

Written Ministerial Statement

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Finance and Personnel

BUDGET 2016-17

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Mrs Foster (Minister of Finance and Personnel): The purpose of this Statement is to inform the Assembly of the Budget 2016-17 agreed by the Executive today. I will, of course, bring this to the Assembly in January to allow a full debate and Assembly vote on the Budget 2016-17. However, I feel it is important to inform the Assembly as soon as decisions have been reached.

The 'Fresh Start Agreement' committed the Executive to producing a balanced budget for 2016-17, agreed by the Assembly, by the end of January 2016.

Process

Logistically this has been an extremely challenging Budget both in terms of constrained timescale as a result of the late date for the Chancellor's Spending Review announcement and the fact it has been produced on the basis of the new nine department structure that will be in place following the elections in May.

The only way in which the Executive can deliver a Budget within the 'Fresh Start' timetable is through an abridged process with the construction of a single stage Budget. This has been informed by ongoing engagement between DFP and departments and with key stakeholders.

Budget 2016-17 has only been prepared for a single year. This will then give new departments and new Ministers a stable, balanced platform to determine priorities and funding allocations post May elections for a multi-year Budget from 2017-18 to 2019-20.

It is recognised that the migration from the current twelve department structure to the new nine future departments is not without its own difficulties. For that reason the Executive has agreed that there will be additional budget flexibilities available to new Ministers in the first Monitoring round of the year.

A Fresh Start: The Stormont Agreement and Implementation Plan

The 'Fresh Start' Agreement provided significant additional funding in 2016-17. In addition the Executive agreed to set aside £135 million to 'top-up' the UK welfare arrangements for Northern Ireland. Of this £75 million related to welfare enhancements and £60 million related to Tax Credits. The Executive also committed to provide £5 million match funding in relation to tackling paramilitary activity.

This funding has been addressed as follows in the Budget 2016-17:

- **£32 million** Resource DEL security funding allocated to the Department of Justice (DoJ);
- **£10 million** of funding for tackling paramilitary activity will be held centrally pending publication of the required strategy;
- **£25 million** Resource DEL for fraud and error allocated to the Department for Communities (DfC) on a ring-fenced basis;

- **£75 million** Resource DEL allocated to DfC for welfare reform mitigating measures, with the corresponding adjustment to the baseline in respect of the current Discretionary Fund;
- **£30 million** of the £60 million set aside for mitigating measures in respect of tax credits will now be held centrally pending the outcome of Professor Evason's work and Executive agreement on its use. The remaining £30 million will be allocated as part of Budget 2016-17;
- **£12 million** of additional funding for 'A Shared Future' will be held centrally until appropriate allocations are identified;
- **£30 million** funding for bodies to deal with the Past will be held centrally until agreement is reached on how this issue is to be addressed;
- **£50 million** of funding for shared/integrated education and shared housing will be held centrally pending approval of specific projects.

Rates

In line with the approach in previous Budgets the Executive has agreed to hold the level of regional rates increase to that of inflation. This means that both the domestic and the non-domestic the Regional Rate will increase by 1.7% in line with inflation based on the Gross Domestic Product (GDP) deflator.

Central Pressures

There are three emerging pressures in respect of central commitments. The forecast increase in respect of Housing Benefit for rates, which is now a cost to the Executive's Resource DEL, the cost of the Executive-funded concession in relation to Air Passenger Duty (APD) and the cost of IT systems to facilitate the devolution of Corporation Tax. Allocations in respect of these have been made as follows:

- **£4.3 million** Resource DEL to the Department of Finance (DoF) to fund systems development by HMRC to facilitate the devolution of corporation tax;
- **£4.6 million** Resource DEL to the Department for Communities in respect of Housing Benefit for Rates;
- **£2.4 million** Resource DEL is held centrally to cover the cost of Air Passenger Duty;

Central Funds

The Executive has agreed to set aside £14 million Resource DEL and £15 million Capital DEL for the Delivering Social Change agenda. This is equivalent to the funding provided previously for the Social Investment Fund and Child Care Strategy in 2015-16.

In addition, £8 million will be held centrally for Atlantic Philanthropies under the Delivering Social Change agenda. In 2014, the First Minister and the deputy First Minister announced a £58 million joint investment with Atlantic Philanthropies to deliver improved services for parents, shared education and support for people with dementia and their carers. Delivery is led by the Department of Health, Social Services and Public Safety on the Dementia and Early Interventions Programmes, and by the Department of Education on the Shared Education Programme.

Resource DEL funding of £1 million has also been set aside to provide match funding for EU Peace and INTERREG programmes. Although significantly lower than in previous years this reflects the fact that spending on this area is slow due to the start of the new programmes being delayed with Peace IV only approved by the EU on 30 November 2015 and INTERREG VA only opening its applications in September. With spend not expected to accelerate until 2017-18 the requirement for match funding in 2016-17 is not expected to exceed £1 million.

Change Fund

Budget 2015-16 set aside £30 million in respect of a Change Fund. While a full assessment of the projects financed by this fund will only be possible upon their completion, initial indications are that this funding achieves worthwhile results.

In light of the significant pressures facing departments it is proposed that allocations to the Change Fund, as part of Budget 2016-17, is limited to £7.1 million for the specific areas identified below.

However, allocations to further projects under Change Fund will be considered in June Monitoring from funding available under the Budget Exchange Scheme.

Of the £7.1 million it is proposed that £1.5 million be held centrally for allocation to the Asset Management Unit to provide an enabling fund for the work they are progressing in delivering the estate rationalisation as required in the Executive's Asset Management Strategy.

A further £4.5 million should be held for allocation to a number of Executive agreed cross cutting reform projects that will deliver significant savings on behalf of the wider NI Civil Service (NICS).

It is also proposed that £1.1 million of the Change Fund be set aside for the establishment of a pilot Small Business Research Initiative Challenge Fund which will support Northern Ireland companies in becoming more innovative.

Allocations

Although the overall level of funding available means that inevitably departments will be facing Resource DEL reductions the Executive has also considered the need for a limited number of allocations to address some of the more significant pressures facing our key public services.

These are detailed below:

- **£133 million** Resource DEL to the Department of Health (DoH);
- **£15 million** Resource DEL to the Department of Justice (DoJ) for Legal Aid;
- **£20 million** Resource DEL to the Department for Infrastructure (DfI) for Roads Structural Maintenance;
- **£40 million** to the Department of Education (DE);
- **£5 million** to the Department for the Economy (DfE) for the skills agenda;
- Further allocations of **£117.6 million** from the Public Sector Transformation Fund (PSTF) for voluntary exit.

Protections

In determining the level of reductions that should be applied to departmental Resource DEL baselines the Executive has agreed protection for some specific areas.

The Stormont House Agreement required the Executive to provide a level of protection to the police budget. In light of this it has been agreed that the level of reductions applied to the core police budget will be limited to 2%.

In light of the pressures facing our health service, to help mitigate against the potential adverse impact on hospital places caused by reductions in social care and to avoid negating the positive impact of the additional allocation it is proposed to protect both the health and social care elements of the new Department of Health budget.

It is also important to distinguish between the functions that the new Department of Finance (DoF) will discharge as a department and those it will discharge on behalf of the wider NICS. It is therefore proposed that those central functions (i.e. shared services) are afforded a degree of protection. The core department of the DoF will have to face the same level of reductions as other departments.

The funding for Housing Benefit in respect of rates has also been provided with protection in light of the pressure indicated above.

Due to the independent nature of the bodies and the separate arrangements that apply to the setting of their budgets it is appropriate that the Assembly Ombudsman/Commissioner of Complaints, the NI Audit Office (NIAO) and the NI Assembly Commission should be considered exempt or partially exempt from the planned baseline reductions. However, I would ask that those responsible for agreeing the budgets for these bodies have due regard to the level of savings departments are being asked to deliver and the need for these bodies to also deliver genuine efficiencies. I am pleased that

the NIAO has responded positively to this requirement and has indicated that it will be able to deliver 5% reductions in 2016-17.

Reductions

With the need to produce a balance budget it is inevitable that departments will face some level of reduction to their Resource DEL budget. However, I am please to say that the outcome is much better than previously anticipated with reductions of **5.7%** applied to the non protected departmental baselines.

Public Sector Transformation Fund (PSTF)

The Stormont Agreement and Implementation Plan confirmed the flexibility to use up to £200 million of borrowing in 2016-17 to fund voluntary exit schemes. Allocations of £117.6 million are being made to departments in Budget 2016-17 in respect of their proposed schemes. Details are provided in **Annex C** to this Statement. There will be further opportunity for departments to submit bids in respect of the Fund with allocations for the second tranche being made in June Monitoring.

The 'Fresh Start' agreement also provided the Executive with the flexibility to access the full amount of additional borrowing provided by the Stormont House Agreement even if it is able to realise the agreed efficiency savings from Voluntary Exit Schemes without switching the full amount of existing borrowing for that purpose. Therefore any funding not used by the PSTF may be used for additional capital projects that are suitable for borrowing. As the latest indications are that the full £200 million will not be required for VES related schemes in 2016-17 it is proposed that £25 million of this funding be used for capital projects. This leaves some £57 million available for allocation from the PSTF in June Monitoring.

Capital DEL

In line with the approach in previous years the Capital DEL budget for each department has been constructed from a zero baseline. In determining the overall capital budget for each departments regard has been given to existing contractual and Executive commitments and the priority afforded to new projects. However, with the exception of specifically identified allocations, it will be for individual Ministers to decide which projects to fund within the overall capital funding envelope. The overall capital outcome for each department is shown in **Annex A**. Along with the specific issues detailed below it should be noted that the proposed outcome includes £46 million for Roads Structural Maintenance.

A5 Western Transport Corridor Serving the North West

As part of the 'Fresh Start' agreement the Irish Government reaffirmed its existing commitment to providing funding of £50 million for this project. It also committed an additional £25 million to ensure that Phase 1 can commence as soon as the planning issues have been resolved. This funding is to be provided in three tranches of £25 million in 2017, 2018 and 2019 respectively. Of the £25 million for 2017 some £13.2 million will be spent in the 2016-17 financial year. This has been allocated to the Department for Infrastructure (DfI) in Budget 2016-17.

Flagship Projects

Although the Executive is only agreeing a single year budget for 2016-17 the nature of some capital projects means it is important to provide funding certainty beyond that time span. Therefore the Executive has agreed to identify a number of flagship projects where funding will be agreed now for future periods. These allocations are shown in **Annex D**.

Financial Transactions Capital

Financial transactions Capital (FTC) may only be used for loans to or equity investment in private sector organisations. Departments have identified £57.8 million of projects suitable for FTC funding

and it is proposed that this funding is made available to them. These allocations are shown in **Annex A**. It is recommended that the remaining £55.8 million of FTC funding be set aside for use by the Northern Ireland Investment Fund.

Northern Ireland Investment Fund

Significant progress has been made to date on the establishment of a Northern Ireland Investment Fund (the Fund) and work is still ongoing. DFP is in the process of shortly appointing the European Investment Bank as technical advisors in advancing this work further. This will mean that the Northern Ireland Investment Fund will draw on best practice from funds that have been established elsewhere in the UK and Europe. The intention is that the Fund will provide loan, equity or mezzanine finance to viable local private sector projects that cannot obtain funding from commercial sources. The Fund's remit will extend to Northern Ireland as a whole and individual investment decisions will be taken by a fund manager based on project viability and alignment to the Fund Investment Strategy.

As a first step towards establishing this Fund a feasibility study was commissioned to help determine the optimal structure, scale and investment strategy. This feasibility study considered four key sectors, which included urban regeneration, including Grade A office space; energy and energy efficiency; telecoms; and social housing. The reason these sectors were chosen is that investment is taken forward by private sector promoters and that there were seemingly gaps in access to finance for these types of projects.

The feasibility study has now concluded and the next steps include developing detailed policy proposals for the Fund structure, the Fund Investment Strategy and Fund governance arrangements. Part of this work involves additional market testing to refine the type of projects that the Fund should support and how it will be held accountable. As indicated above, this work will draw on the experience of the European Investment Bank to ensure that best practice is incorporated into the design of the Fund.

The indicative timescale suggests that the fund manager procurement process should commence early in the 2016-17 financial year. This will take up to 6 months to complete, which means that the Fund will not be operational until the autumn of 2016.

The Executive has now formally agreed the establishment of this Fund with the allocation of £100 million of Financial Transactions Capital for this purpose - £55.8 million in 2016-17 and the balance in later years.

Conclusion

The Resource and Capital DEL outcome for departments is shown in **Annex A**. Detail of the funding held centrally for future allocation is provided in **Annex B**.

This represents a balanced Budget with no level of over-commitment for the first time in many years. Although the outcome may prove challenging the position is significantly better than previously anticipated. As a result of the decisions taken in 2015-16 both in terms of voluntary exit schemes and the departmental restructuring departments should be well placed to meet these challenges.

Table One: 2016-17 Budget Outcome

	£million		
	Resource DEL	Capital DEL	Financial Transactions Capital
Assembly Ombudsman/Commissioner of Complaints	2.3	0.0	-
Agriculture, Environment & Rural Affairs	197.9	48.8	-
Dept for Communities	871.2	148.7	11.0
Dept for Economy	790.0	60.1	30.8
Dept of Education	1,947.5	193.7	-
Dept of Finance	140.1	33.6	-
Dept of Health	4,880.1	222.6	10.0
Dept for Infrastructure	372.8	384.1	-
Dept of Justice	1,050.5	58.0	-
The Executive Office	59.1	5.0	6.0
Food Standards Agency	8.1	0.1	-
NI Assembly Commission	39.4	2.0	-
NI Audit Office	7.9	0.0	-
NI Authority for Utility Regulation	0.2	0.0	-
Public Prosecution Service	31.0	1.5	-
TOTAL	10,398.0	1,158.2	57.8

Table Two: Central Funds

	Resource DEL	Capital DEL	£million Financial Transactions Capital
Delivering Social Change	14.0	15.0	-
Change Fund	7.1	-	-
EU Match Funding	1.0	-	-
Atlantic Philanthropies	8.0	-	-
Air Passenger Duty	2.4	-	-
Unallocated Tax Credit Funding	30.0	-	-
Paramilitary Monitoring	0.8	-	-
Funding for Addressing Paramilitary Activity	10.0	-	-
Dealing with the Past	30.0	-	-
Shared Future	12.0	-	-
Northern Ireland Investment Fund	-	-	55.8
Shared/Integrated Education & Shared Housing	-	50.0	-
TOTAL	115.2	65.0	55.8

Table Three: Public Sector Transformation Fund Allocations

		£million
Department	Scheme	Allocation
Dept for Communities	Sport NI	0.2
	National Museums NI	1.9
	Libraries NI	2.7
	Arts Council NI	0.2
	Armagh Observatory & Planetarium	0.2
	NI Housing Executive	9.1
	Charity Commission NI	0.0
	NI Commissioner for Children and Young People	0.1
	NI Screen ¹	0.1
Total DfC		14.5
Dept for the Economy	Consumer Council NI	0.1
	Invest NI	0.5
	Tourism NI	0.3
	FE Colleges	15.7
	Stranmillis College	0.2
	Construction Industry Training Board	0.1
Total DfE		16.9
Dept of Education	Non-Teaching	23.4
	Teaching and Teaching Workforce	47.3
Total DE		70.7
Dept for Infrastructure	Translink (NITHCo)	1.4
	NI Water	0.5
Total DfI		1.9
Dept of Justice	PACWAC	0.2
	PSNI	12.0
	Police Rehabilitation & Retraining Trust	0.2
	Criminal Justice Inspection	0.1
Total DoJ		12.4
NI Assembly Commission	NI Assembly Commission	0.4
NI Assembly Commission	Northern Ireland Audit Office	0.6
The Executive Office	Equality Commission NI	0.4
TOTAL		117.6

Table Four: Flagship Projects

	£million				
	2016-17	2017-18	2018-19	2019-20	2020-21
A5 Road	13.2	40.0	53.0	55.0	68.0
A6 Road	21.0	57.0	60.0	60.0	60.0
Belfast Rapid Transport	17.0	9.0	20.0	12.9	-
Belfast Transport Hub	5.8	16.0	40.0	60.0	-
Mother and Children's Hospital	16.0	29.3	62.8	73.0	61.6
Desertcreat	3.9	0.3	18.3	28.2	28.7
Regional & Sub Regional Stadia	9.8	27.0	30.0	15.0	9.0
Total	86.7	178.6	284.1	304.1	227.3