Northern Ireland Assembly

Research and Information Service Briefing Note

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Spending Round 2013

This Briefing Note provides the Assembly with information on the implications of the United Kingdom (UK) Government's Spending Round (SR) 2013 for Northern Ireland.

1. The Spending Review system

Spending Reviews (SRs) are the mechanism through which the UK government plans public expenditure for the short-to-medium term. SRs control public expenditure by imposing ceilings on the sums that UK government departments and the devolved administrations may spend on the delivery of services.

The SR system is therefore a key building block of Northern Ireland's Public Finance Framework. At the highest level, SRs determine the level of spending that the Executive may undertake. For this reason, it is important for Members of the Assembly to receive figures or briefings after the UK government has announced the outcome of an SR.

The most recent SR (SR 2013, announced in June) was – unlike all the previous SRs that have gone before – for a single year. In this instance, the Chancellor set out Departmental Expenditure Limits (DELs) for 2015-16 only. In the past, SRs have covered various periods – two, three, or four years.[1] Nevertheless, the purpose of this Briefing Note is to outline the implications of SR 2013 and to set the expenditure limits for 2015-16 into the context of the 2014-15 limits.

[1] The reason for the approach of announcing a single-year's spending is uncertain. For discussion, see 'Spending Wisely', the first report of the Fabian Commission on Future Spending Choices, available online at: http://www.fabians.org.uk/spendingchoices/ (accessed 9 September 2013) (pages 25-27)

2. The outcome of SR 2013 for Northern Ireland

The outcome of SR 2013 was broadly welcomed by the previous Finance Minister, Sammy Wilson. He said:

> *Today's outcome is as good as could be expected for Northern Ireland. Whilst it was inevitable that we would have to share the impact of the austerity drive applied to the UK Budget, the continuation of the UK Government's decision to protect front-line services in health and education has a direct benefit for the Northern Ireland Executive's Budget. It means that the impact of the reductions applied at a Whitehall level is somewhat mitigated for Northern Ireland.*[2]

The SR 2013 Departmental Expenditure Limit settlements for Northern Ireland are set out in the Table in both cash[3] and real terms.

NI Departmental Expenditure Limit	14-15			15-16			% change 15-16 on 14-15		
	Resource	Capital	Capital (exc loans support)[2]	Resource[1]	Capital	Capital (exc loans support)[2]	Resource	Capital	Capital (exc loans support)[2]
Cash	10104.90	1025.70	966.40	10166.50	1060.00	955.70	0.61	3.34	-1.11
Real terms (13/14 prices)[3]	9916.5	1006.6	948.4	9800.5	1021.8	921.3	-1.17	1.52	-2.86

Notes:

[1] The 2015-16 Resource DEL position includes a £30.4m increase (from 2014-15 budget) in the ring-fenced depreciation/impairment budget and a £40.5m increase (from 2014-15 budget) in the Student Loan Impairment budget. These budgets cannot be used for mainstream resource funding.

[2] The 2014-15 Capital DEL position includes £59.3m of Financial Transactions Capital DEL. The 2015-16 Capital DEL position includes £104.3m of Financial Transactions Capital DEL.

[3] Adjusted using the latest Treasury deflators.[4]

Figures in the table may not sum due to rounding.

The following observations may be made about this Table:

[2] http://www.northernireland.gov.uk/index/media-centre/news-departments/news-dfp/news-dfp-june-2013/news-dfp-260613-finance-minister-announces.htm

[3] Source: RaISe calculations based on cash DEL figures provided by DFP, 5 September 2013

[4] GDP deflator at market prices, 27 June 2013

- The SR 2013 settlement provides Northern Ireland will a nominal increase in resource expenditure of just over half-a-percentage point;
- Expressed in this year's prices (i.e. in real terms), this is a decrease of just over 1%;
- For capital expenditure, the SR 2013 settlement provides Northern Ireland with a nominal increase of more than 3%; and,
- Expressed in this year's prices, this still represents a modest increase in Northern Ireland's capital spending power of about 1.5%.

Having said this, it is important to note that the DELs include resources allocated to Northern Ireland for Financial Transactions. These resources may be more appropriately described as 'loans support': the resources may only be used for certain investment options, such as schemes whereby loans are provided to the private (or third) sector in exchange for a public equity share of an asset which the borrower will construct.

The crucial point here is that – unlike other resources that Northern Ireland receives – these loans support resources will have to be repaid to the UK Treasury.[5] In order to properly see the impact of SR 2013, then, these loan support resources should arguably be excluded.[6] In other words, the need for some of the resources to be repaid creates a somewhat more confused picture than is usually the case with a Capital DEL allocation.

Once these resources are excluded, instead of a 1.5% real terms increase in Capital DEL for 2015-16 on the previous year, it can be seen from the table that the Executive's spending power will decrease by almost 3%.

On a more positive note, SR 2013 confirmed the additional borrowing limits for the Executive for 2014-15 and 2015-16 that had been previously agreed.[7] This means the limit on borrowing under the Reinvestment and Reform Initiative is "*temporarily*" increased by £50m for those years "*to support investment in shared housing and education projects.*"[8] This additional borrowing facility will enable a higher level of capital investment than would otherwise be possible – although, of course, the sums borrowed will have to be repaid with interest.

[5] The need to repay was outlined to RaISe by a DFP official. It has also been stated by the Scottish Finance Minister in answer to a Parliamentary Question: http://www.scottish.parliament.uk/parliamentarybusiness/28877.aspx?SearchType=Advance&ReferenceNumbers=S4W-14615&ResultsPerPage=10 (accessed 10 September 2013)

[6] The approach of excluding loans support was used by the University of Glasgow's Centre for Public Policy for Regions briefing on SR 2013. See http://www.gla.ac.uk/media/media_286106_en.pdf (accessed 9 September 2013)

[7] http://www.northernireland.gov.uk/index/media-centre/news-departments/news-dfp/news-dfp-june-2013/news-dfp-260613-finance-minister-announces.htm

[8] HM Treasury (2013) 'Spending Round 2013' available online at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209036/spending-round-2013-complete.pdf (accessed 10 September 2013) (see page 50)