local economy or the construction sector?

A2.5 What is the Executive’s rationale for keeping “*local taxes low*” by increasing borrowing, and thereby shifting the burden of current expenditure to future generations? (MS, 7; DB, 30) Is it prudent?

Repayment to the UK Reserve

A2.6 The Minister of Finance and Personnel has “*approached the Treasury seeking the flexibility to reclassify funding raised from the sale of Capital assets to Resource*” in order to repay the UK Reserve for the additional £100 million the Executive is expecting to spend in 2014-15: (MS, 8)

- Under the current financial arrangements of devolution at present, Treasury rules do not usually permit capital expenditure to be used for resource. Does the Executive have a ‘Plan B’ for repayment of the £100 million to the UK Reserve, if the Treasury does not permit the stated reclassification?
- What has the Executive done to estimate the amount of money that is to be raised *via* asset disposal? How rigorous is this estimation?
- Is it prudent to reduce capital investment spending power in 2015-16, in order to compensate for the failure to control resource expenditure in 2014-15? If so, how is it prudent?

A2.7 How confident can the Assembly - and the public - be that the Executive will contain in-year expenditure pressures in 2015-16, without having to resort to emergency temporary access to the UK Reserve, as it is doing in 2014-15? How can the Executive assure the Assembly and the public?

Financial Transactions Capital

A2.8 An “*increasing level*” of Financial Transactions Capital (FTC - £128 million for next year) is available to the Executive (MS, 6): in light of the fact that these types of arrangements tend to take a long time to be agreed, how much of FTC money currently in the pipeline is to be spent and when?

European funding and related issues

A2.9 The Minister of Finance and Personnel stated that “£10.7m in Resource DEL and £8m in Capital DEL will be held at the Centre for allocation as part of the Final Budget” (MS, 8):

- How will the above money be allocated?
- How will departments bid for it, and when?

Delivering Social Change, Social Investment Fund and Childcare Strategy

A2.10 The Minister of Finance and Personnel stated that £14 million resource DEL and £15 million capital DEL is “held at the Centre for disbursement later” (MS, 8):

- When is this due to happen?
- What will the bidding process involve?

Pension reform and revaluation

A2.11 The Executive has agreed to “hold £133m centrally” to alleviate departmental pressures arising from pension scheme revaluations due to “significant additional employer contribution costs” (MS, 8):

- Is this an unexpected development?
- Is £133 million likely to be sufficient to cover the revaluations, given that they have not yet been concluded?
- Will the increased costs be recurrent or one-off?

Welfare Reform

A2.12 The Executive agreed to “set aside £70 million to fund a package of measures designed to mitigate the impact of Welfare Reform changes on the most vulnerable” (MS, 8):

- What specifically does this mean in relation to Welfare Reform; what has the Executive agreed in this regard to date? What has it not agreed? When does it hope to reach agreement on this issue? How will the “most vulnerable” be defined?
- What is the basis/rationale for the stated £70 million figure?

A3) The proposed Northern Ireland Investment Fund

A3.1 Who is carrying out the feasibility study into the Investment Fund? What are the terms of reference? (MS, 12)

A3.2 How much FTC is due to be surrendered this year or next year, if such capital is to provide the “*initial balance*” for the Fund? How can FTC be earmarked for the Fund in advance of the feasibility study? (MS, 12)

A3.3 The Minister of Finance and Personnel stated that the feasibility study will “*inform the scope, scale and design of a potential Fund*”. Later he stated that it would make “*a further £1bn available for investment*”. (MS, 12) How can the Minister suggest that £1 billion would be available in advance of the feasibility study’s findings and conclusions?

A3.4 The feasibility study is to include details of an investment strategy:

- How will this new strategy impact on the Strategic Investment Board’s existing Investment Strategy for NI, which was widely consulted upon when proposed and finalised?
- Will there be consultation on the new strategy?
- Why has the Minister for Finance and Personnel commissioned the feasibility study given the role of SIB; does it constitute duplication, resulting in inefficient use of resources?

A3.5 The Minister of Finance and Personnel stated that the Investment Fund would “*potentially allow large international investors, including the European Investment Bank, to invest in local projects that would be too small in scale to access this type of finance*” (MS, 12) Does the Minister foresee the Fund influencing project types in terms of size? If so, how?

A4) Reforming Government

Change Fund

A4.1 The proposed “*Change Fund*” (MS, 13) would appear to resemble the previous *Invest to Save* scheme:

- Has a template been agreed for the allocation of funding under this scheme?
- Did DFP carry out an evaluation of the previous scheme prior to its re-invention? If so, what were its findings?

Workforce restructuring

A4.2 DFP has been developing a workforce restructuring plan which will “*embrace all possible personnel interventions including a recruitment freeze, suppressing vacancies, use of temporary staff, pay restraint and a voluntary exit mechanism to reduce workforce numbers.*” (MS, 13) Will this work also include reducing public servants contracted hours, and/or pay cuts, as alternatives to redundancies?

A4.3 Draft Budget 2015-16 provides departments with proposed allocations. Ministers will then “*seek to publish more detailed breakdowns of proposed expenditure on their*

departmental websites." (DB, 47) Staff costs make up a large proportion of many departments' expenditure. In the absence of the workforce restructuring plan, how are departments expected to meet the publishing requirement for more detailed breakdowns?

Public Governance Review

A4.4 The Minister of Finance and Personnel stated the OECD (Office of Economic Cooperation and Development) is to undertake "*its first sub-national Public Governance Review*" in NI, and that elements of NI's public sector would be benchmarked "*against international best practice*" (MS, 12):

- Will the relevant statutory committees be consulted in respect of the identification of what areas to be benchmarked?
- Alternatively, will there be notice of the areas that will be benchmarked prior to the exercise taking place?

A5) Consultation process

Consultation period

A5.1 The consultation period on Draft Budget 2015-16 has been "*restricted*" to eight weeks, closing on 29 December 2014 (DB, 5):

- Several key pieces of information are missing from Draft Budget 2015-16. For example, the outcome of the feasibility study on the proposed Northern Ireland Investment Fund and DFP's workforce restructuring plan. How can departments plan effectively on the proposals, in the absence of all the necessary information? How can statutory committees and stakeholders comment effectively?
- The restricted consultation period concludes during the Christmas holidays, when the Assembly is in recess. How does this meet consultation best practice?

Departmental proposals

A5.2 Draft Budget 2015-16 provides departments with proposed allocations. Ministers will then "*seek to publish more detailed breakdowns of proposed expenditure on their departmental websites*" (DB, 47). The Executive used a similar approach for departmental consultation in relation to Budget 2011-15. However, many departments were heavily criticised by statutory committees for failing to provide sufficiently detailed information in a timely manner. Given past experience and lessons learned, why is there repeated use of this deficient approach?

Part B: Possible questions for all statutory committees in relation to scrutiny of their respective departments' positions

B1) Budget allocations

B1.1 Draft Budget 2015-16 gives allocations for departments for Non-ringfenced Resource, Ringfenced Resource, and Capital DEL. Committees may wish to ask:

- What proportion of the allocated budget for each category is already contractually committed?;
- What proportion of the allocated budget for each category is already legally committed for delivery of statutory functions?; and, therefore
- What proportion of the allocated budget remains unallocated for the exercise of ministerial discretion/prioritisation?

B1.2 How will these remaining resources be prioritised? What criteria will the Minister use?

B1.3 What criteria will the Minister use to determine which, if any, services or programmes have to be cut or scaled back?

B1.4 The Minister of Finance and Personnel stated that individual Ministers "*will be provided [...] a Capital envelope within which Ministers can allocate as they see fit*". (MS, 11) However, he also stated that a number of projects (e.g. regional Children's hospital and A2 Greenisland will be funded). Committees may wish to ask how the pre-announcement of the Executive's funding priorities will impact on the departments' scope to allocate?

B2) Workforce restructuring

B2.1 DFP has been developing a workforce restructuring plan which will "*embrace all possible personnel interventions including a recruitment freeze, suppressing vacancies, use of temporary staff, pay restraint and a voluntary exit mechanism to reduce workforce numbers.*" (MS, 13). The plan is not due for another two weeks.

Committees may wish to ask:

- What proportion of the department's expenditure is on staff costs?
- How is the department planning/forecasting its expenditure in the absence of the workforce restructuring plan and the associated cost implications?

B3) Change fund

B3.1 The Executive has agreed to allocate £30 million to a "*Change Fund*" (MS, 13). This Fund is "*tailored specifically towards reform orientated projects that are innovative,*

involve collaboration between departments and agencies or focus on prevention”.

Committees may wish to ask:

- If the department intends to submit bids to the Change Fund?
- If so, how will bids be prioritised?