Public Finance Scrutiny Workshop Series

Module 2:
Northern Ireland Public Finances: demystifying and supporting Assembly scrutiny throughout Budget cycle

Research and Information Service
Finance and Economics Research Team
Public Finance Scrutiny Unit

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Northern Ireland Assembly

Public Finance Scrutiny Workshop Series

Overall Aim:

To better equip Members of the Legislative Assembly (MLAs) and those who support them (staffers, political party researchers, Assembly officials and others) in Northern Ireland Assembly plenaries and committees

Related Objectives:

Through accessible explanation, reducing complexity and confusion, the themed modules seek to:

1. Increase knowledge and understanding of public finance
2. Raise awareness of good practice in public finance
3. Nurture applied learning amongst MLAs and those who support them
4. Strengthen Assembly scrutiny in plenary and committees
5. Support delivery of efficient, transparent and accountable governance in Northern Ireland through informed scrutiny and oversight

“Five-stop” online reference guide - themed modules: (updated as needed)

1. Northern Ireland Executive Budget cycle:
   explaining key concepts to support Assembly scrutiny

2. **Northern Ireland Public Finances:**
   demystifying and supporting Assembly scrutiny throughout Budget cycle

3. Spending Plans and Supply Estimates Process:
   supporting Assembly scrutiny during Formulation and Approval stages of Budget cycle

4. In-Year Monitoring:
   supporting Assembly scrutiny during Execution stage of Budget cycle

5. Resource Accounts:
   supporting Assembly scrutiny during Audit stage of Budget cycle

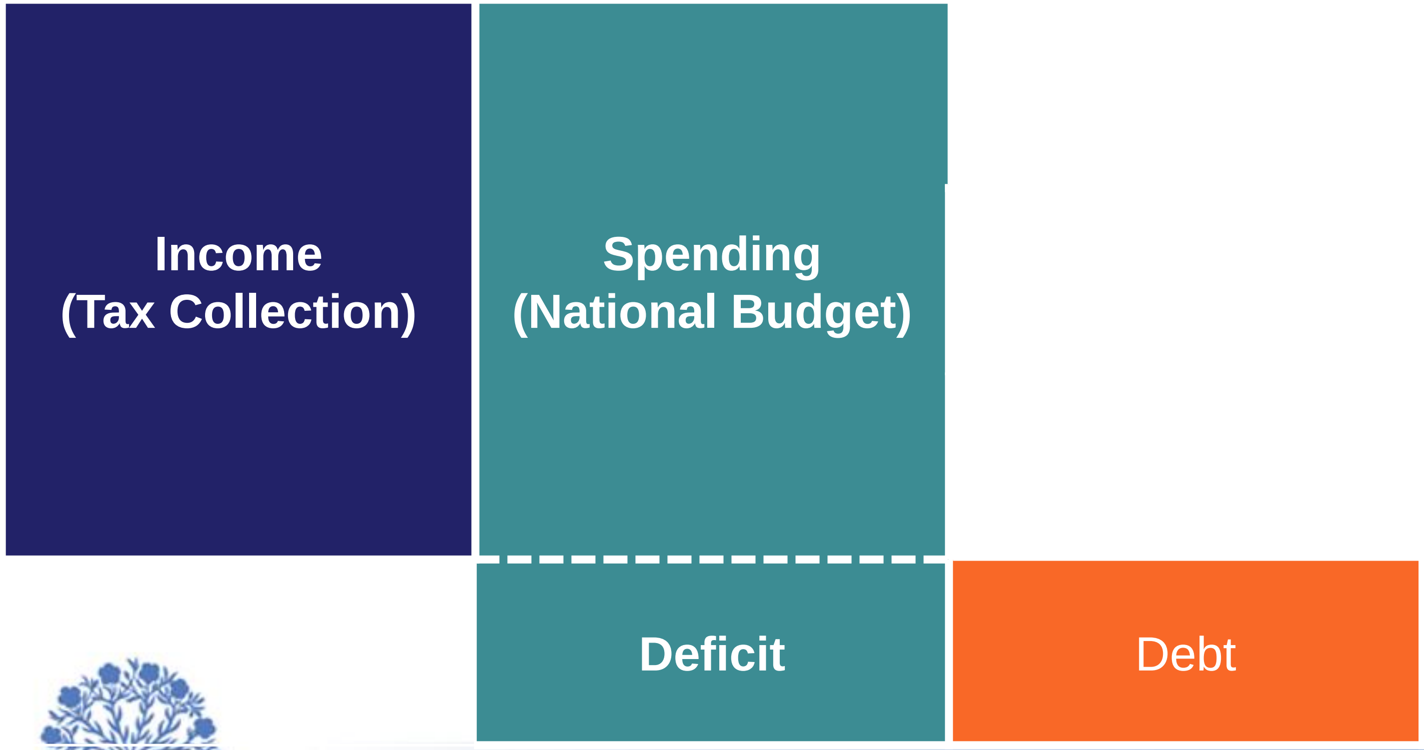
Themes for today:

- Context-setting – key public finance concepts
- Northern Ireland Public Finances – critical elements

- **Context-setting - key public finance concepts:**
  - Explaining the underlying theory
  - Applying the theory in the United Kingdom context, including Northern Ireland
- **Northern Ireland Public Finances – critical elements:**
  - Recap from Module 1
  - “Spending Envelope” for Northern Ireland
  - Regional Rates
  - Fees, Levies and Charges
  - Borrowing
  - Corporation Tax
  - Long-haul Direct Flight Air Passenger Duty
  - Budget Exchange
  - United Kingdom Centrally Administered Funds
  - European Union Centrally Administered Funds
  - Shared Island Fund

Key Public Finance Concepts - Explaining the underlying theory:

- Public Finance concerns **Income**, **Spending** and **Debt** within the public sector
- The public sector comprises governments at all levels - including national, sub-national and local – as well as their publicly funded institutions and services, such as the National Health Service (NHS), the armed forces, and welfare benefits such as state pensions
- **KEY POINT** (illustrated below and explained to the right):



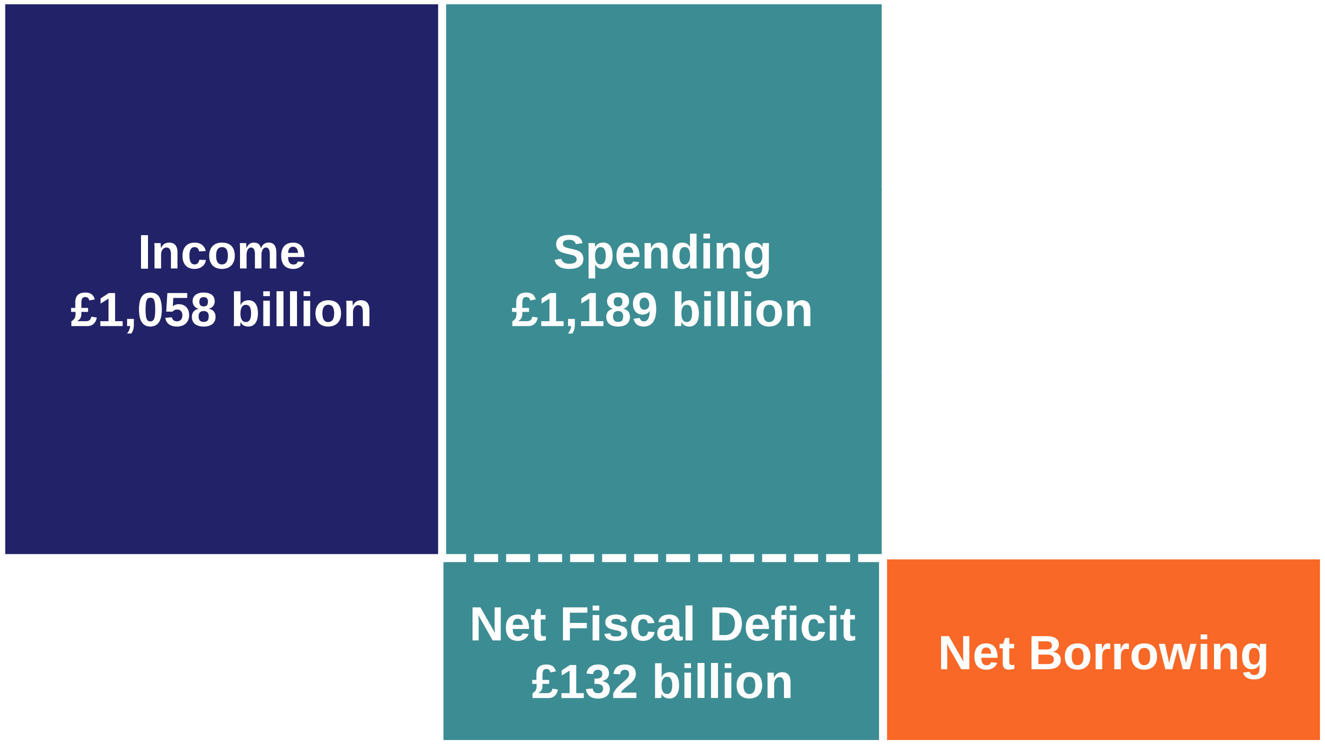
Source: RaISe-PFSU (2024)

- Governments generate **Income** through the collection of receipts (mostly taxes) – receiving cash
- The cash is spent through the implementation of a **National Budget** – the difference between **Income** and **Spending** is the **Net Fiscal Balance**
- If the government spends more than it collects – there is a **Net Fiscal Deficit** – this is funded with **National Debt**
- Management of Income, Spending and Debt is set out in a Government's **Fiscal Framework**

Key Public Finance Concepts -
Applying the theory in the United Kingdom context, including Northern Ireland:

- **March 2023 United Kingdom Economic and Fiscal Outlook** – compiled by Office for Budget Responsibility (OBR)

- **OBR estimated for 2023-24 financial year**:
  - United Kingdom public sector **Income of £1,058 billion**
  - United Kingdom public sector **Spending of £1,189 billion**
  - Resulting in a **Net Fiscal Deficit of £132 billion**
  - United Kingdom **Fiscal Framework** - set out in the Charter for Budget Responsibility (Autumn 2022)



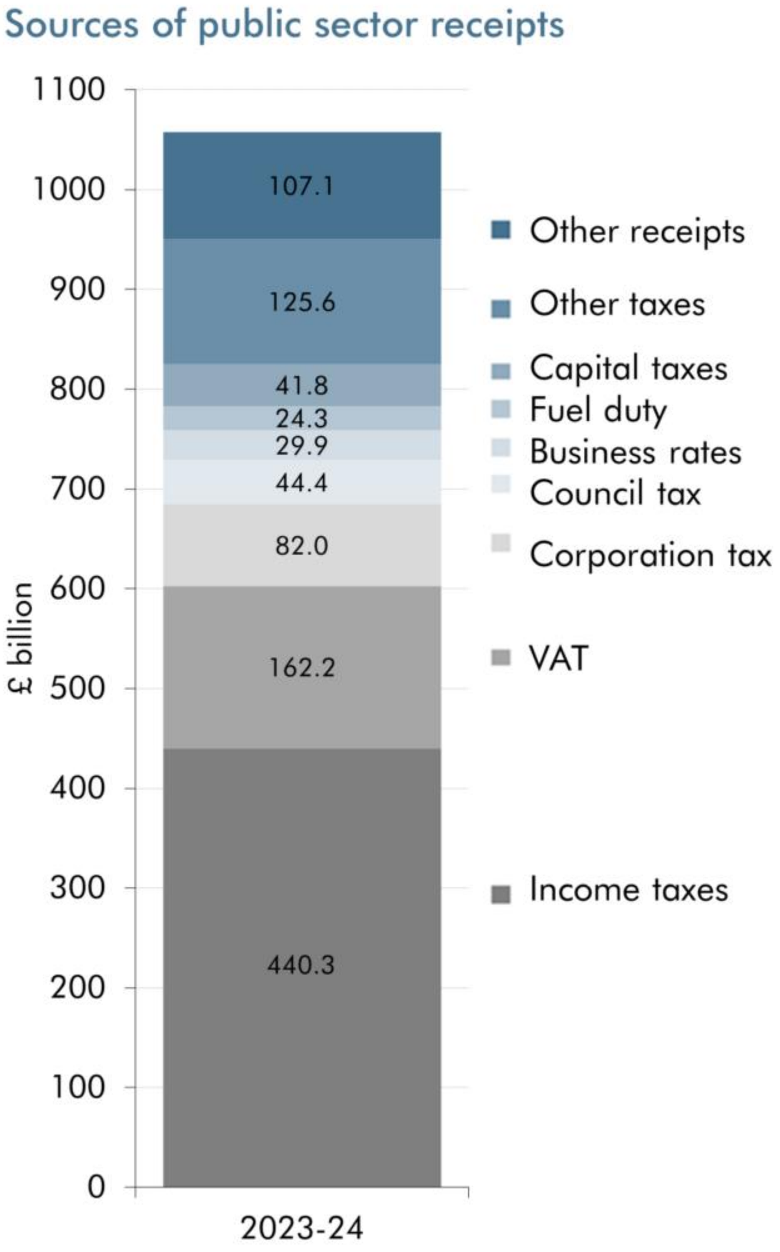
Source: RaISe-PFSU (2024), relying on OBR (2023)

Income –
in United Kingdom, including Northern Ireland:

- **Income** is known as **“public sector receipts”** in the official statistics
- Taxes account for more than 90% of the United Kingdom’s public sector income – the largest of which is Income Tax
- The public sector also receives other receipts, including for example: interest earned on its assets (such as foreign exchange reserves and student loans); and, income from public corporations

- **KEY POINT:** Northern Ireland contributes towards a proportion of the United Kingdom’s overall public sector income – example: Northern Ireland contributed approximately 2% (£19 billion out of £919 billion) of income in the financial year 2021-22*

*latest data on Regional Analysis currently available: Country and regional public sector finances, UK: financial year endng 2022 (May 2023)



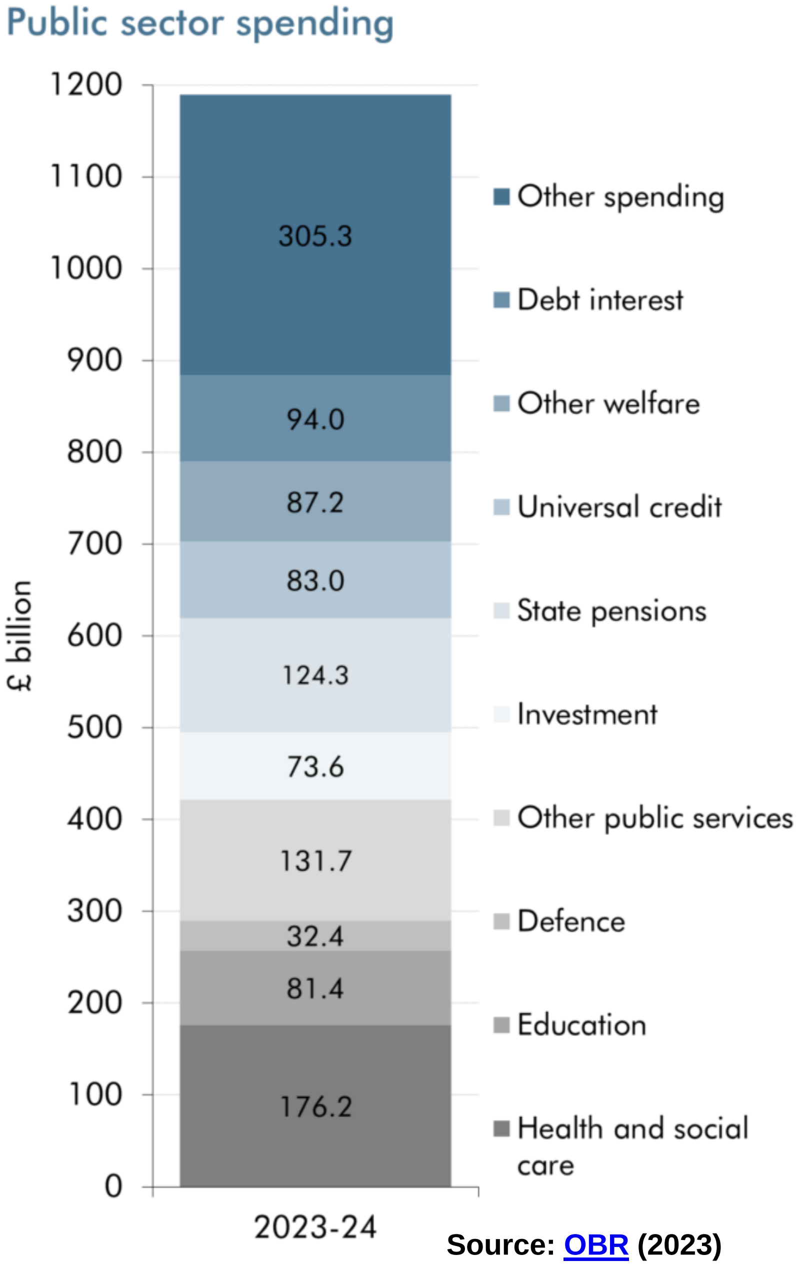
Source: OBR (2023)

Spending – “Total Managed Expenditure” in United Kingdom, including Northern Ireland:

- The public sector raises money in order to spend it:
  - Mostly on the day-to-day costs of providing public services;
  - On capital investment; and,
  - On cash transfer payments that support the incomes of various individuals and families
- This is called **“Total Managed Expenditure” (“TME”)**

- **KEY POINT:** Northern Ireland accounts for a proportion of the United Kingdom’s overall public sector spending – example:
  - Northern Ireland accounts for approximately 3% (£33 billion out of £1,041 billion) of spending in the financial year 2021-22*

*latest data on Regional Analysis currently available: [Country and regional public sector finances, UK: financial year ending 2022](#) (May 2023)



Source: [OBR](#) (2023)

Spending –
"Controls" and "Categories" in United Kingdom, including Northern Ireland:

- **Spending Controls** - **two types**:
  1. **"Departmental Expenditure Limits"** or "**DEL**" - multi-year limits set by His Majesty's (HM) Treasury during "Spending Reviews"
  2. **"Annually Managed Expenditure"** or "**AME**" – annual limits proposed by the relevant department and verified by the OBR, and later confirmed through the Estimates process
     - AME relates to spending that cannot reasonably be subject to firm multi-year limits because it is harder to predict and often relates to functions that are demand driven, such as pensions or welfare payments

- **Spending Categories** – **two types**:
  1. **"Resource"** - Resource spending is money that is spent on day to day resources and administration costs
  2. **"Capital" (including "Financial Transactions Capital" or "FTC" – detail later)** - Capital spending is money that is spent on investment and things that will create growth in the future
     - DEL and AME can both be broken down into Resource and Capital spending – those are abbreviated and frequently used as follows: RDEL; CDEL; RAME; and, CAME

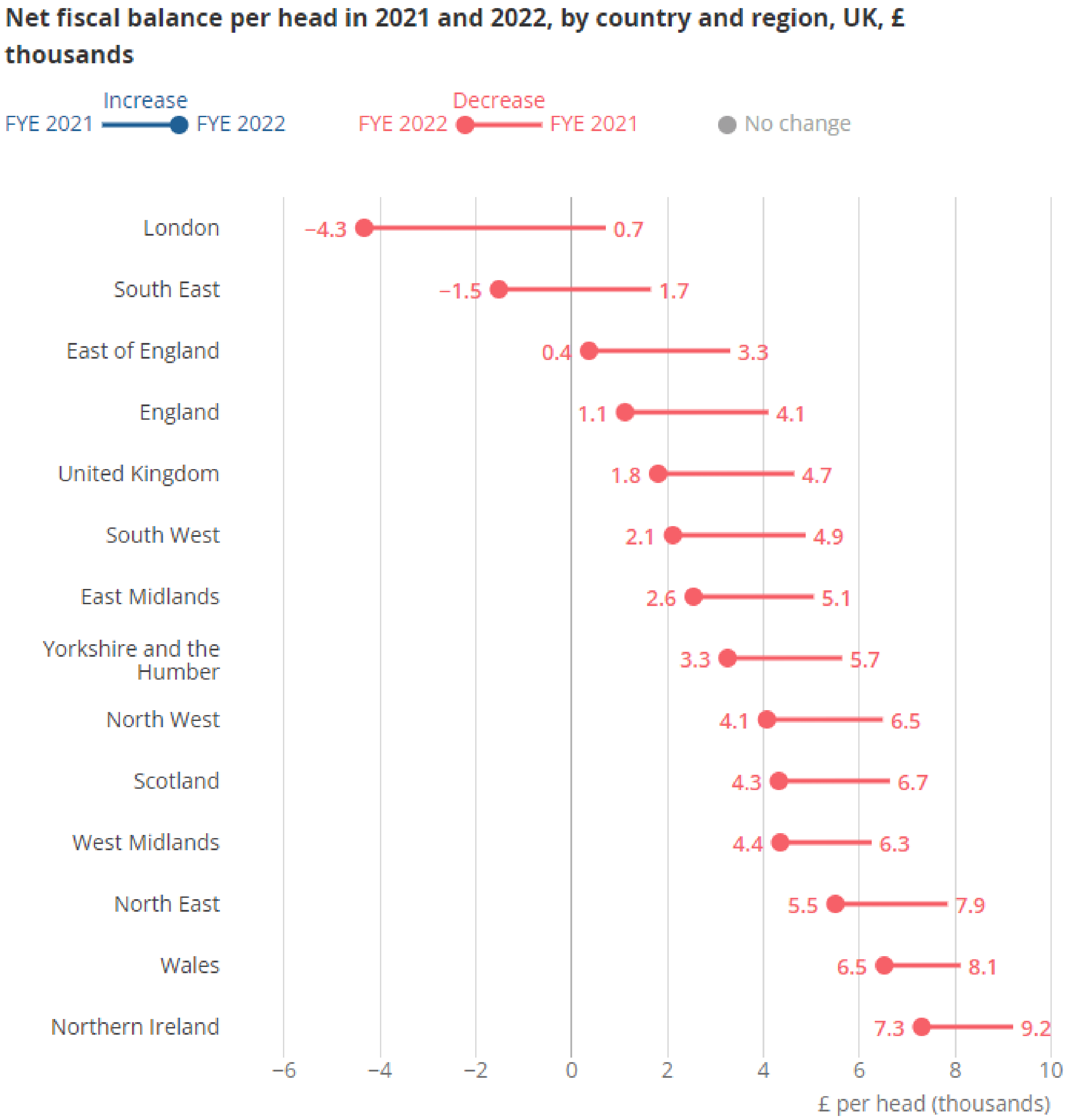
Debt – in United Kingdom, including Northern Ireland:

- Debt explained:
  - Difference between **Income** and **Spending** = **Net Fiscal Balance**:
    - If government **collects more than it spends** = **Net Fiscal Surplus**
    - If government **spends more than it collects** = **Net Fiscal Deficit** – at United Kingdom Government level, this is funded by borrowing, and is sometimes referred to as “net borrowing”

- 2021-22 United Kingdom:
  - **Net Fiscal Deficit = £122.1 billion**
  - **Net Fiscal Deficit per head** = **£1,822**

- **KEY POINT:** Pulling together income, spending and debt slides for purposes**:**
  - 2021-22 Northern Ireland context:
    - Approximately 2% (£19 billion) of overall United Kingdom public sector **Income**
    - Approximately 3% (£33 billion) of overall United Kingdom public sector **Spending**
    - Those numbers show two important things:
      1. **Net Fiscal Deficit –** Northern Ireland **spends more than it collects**
      2. **“Fiscal Gap” –** Northern Ireland’s **proportion of Spending is higher than its proportion of Income**; resulting in a **higher Net Fiscal Deficit** than the United Kingdom overall

"Fiscal Gap"



- 2021-22:
  - **"Net Fiscal Surplus":**
    - **London – largest £4,300 per head**
  - **"Net Fiscal Deficit":**
    - **Northern Ireland – largest £7,300 per head**
      - Sometimes referred to as "subvention"

Source: Country and Regional Public Sector Finances from the Office for National Statistics (2022)

- **Context-setting - key public finance concepts:**
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  - **Applying the theory in the United Kingdom context, including Northern Ireland**
- **Northern Ireland Public Finances – critical elements:**
  - **Recap from Module 1**
  - **“Spending Envelope” for Northern Ireland**
  - **Regional Rates**
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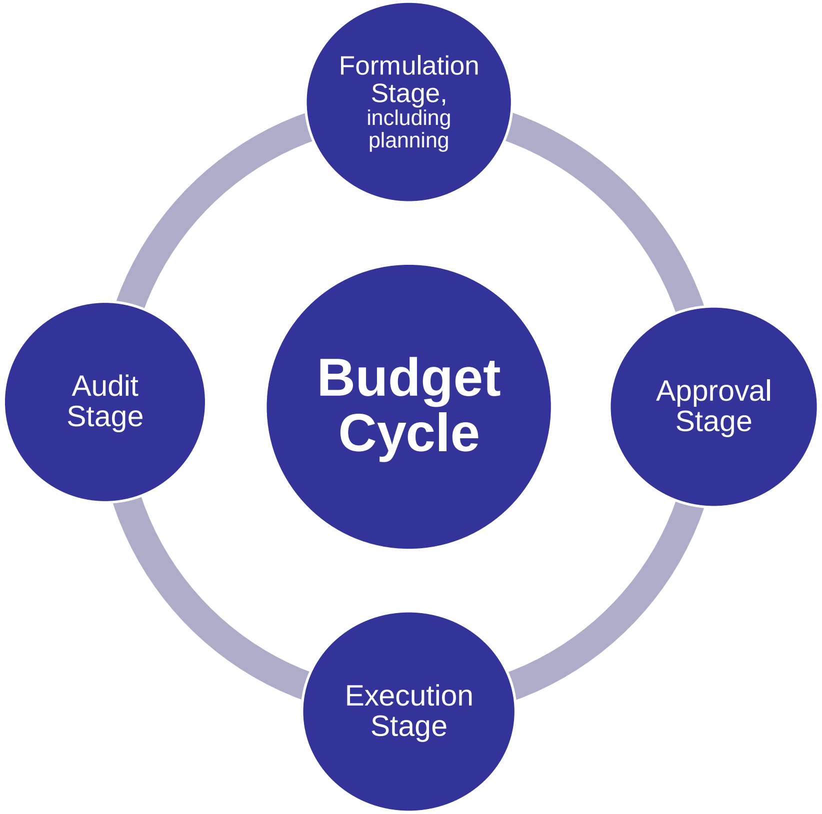
Recap from Module 1:

"Northern Ireland Public Finance Framework" ("PFF") -

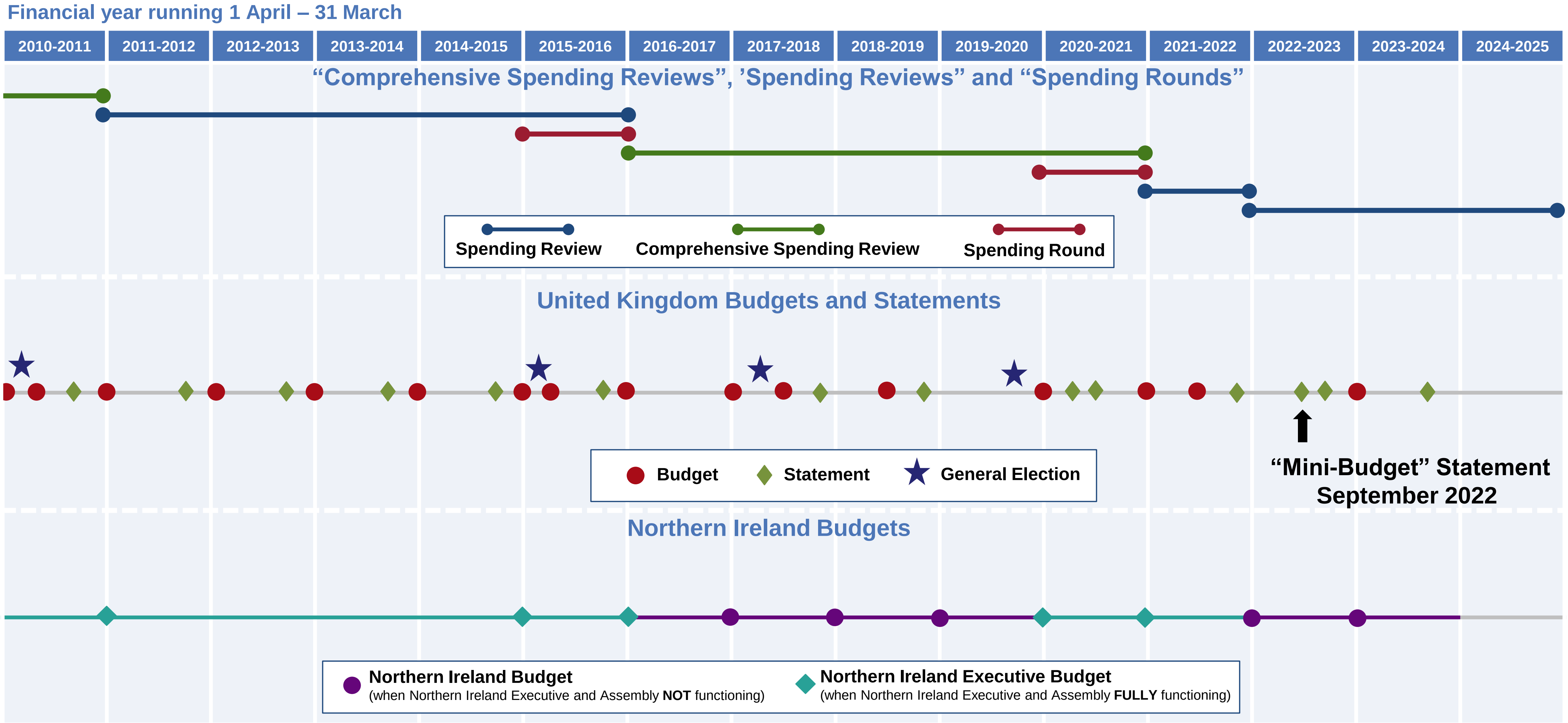
1. **PFF sets out "rules" and related boundaries** for the Executive and the Assembly, when exercising their powers and taking decisions relating to Northern Ireland public finance
   - **Both flexibilities and constraints** arise for the Executive and the Assembly, given those rules and related boundaries
2. **Budget cycle and its 4 stages** are part of the PFF
3. **Northern Ireland Executive Budget cycle is a sub-cycle** of United Kingdom Government's Budget cycle
   - They inter-relate, with United Kingdom Government first taking action
4. Northern Ireland Executive Budget runs on **"twin tracks"**
   - Budget <u>policy</u> and Budget <u>legislation</u>

OECD international good practice: 4 stages of government budget cycle -



Source: RaISe–PFSU (2024), relying on OECD (2018)

How Northern Ireland Executive Budget cycle fits into the United Kingdom Budget cycle:



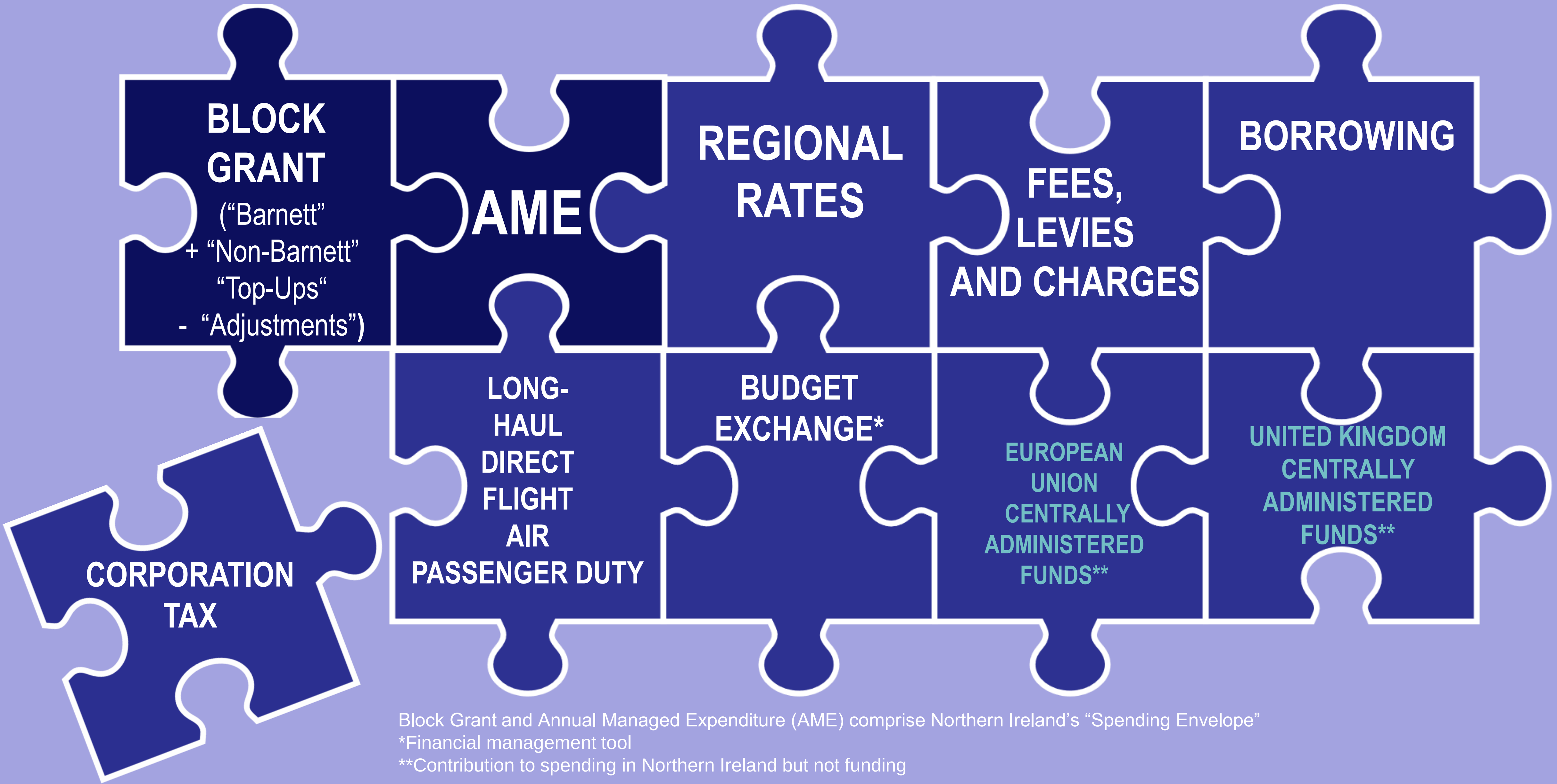
Source: RaISe – Public Finance Scrutiny Unit (2024)

KEY POINTS (of previous slide)**:**

- The United Kingdom Government undertakes its "Comprehensive Spending Reviews", "Spending Reviews" or "Spending Rounds" via the Chancellor of the Exchequer/His Majesty's Treasury
  - Thereafter, the United Kingdom "Budget" is set, and later "Statements" could be made by the Chancellor:
    - **Budgets** - Each year - sometimes more than once - the United Kingdom Government via the Chancellor has to formulate and agree a Budget
      - Required under Charter for Budget Responsibility (Autumn 2022), which specifies the United Kingdom Government's Fiscal Framework
    - **Statements** - Each year – sometimes more than once - in addition to the Budget - the Chancellor also may make Statement(s) to report on the state of the economy, and supplement information contained in the Budget

- **Each time, the Devolved Administration's Budget cycle is triggered by the United Kingdom Government's – a sub-cycle an overarching cycle**

Northern Ireland Public Finances – critical elements:



Block Grant and Annual Managed Expenditure (AME) comprise Northern Ireland's "Spending Envelope"
*Financial management tool
**Contribution to spending in Northern Ireland but not funding

Source: RaISe – Public Finance Scrutiny Unit (2023)

“Spending Envelope” for Northern Ireland:

A Spending Envelope is transferred from the United Kingdom Government, to the Consolidated Fund for each Devolved Administration (DA) - comprising:

- Departmental Expenditure Limits (DEL) + Annually Managed Expenditure (AME) = “Totally Managed Expenditure” (TME)
- **KEY POINTS:**
  - Block Grant (Barnett and non-Barnett) = Executive’s DEL allocation from Treasury
  - Demand-led AME = Annually managed expenditure, for example, social security, pensions
  - Both are the two components of the Spending Envelope
  - For detail, see HM Treasury’s **Statement of Funding Policy** (SFP) – one of the key bases defining each Northern Ireland’s Public Finance Frameworks (SFP last updated November 2023; regularly updated at United Kingdom-wide key fiscal events)

“Spending Envelope” for Northern Ireland – DEL allocation:

- Part of Northern Ireland’s Spending Envelope is its corresponding multi-year **Departmental Expenditure Limits (DEL)**, which is allocated during a United Kingdom Government’s Spending Review – constitutes Northern Ireland’s “**Block Grant”**

- All DAs, including Northern Ireland’s, are listed alongside Whitehall Departments in a United Kingdom Spending Review – for example:
  - Autumn Budget and Spending Review 2021
  - United Kingdom Budgets, including Spring Budget 2023
  - United Kingdom Statements, including Autumn Statement 2023

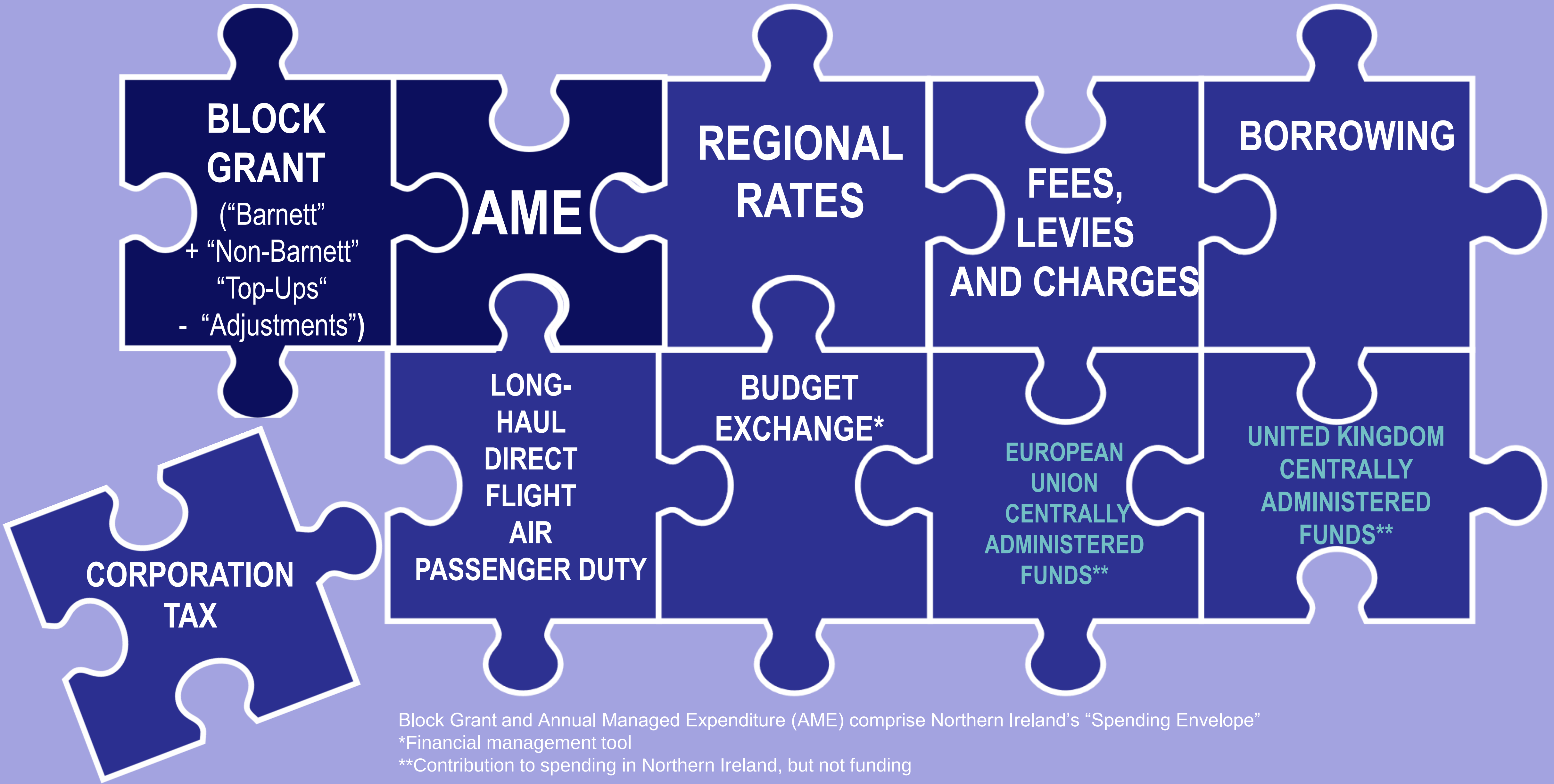
Table 1.16: Departmental Budgets - Total DEL (TDEL) excluding depreciation[1]

£ billion (current prices)	Outturn 2019-20	Outturn 2020-21	Baseline 2021-22	Plans 2022-23	Plans 2023-24	Plans 2024-25	Average annual real terms growth 2021-22 to 2024-25	2019-20 to 2024-25
DHSC	140.5	144.9	156.4	178.5	183.8	188.6	4.1%	3.5%
DfE	68.4	71.5	76.3	83.3	86.3	86.7	2.0%	2.4%
HO	12.3	13.6	14.6	16.2	16.5	16.5	1.9%	3.6%
MoJ	8.3	9.3	9.8	11.0	12.0	11.5	3.3%	4.1%
LODs	0.6	0.6	0.7	0.8	0.8	0.8	2.1%	2.8%
MOD	39.8	42.4	46.0	47.9	48.0	48.6	-0.4%	1.5%
SIA	3.0	2.8	3.1	3.3	3.6	3.7	3.9%	4.0%
FCDO	12.6	12.5	9.7	11.1	11.4	11.8	4.4%	-5.0%
Unallocated provision to take ODA to 0.7% of GNI	-	-	-	-	-	5.2	-	-
DLUHC Local Government	7.0	5.3	8.5	11.7	12.1	12.8	9.4%	8.4%
DLUHC Levelling up, Housing and Communities	10.7	11.4	9.7	11.1	9.0	8.9	4.1%	4.7%
Levelling Up Fund	-	-	0.2	0.9	1.4	1.4	-	-
DfT	17.7	20.5	23.2	27.2	26.7	26.2	1.9%	5.5%
BEIS	13.7	20.9	17.9	19.6	23.5	23.8	7.5%	9.9%
DCMS	2.2	1.9	2.2	2.8	2.7	2.7	5.8%	2.9%
DEFRA	2.8	5.0	5.6	6.7	7.3	7.0	5.3%	8.1%
DIT	0.5	0.5	0.5	0.6	0.6	0.6	0.1%	0.2%
DWP	5.8	6.0	5.9	8.3	7.6	7.2	4.4%	2.1%
HMRC	4.3	4.7	4.8	5.9	5.5	5.2	0.0%	1.2%
HMT	0.5	0.3	0.2	0.3	0.3	0.3	0.3%	1.2%
CO	1.1	0.9	1.0	1.0	1.0	1.0	0.1%	9.6%
Scotland	32.9	35.5	36.7	40.6	41.2	41.8	2.4%	2.6%
Wales	14.2	15.8	15.9	17.7	18.0	18.2	2.6%	2.9%
Northern Ireland	12.7	13.6	13.4	14.8	15.0	15.2	2.2%	1.3%
Small and Independent Bodies	2.0	2.5	2.5	2.9	3.0	3.1	5.1%	6.7%
UKSPF	-	-	-	0.4	0.7	1.5	-	-
Reserves	-	-	15.6	15.9	14.7	14.0	-	-
Adjustment to baseline	-	-	1.5	-	-	-	-	-
IFRS16 reclassification	-	-	1.5	1.5	1.5	1.5	-	-
TDEL ex depreciation and ringfenced COVID-19 funding	**413.5**	**442.5**	**483.6**	**542.1**	**554.0**	**565.6**	**3.0%**	**3.8%**
Ringfenced COVID-19 funding	2.2	127.0	70.3	-	-	-		
TDEL ex depreciation including ringfenced COVID-19 funding	**415.7**	**569.5**	**553.9**	**542.1**	**554.0**	**565.6**		
Allowance for shortfall	-	-	-24.0	-15.2	-14.5	-13.0		
TDEL ex depreciation, post allowance for shortfall	**415.7**	**569.5**	**529.8**	**526.9**	**539.4**	**552.6**		

[1] See Annex E for full footnotes

Source: Autumn Budget and Spending Review 2021 **(2021)**

Northern Ireland Public Finances – critical elements:



Block Grant and Annual Managed Expenditure (AME) comprise Northern Ireland’s “Spending Envelope”
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Source: RaISe – Public Finance Scrutiny Unit (2023)

BLOCK GRANT

("Barnett"
+ "Non-Barnett"
"Top-Ups"
- "Adjustments")

“Block Grant”:

- Block Grant = approximately 90% of total Northern Ireland Executive’s spending power:
  - HM Treasury’s Block Grant Transparency publication defines it as:

    The devolved administrations’ block grant funding is presented as Total Departmental Expenditure Limit (DEL) within the Treasury’s budgeting framework. It is split between resource DEL (excluding depreciation) and capital DEL, with a financial transactions ring-fence within capital DEL.

  - The Block Grant has two elements:
    - “Barnett”; and,
    - “Non-Barnett”

“Barnett formula”:

- It is non-statutory; an agreement between the DAs and HM Treasury and is set out in each updated SFP (November 2023)
- When applied, it determines changes to DAs’ assigned budgets
- It **does not concern AME**; rather, it used to determine most of Northern Ireland’s DEL public expenditure in a given financial year
- It establishes the following for Northern Ireland:
  - Initially, baseline for the given financial year
  - Then, additional allocations arising from a change in Whitehall departmental programme spending for England, England and Wales or Great Britain – called “**Barnett consequentials**”

Block Grant "baseline":

- Block Grant "baseline" is defined in SFP (2023) as:

1. Total Block Grant from the previous financial year (includes the cumulative impact of past Barnett consequentials)
2. Barnett consequentials continuing from previous years
3. Adjusted for any "one-off" or time-limited items

Baseline = **Block Grant from the previous year:** Inclusive of previous Barnett Consequentials **Adjusted for** **One-off or time-limited items**

Source: Statement of Funding Policy (2023)

Barnett formula – Northern Ireland Budget calculation:

Change to Whitehall Departmental Spending X **Comparability factor** X **Appropriate Population Proportion** X **Value Added Tax (VAT) Adjustment Abated by 2.5% (Northern Ireland only)**

A theoretical application of the Barnett formula – for example:

Increase in Whitehall Departmental spending on Transport at United Kingdom Chancellor’s Spending Review	**£100 million**
X Comparability factor	95.4%
X Population proportion	3.35%
X VAT abatement factor (only Northern Ireland)	97.50%
Increase in Block Grant: (100 x 0.954 x 0.0335 x 0.975) =	**£3.12 million**

Source: Statement of Funding Policy (2023)

SCRUTINY POINT:
The Committee for Finance may wish to ask the Department if there has been any engagement with HM Treasury regarding the VAT abatement, prior to, or since publication of HM Treasury’s Report entitled VAT and the Public Sector: Reform to VAT refund rules (August 2020), to ensure that abatement remains fiscally neutral for Northern Ireland?

“Barnett consequentials”:

- A Barnett consequential arises from a change in Whitehall departmental programme spending, for England, England and Wales or Great Britain, during the lifetime of a given Spending Review period; and results in a change in a DA’s Block Grant
  - Determined by application of the Barnett formula - for example:

United Kingdom Government Spending Announcements £ million	Whitehall Department Allocation	Northern Ireland Barnett consequential
Changing Places Fund	30.0	1.0
Investment in homes (for rough sleepers)	169.4	5.6

Source: HM Treasury Block Grant Transparency (2023)

- **KEY POINT:** Barnett consequentials are “unhypothecated”, meaning HM Treasury does not ring-fence them for a specific purpose; and upon receipt, a DA (such as the Northern Ireland Executive) may allocate them using its discretion

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“Barnett Guarantee”:

- In July 2020, as a result of the Coronavirus pandemic, and following requests from the DAs for more borrowing powers, the United Kingdom Government announced the “Barnett Guarantee”, which provided new funding determined under the Barnett formula, and provided upfront, rather than alongside England-only announcements

- Significantly, the Guarantee:
    - Was a new mechanism to provide increased flexibility and funding certainty to DAs
    - Enabled the DAs to decide how and when to allocate funding within their individual jurisdictions
    - Marked a departure from existing financial arrangements under current devolution throughout the United Kingdom
    - Was uplifted on three subsequent occasions

Barnett Guarantee		
2020 (£ billion)	**United Kingdom**	**Northern Ireland**
24 July	12.7	2.2
9 October	14.0	2.4
5 November	16.0	2.8
24 December	16.8	3.0

Source: **Barnett Consequentials and the Barnett Guarantee (2021)**

- Recent **Barnett formula-related developments** of note:

  - In June 2022, a **PMB** was introduced in the House of Commons: Barnett Formula (Replacement) Bill – currently at second reading:

    - The Bill, if enacted, would:

      - Require the Chancellor to report to the United Kingdom Parliament on proposals to replace the Barnett formula used to calculate adjustments to public expenditure allocated to Scotland, Wales and Northern Ireland

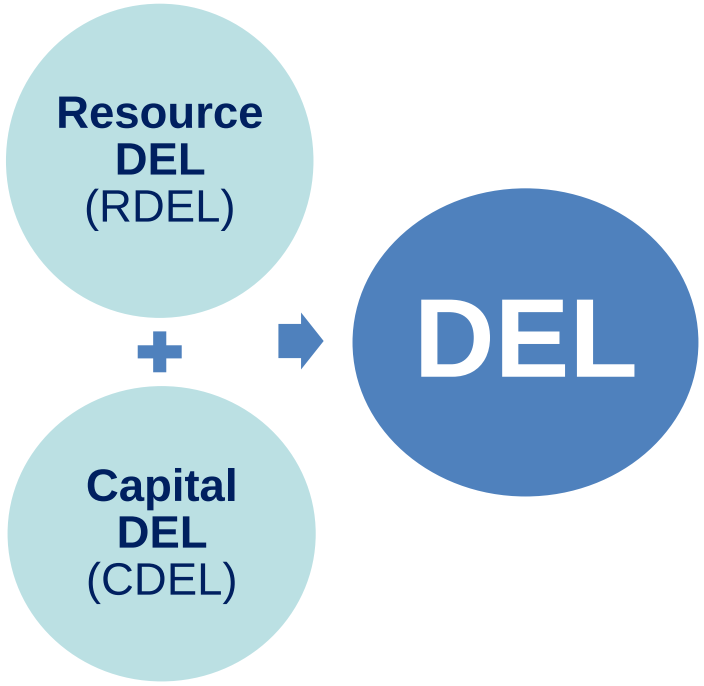
      - Give the Chancellor three months to establish a statutory scheme for the "allocation of resources based on an assessment of relative needs; and for connected purposes"

  - Recent House of Commons **Northern Ireland Affairs Committee Inquiry** into The funding and delivery of public services in Northern Ireland (report published 20 March 2024), which includes exploring the effectiveness of the Barnett formula

Let’s return to DEL …

- **DEL -** Includes both ring-fenced and non-ring-fenced expenditure, which comprises:
  - **RDEL -** Spending on day-to-day costs, including: wages; purchasing goods and services; grants and subsidies; and, depreciation
  - **CDEL -** Spending on longer-term investment – for example: hospitals; roads; and, research and development
    - <u>Two types</u>:

      1. Conventional investment spending – such as: building; or, acquiring or improving assets
      2. Financial Transaction Capital (FTC) – such as: equity investment in; or, loans to the private sector



Source: RaISe – Public Finance Scrutiny Unit (2023)

FTC – key facts:

- Additional type of capital funding that aims to attract private sector investment in infrastructure projects, to subsequently boost existing government investment in such projects

- Key requirements:

> *…funds can only be deployed by the public sector as a loan to, or equity investment in, a private sector entity…[**and**] must be consistent with and supportive of the Executive's overall strategic aims* (emphasis added)

- Part of the DEL allocation to DAs – in particular:
  - Barnett element of the Block Grant
  - Barnett formula is applied to FTC DEL investment changes made by Whitehall Departments - much in same manner as for conventional CDEL
  - Allocation made to Northern Ireland Department via Northern Ireland Executive Budget, after:
    - Considering its officials engagement with HM Treasury about an expected repayment schedule for a Departmental proposal, if adopted; and,
    - Discussing any such proposals with relevant Executive Departments, as appropriate

- A suitable “route to market”, which requires identification of:
    - *Those capital projects that will deliver policy and are suitable for delivery by the private sector;*
    - *Private sector entities to lend to or invest in; and*
    - *Ensuring that sponsor bodies have the requisite legal vires to enter into such transactions.*

- Tool for public sector to invest in related infrastructure that is consistent with, and supportive of, the Northern Ireland Executive’s overall strategic aims and objective:
    - **BUT** – no dedicated Executive FTC strategy at present; although is referred to in overarching documents, such as The Executive Office’s 2022 Draft Investment Strategy Northern Ireland (DISNI)

- Under HM Treasury Budget Exchange, the Department of Finance (DoF) in Northern Ireland can “carry over” 1.5% of FTC underspend; affording DAs some flexibility to address expenditure slippage

- **KEY POINT**: To date, FTC use in Northern Ireland has been limited, but note some of the reasons why…

Limited FTC use by Northern Ireland departments 2017-23:

Financial year	Executive in place	FTC available to Northern Ireland departments	Total FTC Spend	Underspend	Returned to HM Treasury
					£ million
2017-18	No Executive	166.9	57.5	109.4	109.4
2018-19	No Executive	182.2	10.4	171.9	171.9
2019-20	Executive from Jan 2020	133.3	41.3	92.0	72.0
2020-21	Executive in place	214.8	159.2	55.6	26.4
2021-22	Executive until Feb 2022	124.7	42.0	82.7	81.2
2022-23	No Executive	304.3	84.2	220.1	215.5

Source: DOF Financial Transactions Capital – January 2023

Limited FTC use by Northern Ireland Departments - challenges observed to date:

- **FTC allocation** - not stable due to unpredictable allocations via Barnett consequentials throughout financial year; variance makes planning difficult; adversely impacting financial management
- **Political instability** - lack of Northern Ireland Executive - for example, “interim ministers” or no ministers (permanent secretaries acting)
- **Legislative barrier** – inability of some departments to lend to private sector or to identify suitable projects and/or partnerships within the private sector
- **Private sector resistance** – not engaging with this funding option given it is to be paid back; unlike grants (which are not paid back)
- **Staff capability** - apparent lack of departmental commercial/market expertise and experience in: assessing risks relating to loans; and, prudent capital project management
- **No dedicated FTC Northern Ireland Executive Strategy** – instead, FTC included in 2022 Draft Investment Strategy Northern Ireland (DISNI), which stated:

> *…The Medium-Term Infrastructure Finance Plan…will include an assessment of all other sources of public finance such as …. FTC*

SCRUTINY POINTS:

1. The Committee may wish to ask the Department for the following:

- **Please provide an overview of all the Department's ongoing, planned and completed capital projects (including FTC and other) for the current and the next budget years (2023/24 and 2024/25) – including, but not limited to, how project funded, detail about underspend, overspend, timings, etc.**
- **Up until 2023/24, please provide an overview of the Department's completed projects, which have been funded using FTC.**
- **If no departmental FTC use to date, going forward does the Department foresee any issues in its use, including legislative barriers, managing lending and securing partnerships?**
- **Have there been any departmental reviews of the Department's capital projects delivered to date, such as post project evaluations? If any, what were the findings?**

2. The Committee for The Executive Office (TEO) may wish to ask TEO the following:

- **Whether TEO has given any consideration to a dedicated Northern Ireland Executive FTC Strategy, which could include, for example, a centralised FTC resource, such as an inter-departmental framework using existing fee/charging mechanisms that would aim to both remove barriers and improve efficiencies, and ultimately promote increased FTC uptake?**

“Non-Barnett”:

- Provided by the United Kingdom Government, but varies by each DA
- May be referred to as:
  - “Non-Barnett additions”
  - “Non-Barnett allocations”
  - “Non-Barnett funding”
  - “Non-Barnett items”
  - “Barnett plus”
  - “Barnett formula bypass”
  - “Top up on Block”
- Examples:
  - Political Agreements – including: *Safeguarding the Union, New Decade, New Approach (NDNA); Confidence and Supply Agreement; Fresh Start; Stormont House Agreement*
  - City and Growth Deals – including: Belfast Region City Deal, Derry City and Strabane District Council City Deal, Mid-South West Growth Deal, Causeway Coast and Glens Growth Deal
  - “European Union Replacement Funding” – aka “Farming and Fisheries funding”

“Block Grant Adjustments”:

- Statement of Funding Policy (SFP) (2023) state at paragraphs:

  4.1…An agreed adjustment is also applied to the Northern Ireland Executive’s block grant in relation to the devolution of long-haul air passenger duty rates.
  4.2 The UK Government funding provided to the devolved administrations is therefore the Barnett-based block grant after adjustments for welfare and tax devolution…

- “Block Grant Adjustments” for Northern Ireland - current and potential:

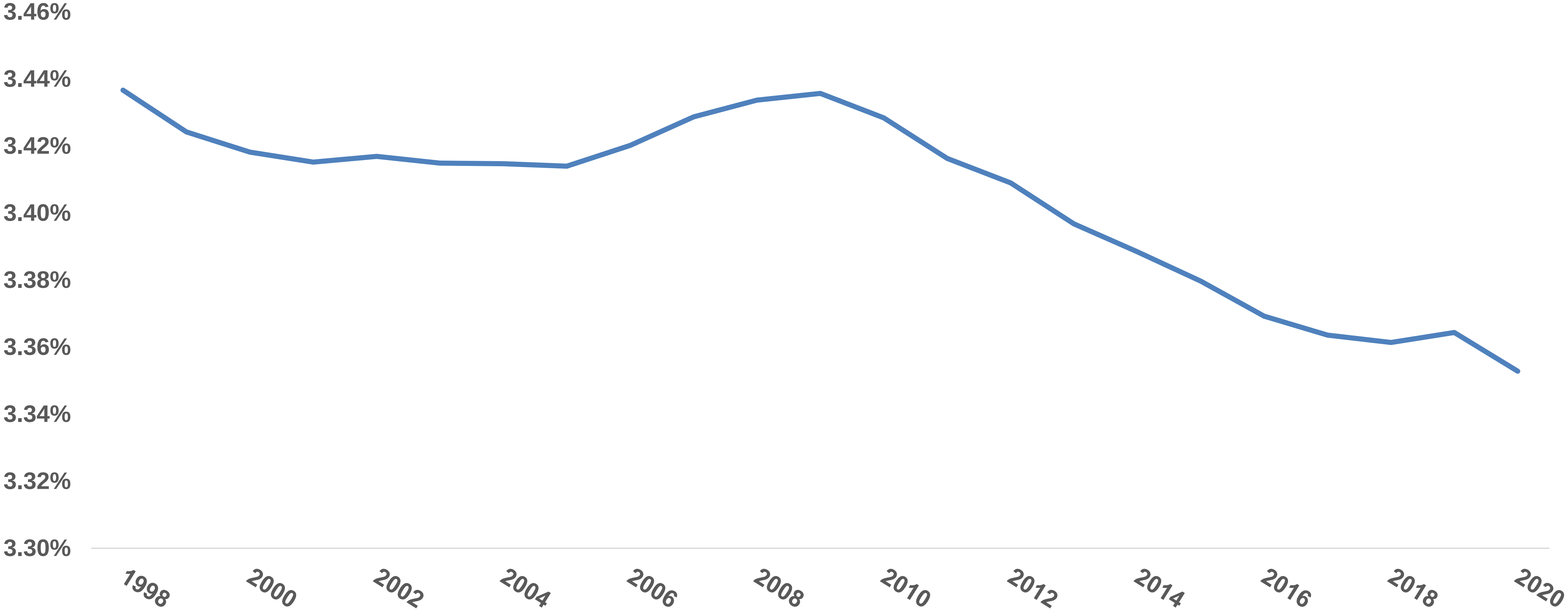
  - Long-haul Direct Flight Air Passenger Duty (APD) – approximately £2.3 million annually taken out of Block Grant, since January 2013
  - Corporation Tax – in future, if commenced by United Kingdom Government, and subsequently used by Northern Ireland Executive

“Barnett Squeeze”:

❖ In a nutshell:

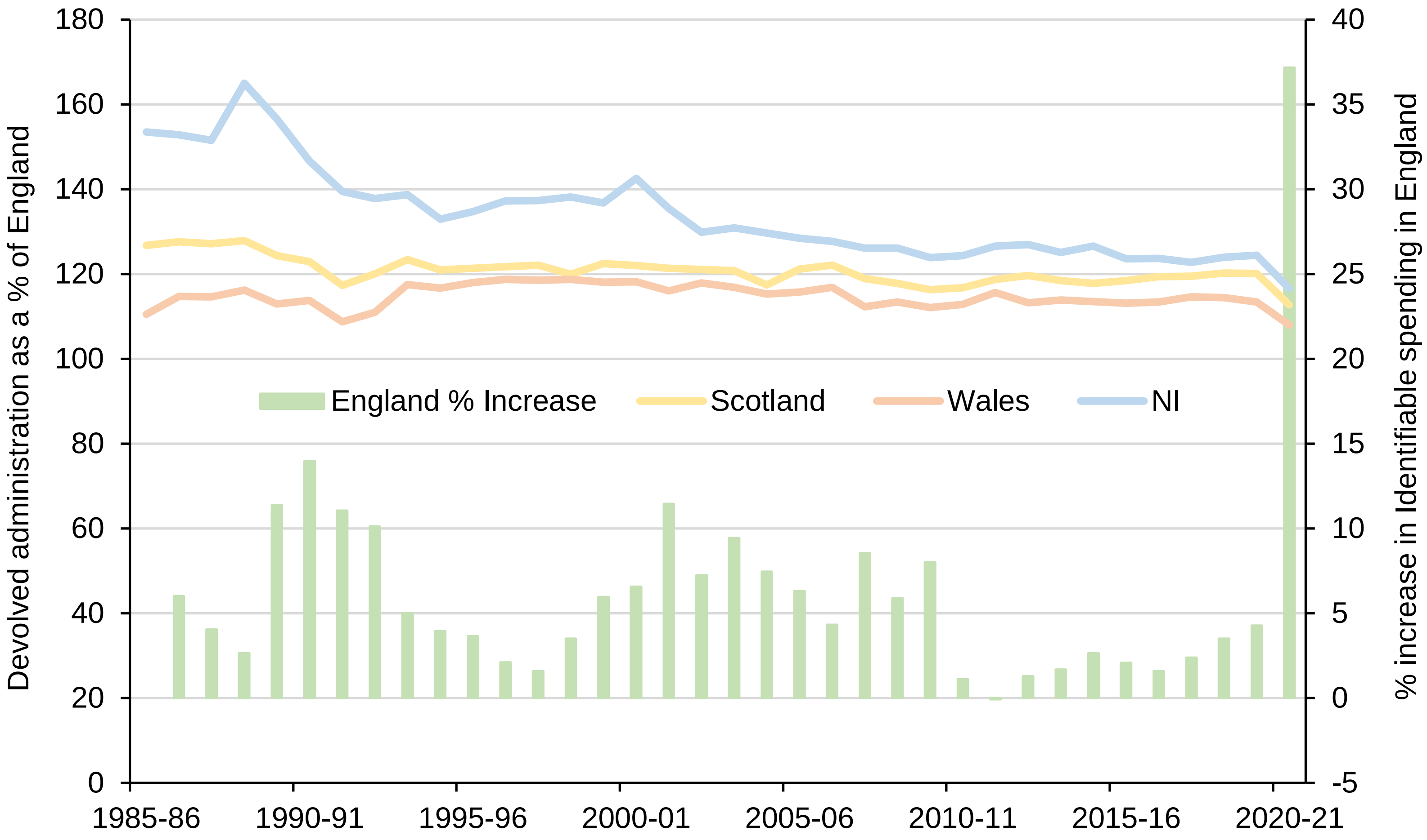
- **Barnett formula**:
  - When there is extra spending on a service in England the DAs get an equivalent amount of money based on the size of their population, plus the level of responsibility they have for that equivalent English service
  - It aims to give each part of the United Kingdom the same pounds-per-person increase in funding
- **BUT** the DAs start with different higher baselines than England, recognising their different needs:
  - Example: If England starts with £100 per person and Northern Ireland starts with £110 per person – an extra £10 per person will mean England gets an extra 10% and Northern Ireland gets an extra 9% (cash increase is the same; **however**, percentage increase is lower due to baselines)
- **Over time**, those smaller percentage increases result in a gradual erosion of the “Northern Ireland Premium” – meaning:
  - Northern Ireland’s historical receipt of higher spending per head relative to England - and the above gradual erosion is what is described as the “Barnett Squeeze”

Northern Ireland's population as a percentage of England's population since 1998 (relevant to Barnett Squeeze):



Source: [Office of National Statistics (2022)]

Barnett Squeeze – graphical illustration:



Source: HM Treasury PESA 2000-2022

Source: Northern Ireland Fiscal Council (2022)

“Fiscal Floor”:

- It describes how there should be a minimum level of funding based on the relative needs of the population governed by the DA
- In 2010, the Holtham Commission report proposed:

> *A simple modification to the existing formula that would place a “floor” under the block grant at a level indicated by English needs formulae and would prevent any further convergence, pending wider reform*

- In 2022, the Fiscal Commission for Northern Ireland described a “Floor” as predetermined limits on the gap between revenues and the corresponding adjustment in line with SFP; stating:

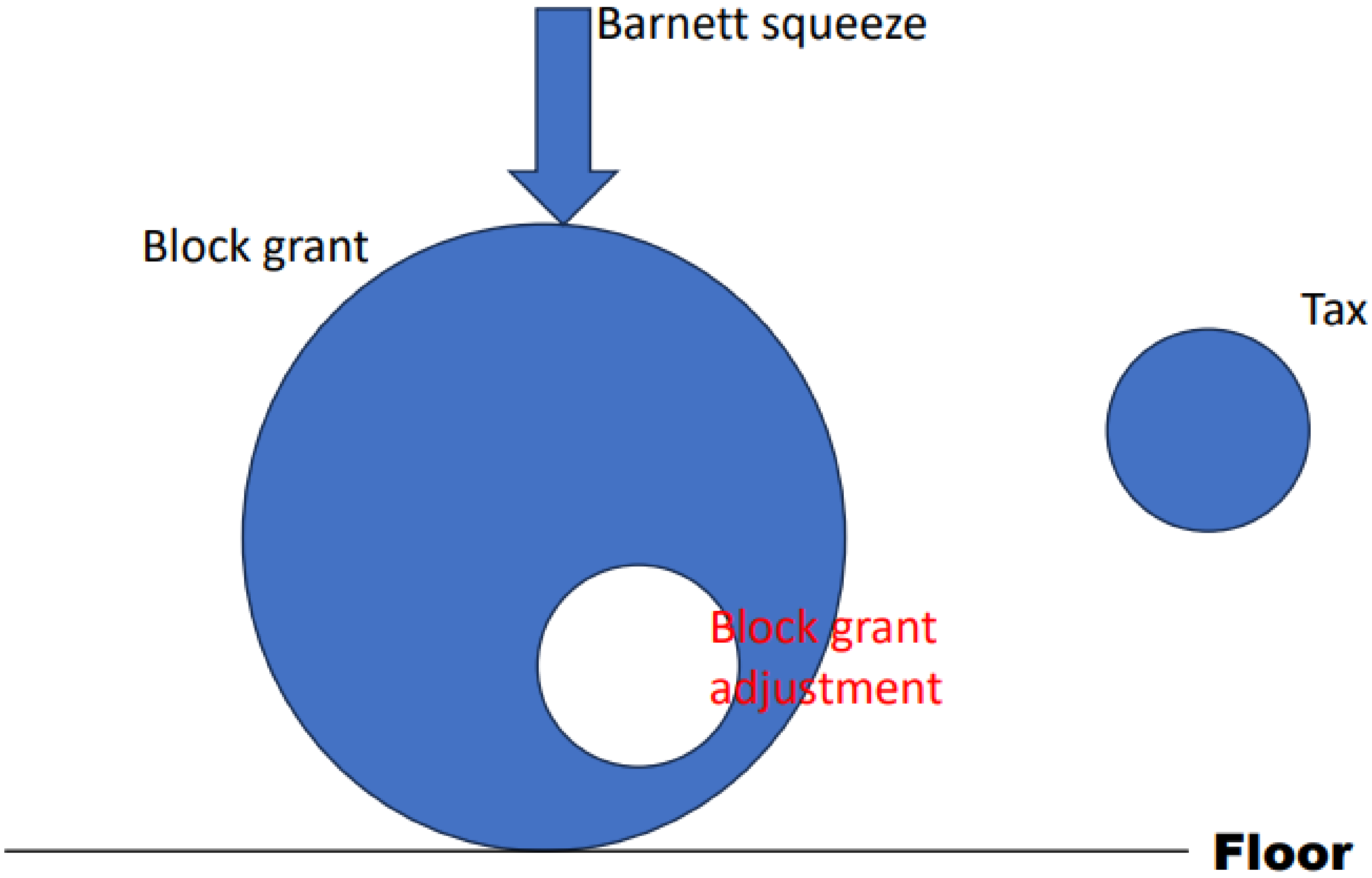
> *…there could be predetermined limits (a “floor”) on the gap between revenues and the corresponding BGA* [Block Grant Adjustment] *that are allowed to appear before the UK Government commits to protect the NI Executive’s budget from any further divergence*

- In 2024, the United Kingdom Government confirmed that a “Fiscal Floor” would be included as part of its published financial support package for the restored Northern Ireland Executive, stating:

> *The UK Government has committed to providing a needs-based factor in the Barnett formula for Northern Ireland to be set at 24% from 2024-25*

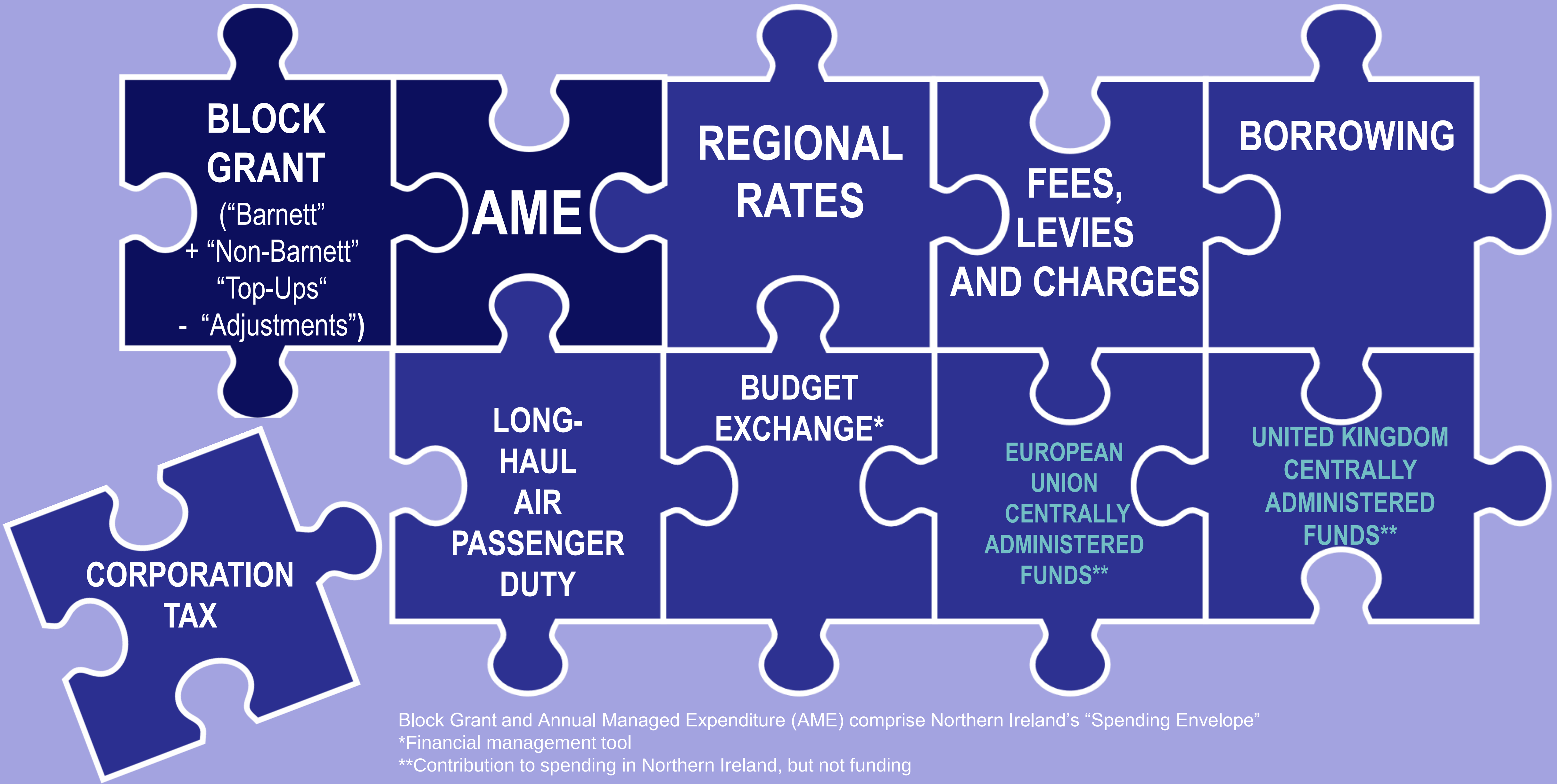
SCRUTINY POINT:
The Committees for TEO and Finance may wish to ask what available sources, in addition to the Northern Ireland Fiscal Council reports, has TEO and/or the DoF relied on when considering the “Fiscal Floor” for Northern Ireland?

Pulling together all the PFF rules covered so far - a graphical illustration:



Source: [Holtham (2023)]

Northern Ireland Public Finances – critical elements:



Block Grant and Annual Managed Expenditure (AME) comprise Northern Ireland's "Spending Envelope"
*Financial management tool
**Contribution to spending in Northern Ireland, but not funding

Source: RaISe – Public Finance Scrutiny Unit (2023)

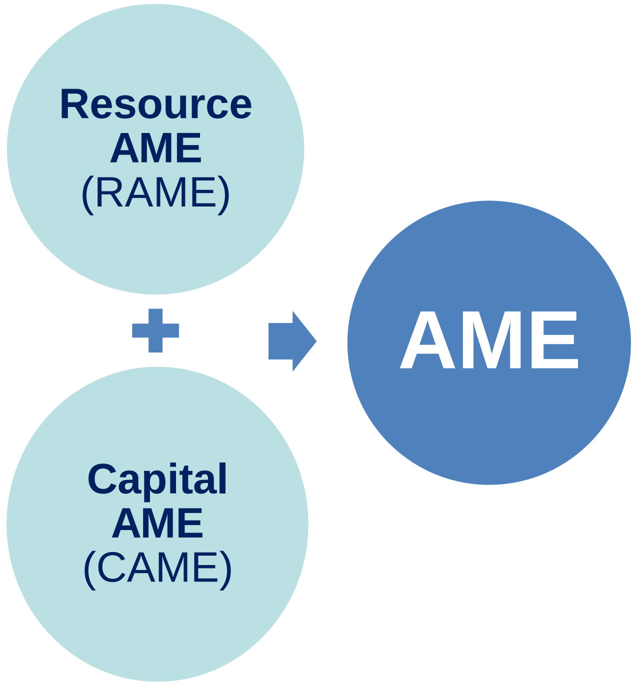
AME

AME:

- It is **not** “Block Grant”; instead, AME is:
  - Ring-fenced expenditure for DAs, including Northern Ireland Executive; mostly classified as “Resource AME” for specified allocated purpose – such as welfare benefits, public sector pensions, student loans
  - Volatile and demand-led on a short-term basis
  - Agreed initially at a Spending Review by HM Treasury – that is, the indicative figures for the major AME-funded programmes, and adjusted in line with OBR forecasts
  - Confirmed formally through the United Kingdom Parliamentary Estimates processes

- Moreover, AME:
  - Is monitored throughout the financial year at DA level by relevant department, along with the DoF, to identify any in-year changes to the forecasted expected costs associated with AME funded programmes – increases or decreases
  - Requires the DA's DoF to make relevant returns to HM Treasury and OBR of those identified changes
  - Requires the DA's DoF to also make a return to HM Treasury for any AME underspend ("clawed back")
  - Requires a DA to meet "excess" costs that arise from the DA's more generous terms for its AME programme, than the broadly similar comparable AME programme in the United Kingdom ("Parity Principle")

- Two types of AME:
  - **RAME** - covers spending on day-to-day costs, including: Benefits; Social Fund and Pensions
  - **CAME** - covers spending on longer-term investment – for example: Youth Justice Agency and Student Loans

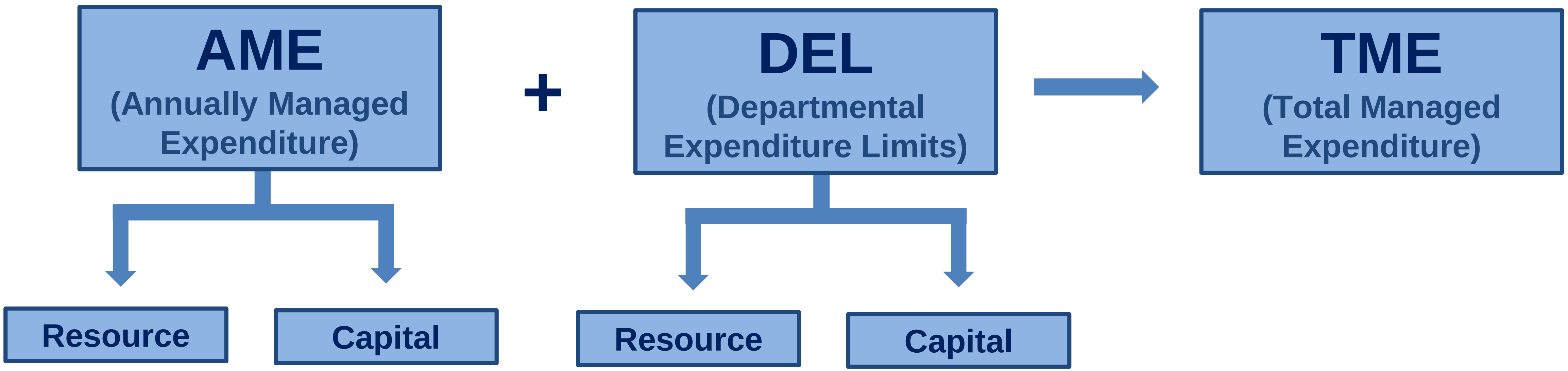


Source: RaISe – Public Finance Scrutiny Unit (2023)

❖ KEY POINTS:

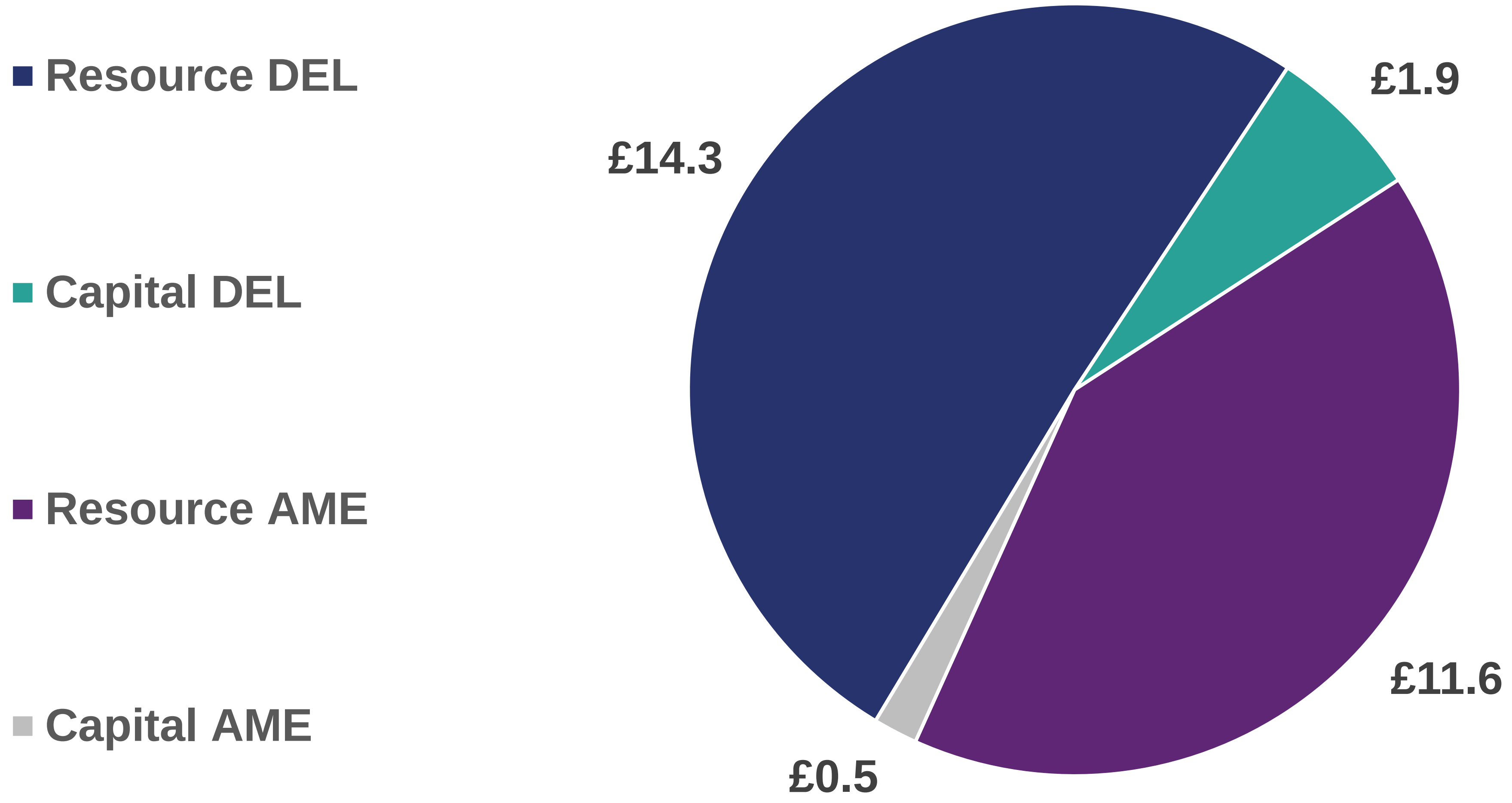
- Where a DA like Northern Ireland offers broadly similar terms for a programme, the United Kingdom Government will fund the cost of that programme
- Where a DA like Northern Ireland wishes to offer more generous terms for a programme, then the excess must be met by the DA by adopting broadly similar terms for that programme (and therefore broadly similar costs):
  - "Parity Principle" departure via introducing a "Super Parity" measure
  - "Repercussiveness" then applies – see SFP (paragraph 8.13)

❖ **KEY POINT:** Control and Planning Totals and Expenditure Categories:



Source: RaISe – Public Finance Scrutiny Unit (2023)

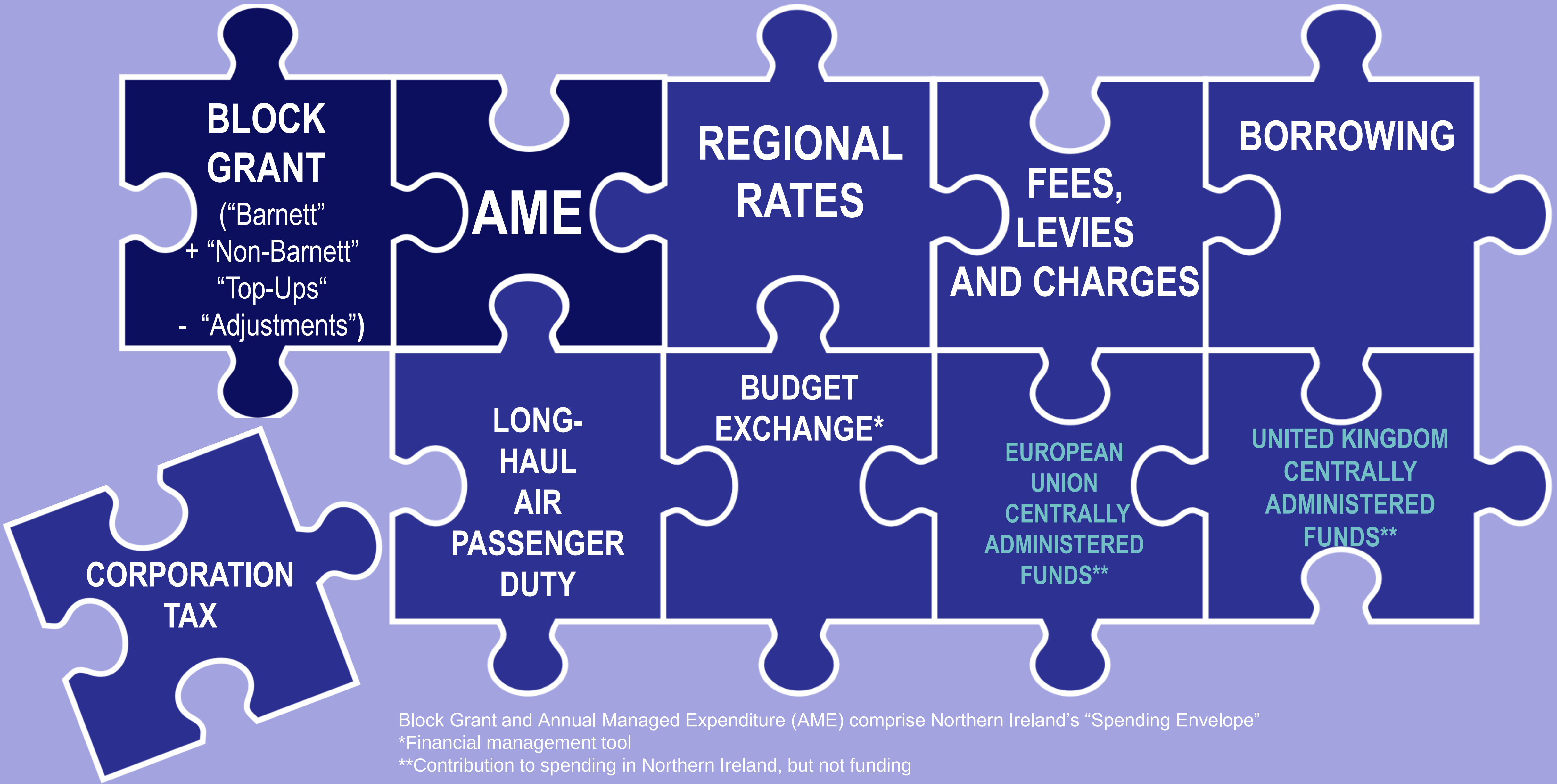
Summary of Northern Ireland AME and DEL allocations – 2022-23:



Figures shown = £ billions

Source: Public Expenditure Statistical Analyses (2023)

Northern Ireland Public Finances – critical elements:



Block Grant and Annual Managed Expenditure (AME) comprise Northern Ireland’s “Spending Envelope”

*Financial management tool

**Contribution to spending in Northern Ireland, but not funding

Source: RaISe – Public Finance Scrutiny Unit (2023)

REGIONAL RATES

Regional Rates:

- Two types of Regional Rates generating receipts that contribute to the Northern Ireland Executive Budget:
  - **Domestic Rates** for residential properties
  - **Non-Domestic Rates** for business properties
- The **Regional Rate** is typically set annually by the Northern Ireland Executive when it is fully functioning. Otherwise, it is set by the Secretary of State (SoS)
- It is distinct from **District Rates**, which contribute to financing local government:

The Northern Ireland Fiscal Commission stated:

For Northern Ireland, the most significant source of funding for central public services is the revenue generated locally through the Regional Rates

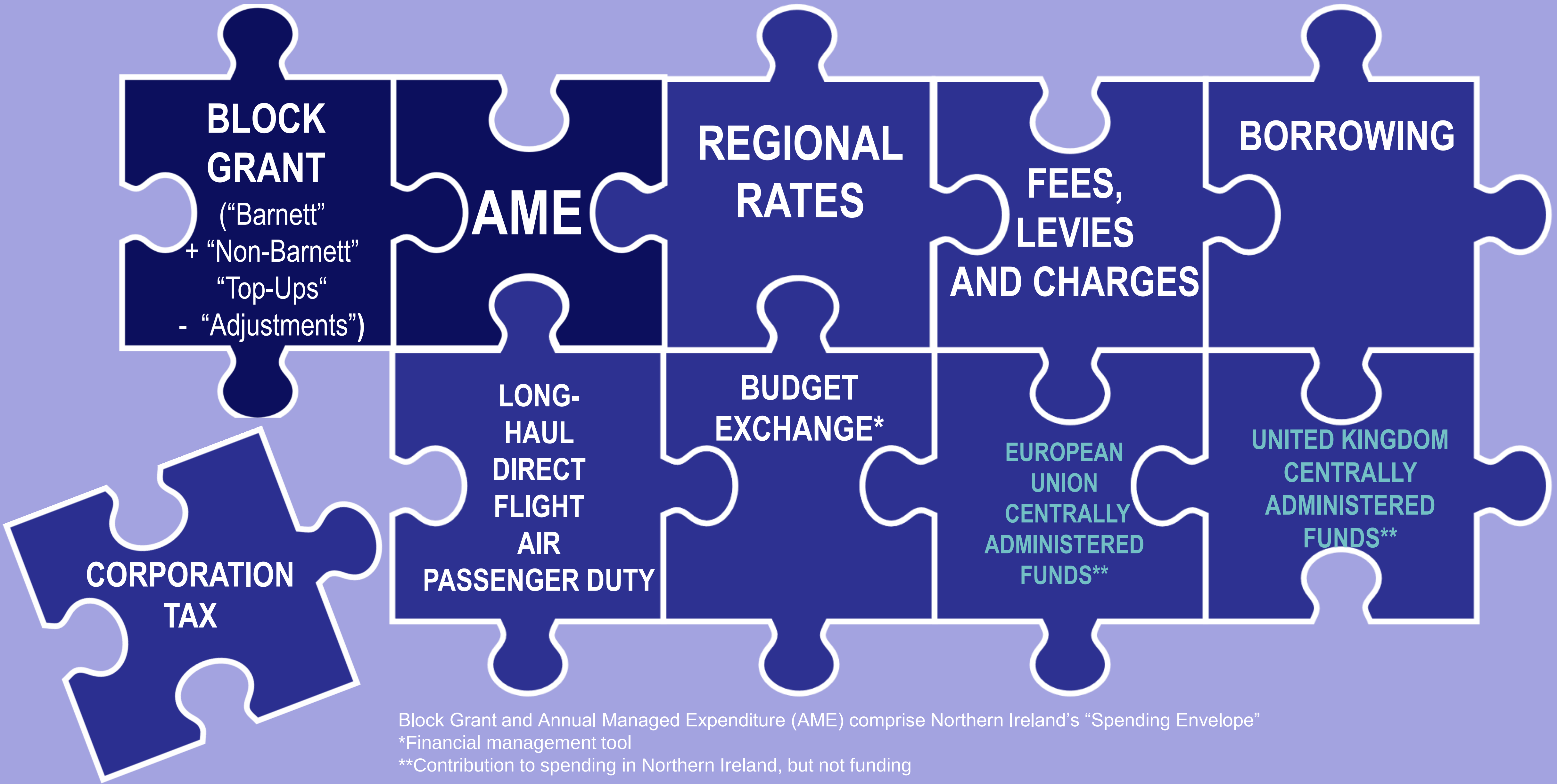
Source: Northern Ireland Fiscal Commission (Pg. 72)

The Northern Ireland Fiscal Council stated:

Regional Rates on domestic and non-domestic property are the Executive's only significant direct source of tax revenue

Source: Northern Ireland Fiscal Council (Pg. 9)

Northern Ireland Public Finances – critical elements:



Block Grant and Annual Managed Expenditure (AME) comprise Northern Ireland's "Spending Envelope"
*Financial management tool
**Contribution to spending in Northern Ireland, but not funding

Source: RaISe – Public Finance Scrutiny Unit (2023)

FEES, LEVIES AND CHARGES

Fees, Levies and Charges:

- Departments and public bodies charge for publicly provided goods and services
- The SFP (Chapter 9) states:
  - Each DA is empowered to set charges for providing a wide range of public services that fall within its responsibilities under its devolution settlement
  - Income from a DA's recurrent fees and charges is established to recover the costs of providing public services, score against its budget as negative public expenditure, and therefore is available to be recycled by the DA itself for spending
- There are many types of fees, levies and charges - for example: Medical and Dental course fees; Utility Regulator licence fees

SCRUTINY POINTS:

1. **The Committee may wish to ask the Department for an overview of existing departmental fees, levies and charges – including income generated, as well the costing model for each?**
2. **Following on from the Secretary of State's (SoS's) letter dated 14 June 2023 to the Northern Ireland Departmental Permanent Secretaries, what was the Department's response to the SoS's questions regarding the following:**

   A. Increases to existing fees, charges, or devolved taxation…

   …B. The introduction of new fees and charges for the delivery of Northern Ireland public services.

Example: Northern Ireland Carrier Bag Levy

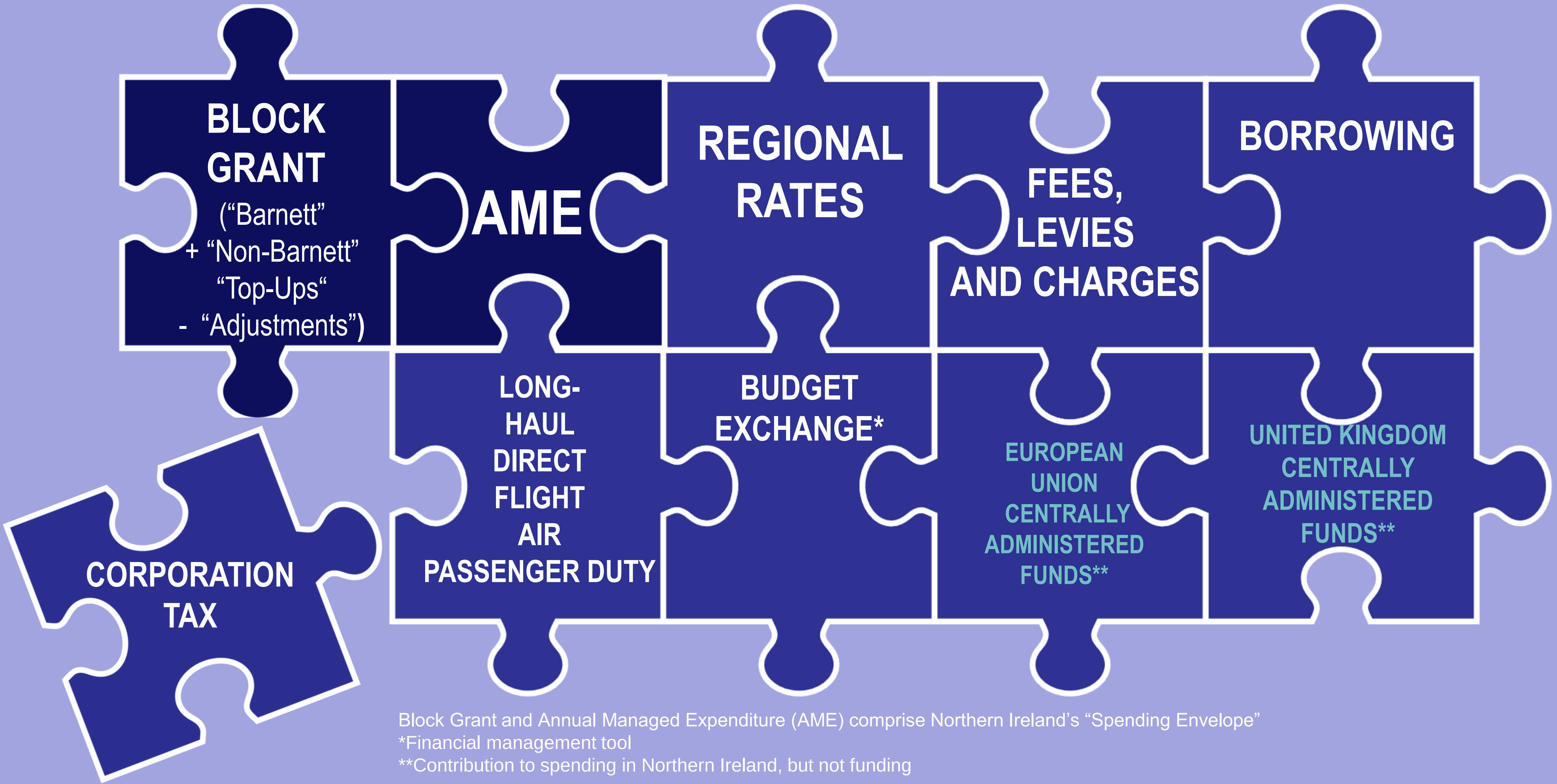
- Carrier Bag Levy applicable from April 2013 in Northern Ireland, following Northern Ireland Assembly's enactment of legislation requiring all sellers to charge at least 5p for each new carrier bag they supply to customers; all paper, plastic or natural material bags:
  - Charge later increased to a minimum of 25p under the Single Use Carrier Bags Charge (Amendment and Revocation) Regulations (Northern Ireland) 2022; applicable from 1 April 2022
  - Receipts paid directly to Department of Agriculture, Environment and Rural Affairs (DAERA), to fund environmental projects in Northern Ireland – such as The Environment Fund:

Proceeds collected from Carrier Bag Levy	2017/18	2018/19	2019/20	2020/21	2021/22
£ million	4.9	4.6	4.4	2.2	2.7

Source: Department of Agriculture, Environment and Rural Affairs

SCRUTINY POINT:
The Committee may wish to ask whether the Department has considered reviewing additional areas in which levies could be implemented, as well as corresponding programmes in which the proceeds could be directed?

Northern Ireland Public Finances – critical elements:



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Source: RaISe – Public Finance Scrutiny Unit (2023)

BORROWING

Borrowing:

- Reinvestment and Reform Initiative (RRI) is a borrowing facility that was set up in 2002, to support the Northern Ireland Executive's infrastructure investment programmes - such as building, purchasing, extending or improving assets
- RRI is explained at Chapter 12 of the SFP (2023)
- HM Treasury determines limits on borrowing, as currently specified in SFP (2023), subject to change (£3 billion total and £200 million annually)
  - **Note:** The Financial Support Package attached to Safeguarding the Union Agreement (December 2024) proposed amendments to increase Northern Ireland's annual capital borrowing limit over the next five years, with an initial **10% uplift** followed by annual increases by inflation. That is forecast to cumulatively provide up to £135 million by 2028-29
- RRI borrowing from the National Loans Fund (NLF) is administered through the "Debt Management Office", at a rate 1% above the rate the United Kingdom Government pays when borrowing on the international money markets

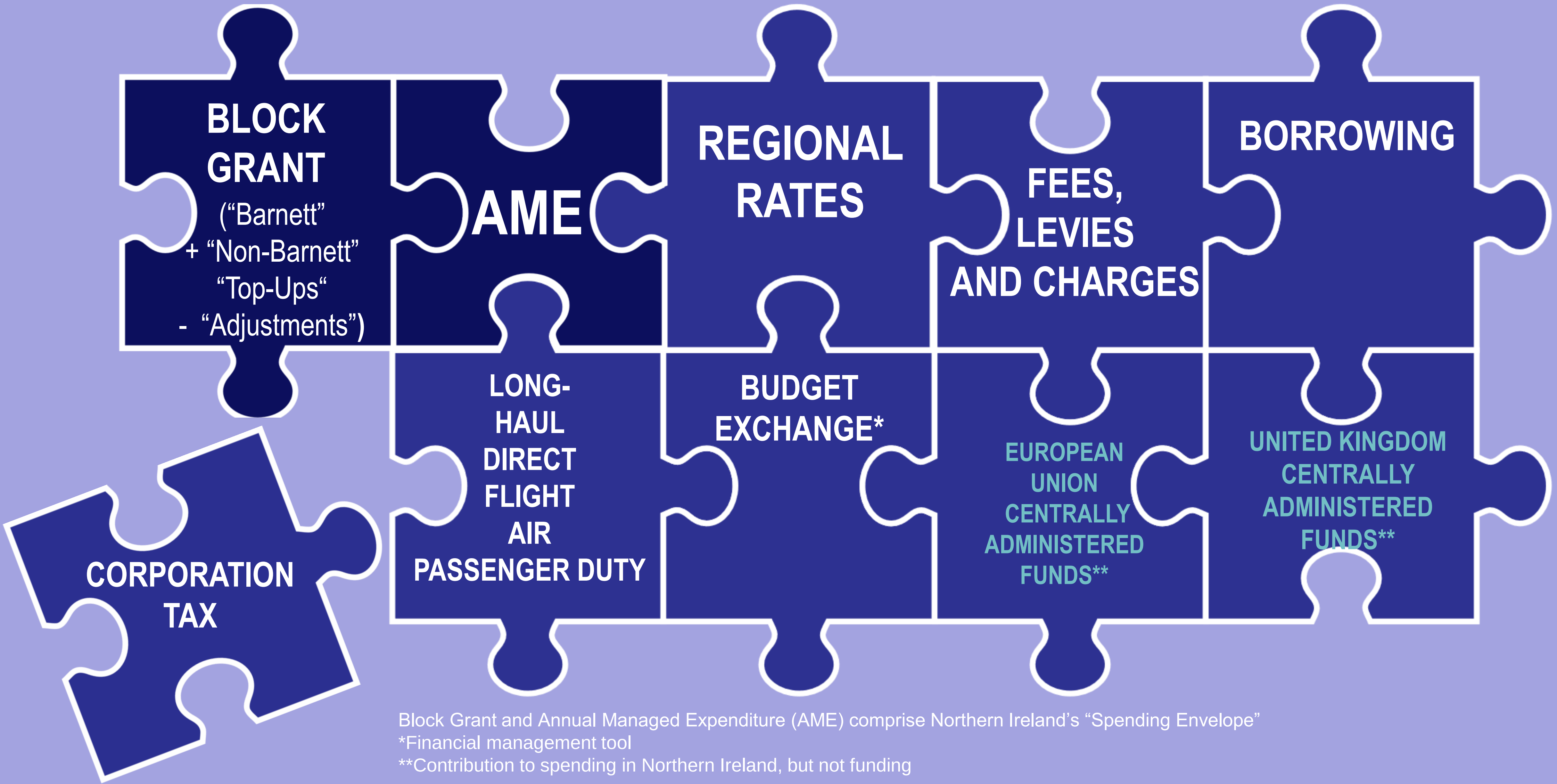
- Repayment of RRI principal and interest is from **Northern Ireland Resource DEL:**

Year	Principal Repayments	Interest Repayments
2022-23	117.7	43.4
2023-24	118.3	41.8
2024-25	119.5	40.4

Source: [Draft Executive Budget 2022-25]

SCRUTINY POINT:
The Committee for The Executive Office (TEO) may wish to ask TEO whether it has given any consideration to a dedicated Northern Ireland Executive Borrowing Strategy?

Northern Ireland Public Finances – critical elements:



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Source: RaISe – Public Finance Scrutiny Unit (2023)

CORPORATION TAX

Corporation Tax:

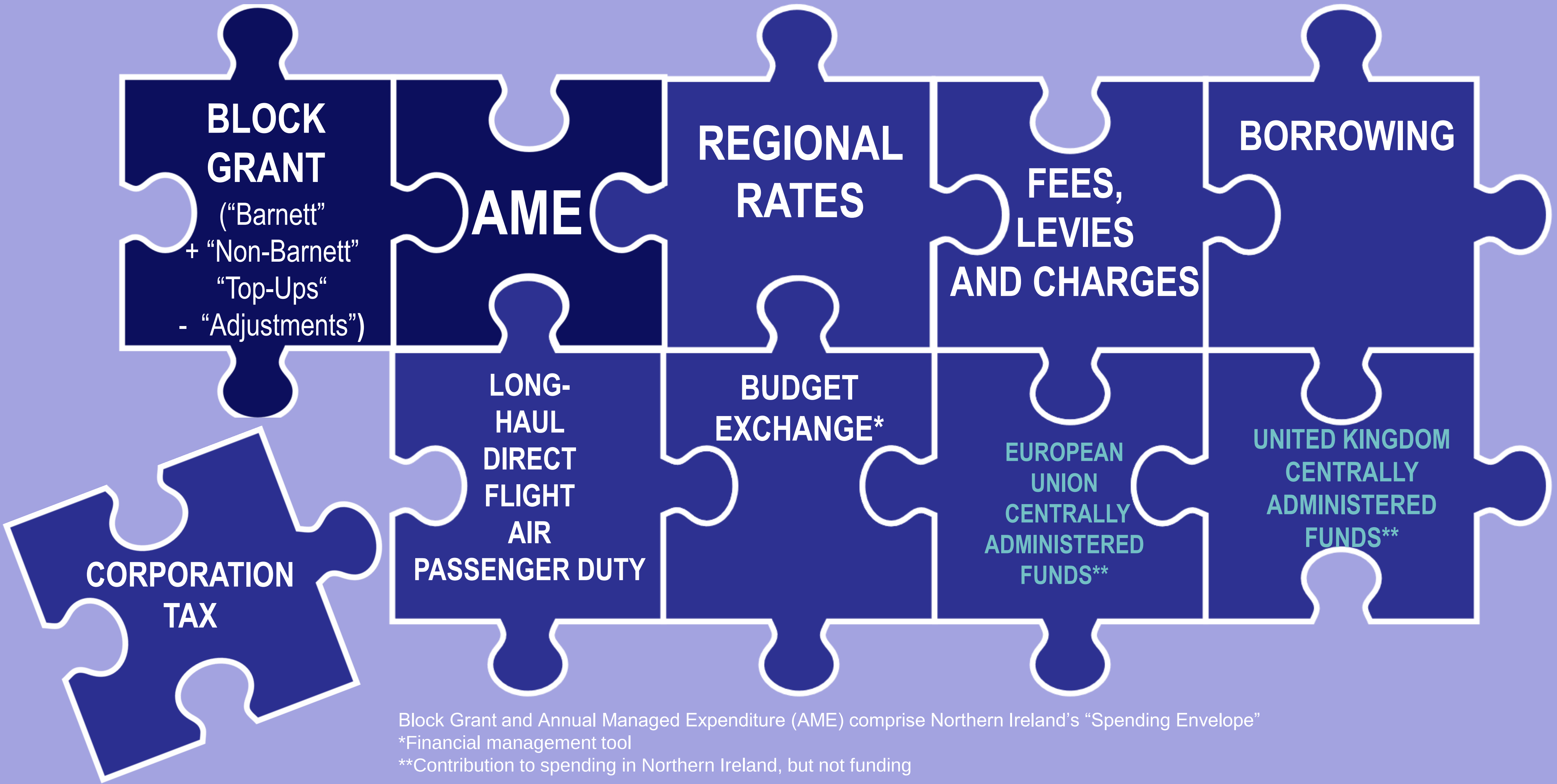
- In 2015, United Kingdom Houses of Parliament enacted Corporation Tax (Northern Ireland) Act 2015:
  - Empowered Northern Ireland Assembly to set the corporation tax rate on trading profits in Northern Ireland
  - Has not been commenced by the United Kingdom Government to date, so this fiscal lever is not yet available to the Northern Ireland Executive for revenue-raising:
    - United Kingdom Government to commence the legislation, **if** Northern Ireland Executive demonstrates its finances are on a sustainable footing - per HM Revenue and Customs draft guidance (updated 31 January 2018)
    - If commenced, a Block Grant Adjustment would apply under SFP (November 2023)

SCRUTINY POINTS:

The Committees for TEO, Finance, Economy and other may wish to ask whether TEO, DoF, DfE and other have considered the commencement of Corporation Tax in Northern Ireland?

- **If so, when and what was considered, and any agreements arising therefrom, and between who?**
- **If no such consideration to date, are there any plans to initiate any as part of the ongoing discussions in this area? Please detail.**

Northern Ireland Public Finances – critical elements:



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Source: RaISe – Public Finance Scrutiny Unit (2023)

LONG-
HAUL
DIRECT
FLIGHT
AIR
PASSENGER DUTY

Long-haul Direct Flight Air Passenger Duty:

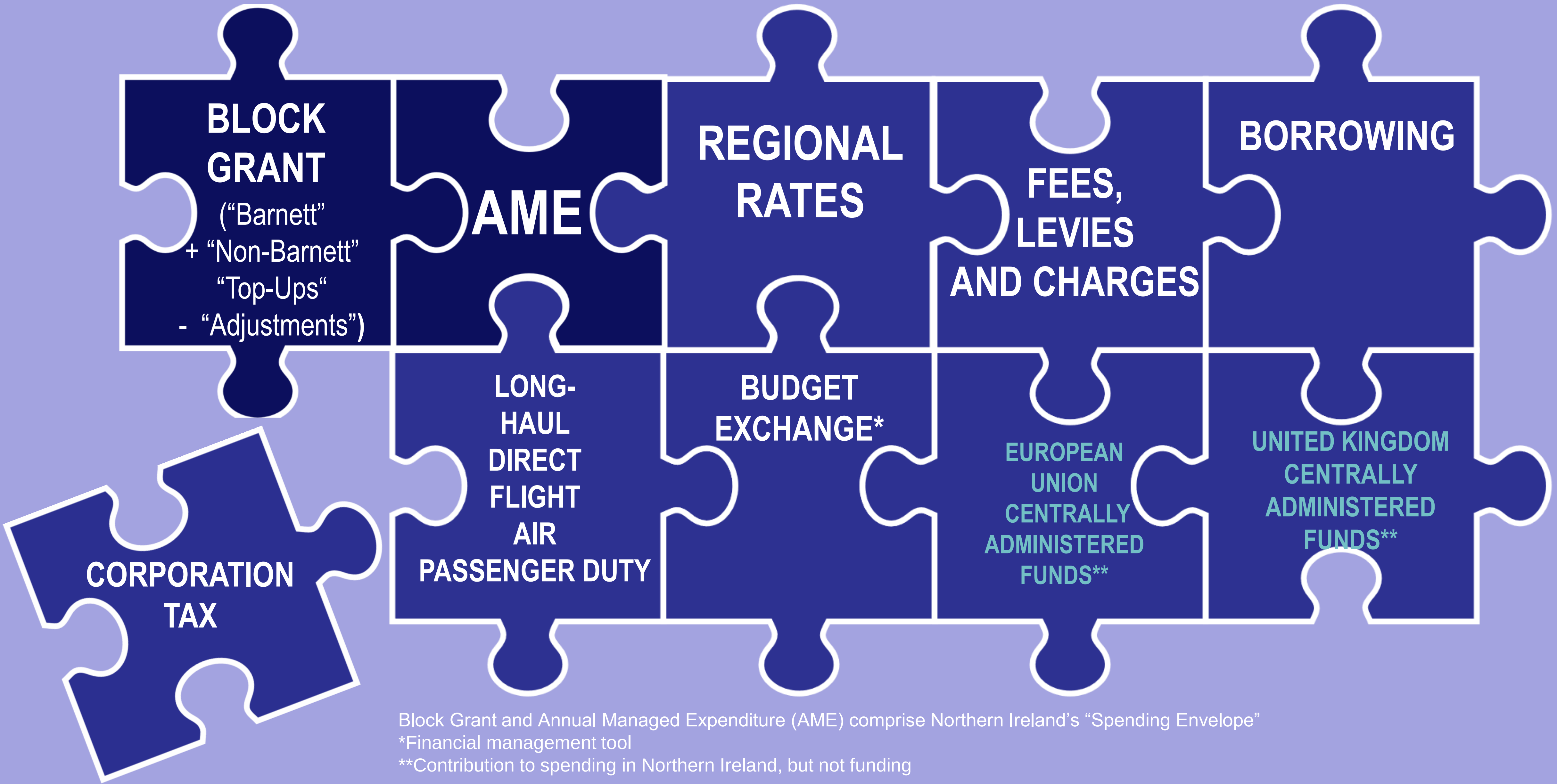
- Devolved power from central to devolved government
- Authorised Northern Ireland Executive to adjust the rate on long-haul direct flights departing from airports in Northern Ireland:
  - Northern Ireland Executive decided to set a zero rate, based on assumptions underpinning its decision – effective from January 2013
  - To date, that Executive decision has resulted in an annual Block Grant Adjustment:
    - Amounting to approximately £2.3 million per year, since 2013
  - However, long-haul direct flights ceased to depart from Northern Ireland in October 2018:
    - But, new flights could start in Summer 2024 and potentially Spring 2025 – providing a new transatlantic airline route from Belfast to United States
    - Regardless, Northern Ireland Executive remains responsible each year for the noted Block Grant Adjustment arising from this rate cut

SCRUTINY POINTS:

The Committees for TEO, Finance, Economy and other may wish to ask whether:

- **TEO, DoF, DfE and other whether any discussion has been given to the promotion of direct long-haul travel – for example, via strategy documents (including Investment Strategy, Economic Strategy, Economic Vision Statement) or other?**
- **DoF and other Departments have considered adjusting the long-haul direct flights APD rate?**
    - **If so, when and what was considered, and any agreements arising therefrom, and between who?**
    - **If no such consideration to date, are there any plans to initiate any as part of the ongoing discussions in this area?**

Northern Ireland Public Finances – critical elements:



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Source: RaISe – Public Finance Scrutiny Unit (2023)

BUDGET EXCHANGE

“Budget Exchange”:

- The SFP (Chapter 12) states:

  Budget Exchange is a mechanism that allows departments to carry forward a forecast DEL underspend from one year to the next.

  Under Budget Exchange arrangements unallocated DEL budget can be carried forward from one financial year to the next, within previously agreed limits and with the consent of HM Treasury ministers.

  In practical terms Budget Exchange is achieved by surrendering unspent provision to the Exchequer in one year, with an equivalent sum being added to the block grant in the subsequent year.

- Any in-year funding provided by the United Kingdom Government to the Northern Ireland Executive under **HM Treasury’s Reserve** (see next slide) is ineligible for “carry forward” under Budget Exchange:

  - Such in-year funding is provided only after the Executive has made a successful claim

- HM Treasury’s Reserve – key points:
  - Normally, DAs are expected to manage their DEL budgets within their allocations
  - **In exceptional circumstances**, if exceeding their allocations:
    - DAs may make in-year claim(s) on the HM Treasury’s Reserve – but this should be regarded as a last resort
    - HM Treasury considers such claims on a case-by-case basis - for example, where a DA:

> *…faces exceptional and unforeseen domestic costs which cannot reasonably be absorbed within exiting budgets or managed using the additional tools and powers available to them, without a major dislocation of existing services*

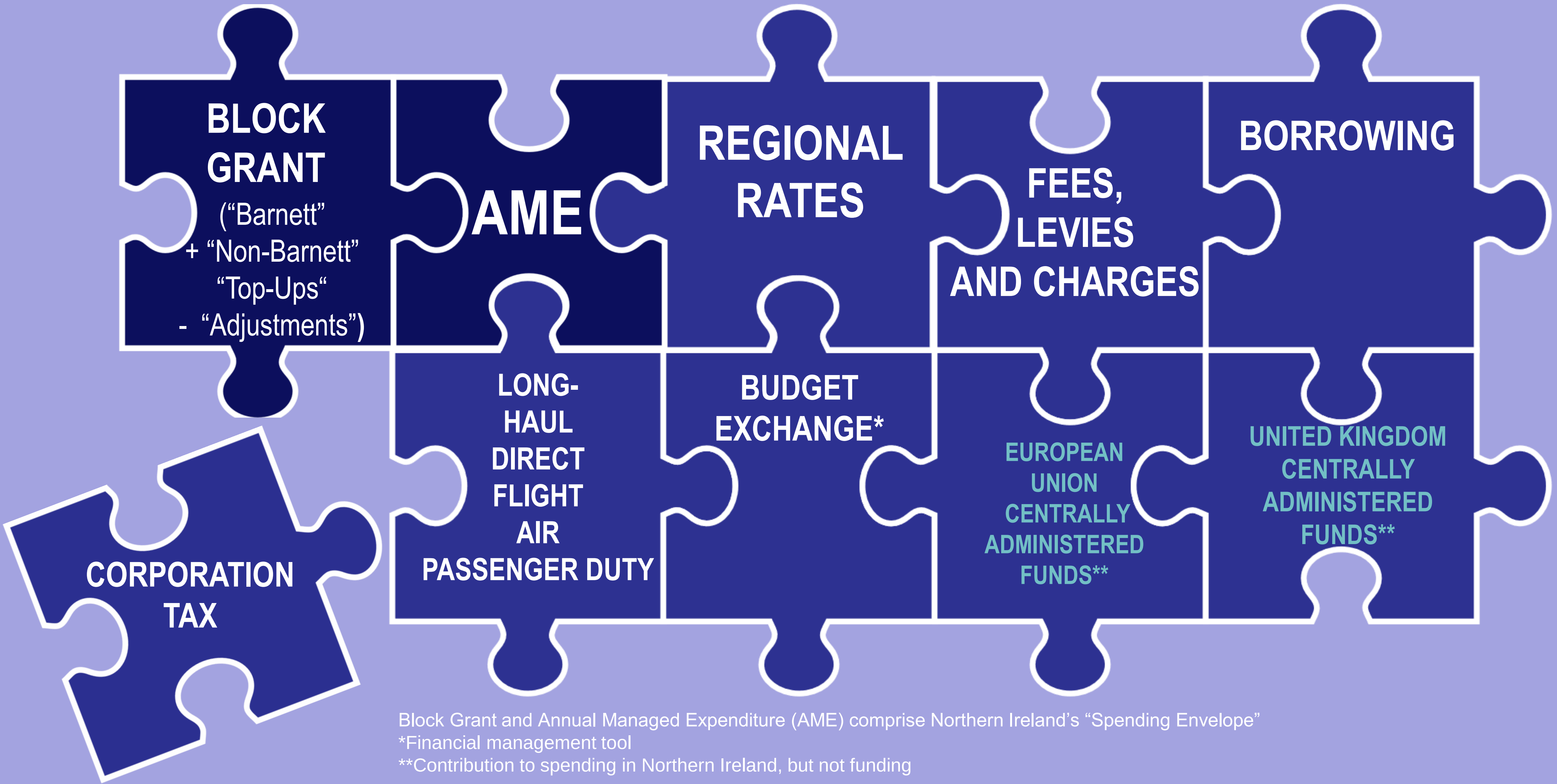
- Further information about HM Treasury’s Reserve, see: Consolidated Budgeting Guidance (2023) (Chapter 2) and SFP (Chapter 8)

SCRUTINY POINT:
The Committee may wish to ask the Department to report on its monthly outturn and forecast outturn updates, in order to track how well the Department is managing its Budget throughout the Budget cycle, including tracking its spending and any underspends.

NOTE: Departmental replies to above would enable the Committee to:

- Track departmental spending in a proactive manner and assess:
  - Whether any unspent funds could be reallocated through the in-year monitoring process?
  - If not, then could ask whether those funds fall within the limits of Budget Exchange?
- Support – ultimately – the delivery of efficient, transparent and accountable governance in Northern Ireland, through informed scrutiny and oversight:
  - Scrutiny in this area could be supported by the online RaISe-PFSU Forecasting Accuracy Dashboard – see Departmental Financial Forecasts & Outturns: Dashboard User Guide (niassembly.gov.uk) (user guide)

Northern Ireland Public Finances – critical elements:



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Source: RaISe – Public Finance Scrutiny Unit (2023)

UNITED KINGDOM CENTRALLY ADMINISTERED FUNDS

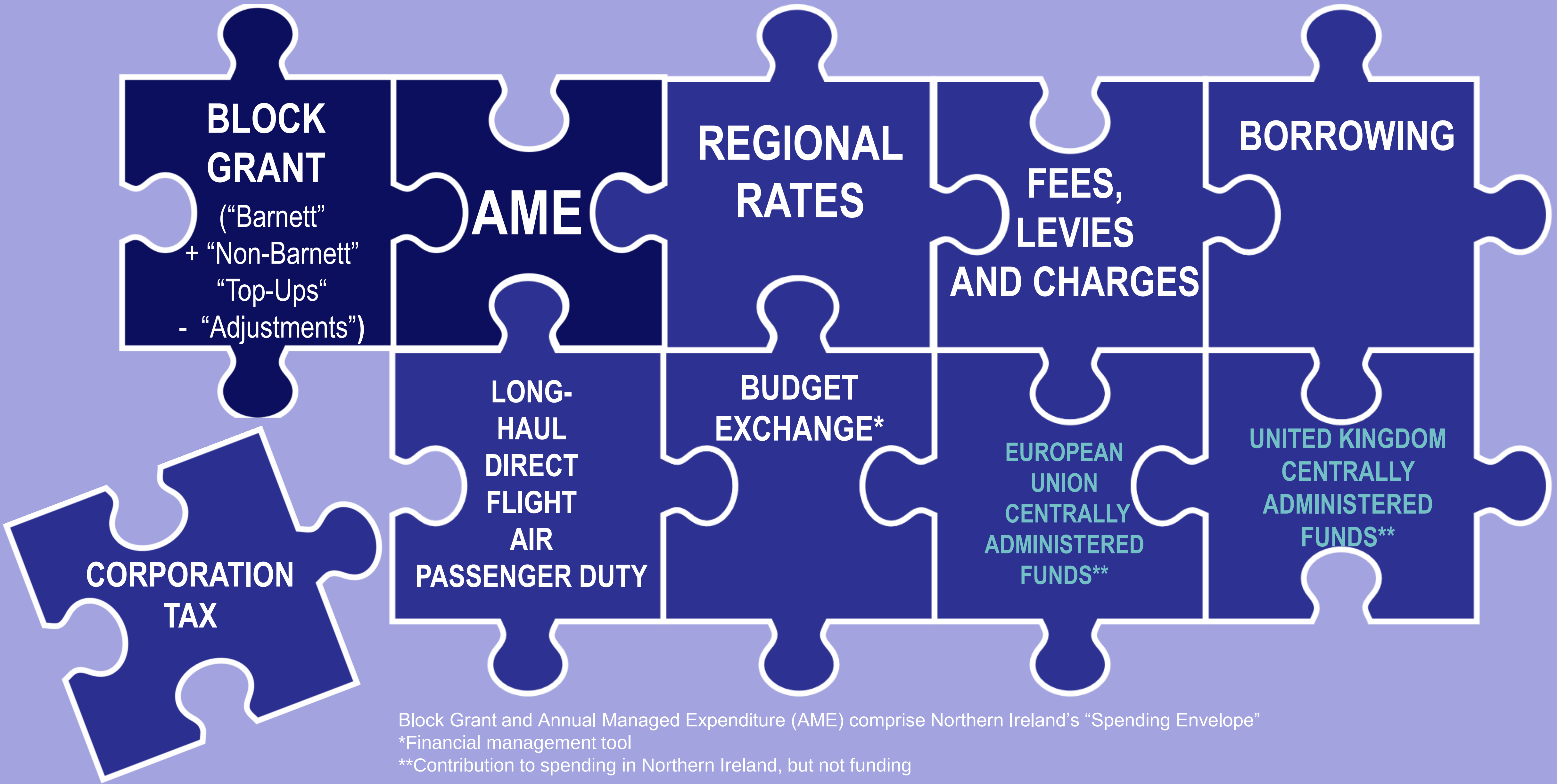
United Kingdom Centrally Administered Funds:

- United Kingdom Government launched four investment programmes to support communities across the United Kingdom:
  - United Kingdom Community Renewal Fund **- £200 million**
    - £11 million spend in Northern Ireland (Programme closed in December 2023)
  - Levelling Up Fund - **£4.8 billion**
    - Round 1: Northern Ireland = £48.8 million
    - Round 2: £73.3 million
    - Round 3: Currently underway - £30 million reserved for Northern Ireland when not fully functioning
  - Community Ownership Fund - **£150 million**
    - Round 1: Northern Ireland = £0.8 million
    - Round 2: Northern Ireland = £ 2.2 million
    - Round 3: Northern Ireland = £5.4 million
  - United Kingdom Shared Prosperity Fund **- £2.6 billion**
    - Northern Ireland allocation of £127 million (allocated via a formula, rather than a competition):
      - £104 million allocated to projects to date
      - £23 million repurposed to Executive Restoration Financial Package

KEY POINTS:

- Funding under United Kingdom Shared Prosperity Fund is allocated via a formula; whereas funding under the other three noted programmes is awarded on a competitive basis
  - The benefit to receiving an allocation is the guarantee of a set proportion of funding
  - Whereas the competitive approach can result in a higher proportion of funding allocation to Northern Ireland – **BUT** that result is conditional on Northern Ireland having a higher overall successful bid value
- £52.6 million will be provided to the Executive as part of the Executive Restoration Financial Package from un-ringfencing previously announced through United Kingdom Centrally Administered Funds, including:
  - £30 million from Round 3 of Levelling Up Fund
  - £22.6 million from the Shared Prosperity Fund

Northern Ireland Public Finances – critical elements:



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Source: RaISe – Public Finance Scrutiny Unit (2023)

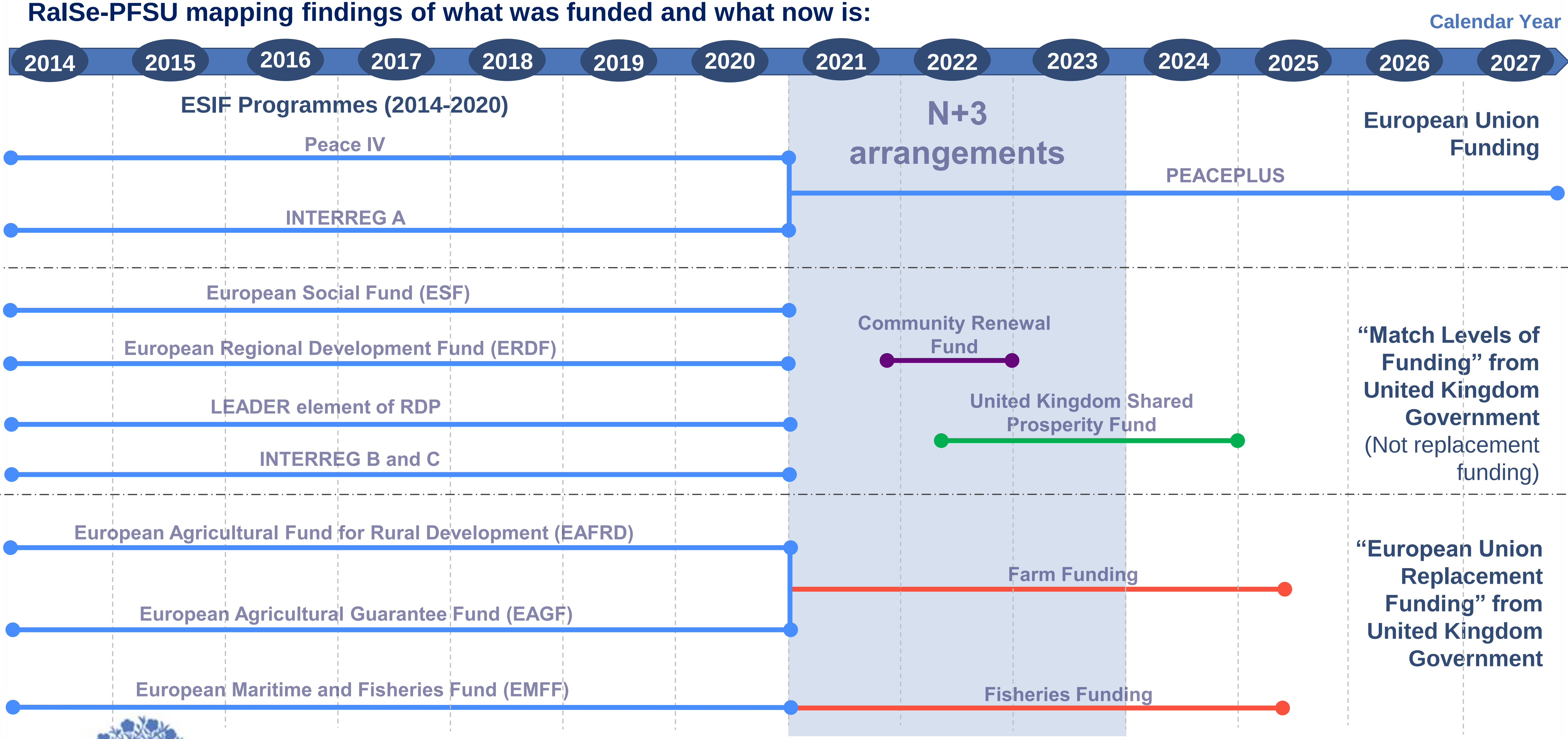
EUROPEAN UNION CENTRALLY ADMINISTERED FUNDS**

RaISe-PFSU mapping exercise post United Kingdom exit – 4 apparent categories emerge:

Continuing European Union funding	Northern Ireland continues to receive support from European Union Structural and Investment Funds (ESIF), with "N+3" (as previously explained), via PEACEPLUS; also potentially Horizon Europe (agreed September 2023)
"Match Levels of Funding"/"Domestic Alternatives"	"Match Levels of Funding" succeed ESIF via European Social Fund, European Regional Development Fund, LEADER element of RDP and INTERREG B and C, with "N+3", in the form of "Shared Prosperity Fund", which is administered via Whitehall Department for Levelling Up; "Community Renewal Fund"; and, "Domestic Alternatives" succeed Erasmus in the form of "Turing Scheme" and Creative Europe in the form of "Global Screen Fund"
"European Union Replacement Funding"	During SR2021, United Kingdom Government committed to maintain funding for the specified period, which previously was available to: farms via European Agricultural fund for Rural Development, with "N+3", and European Agricultural Guarantee Fund, with "N+3"; and, fisheries via European Maritime and Fisheries Fund, with "N+3"
"European Union Competitive Funds" (no currently known replacements)	Connecting Europe Facility, Health, Disease Eradication (Tuberculosis) and COSME

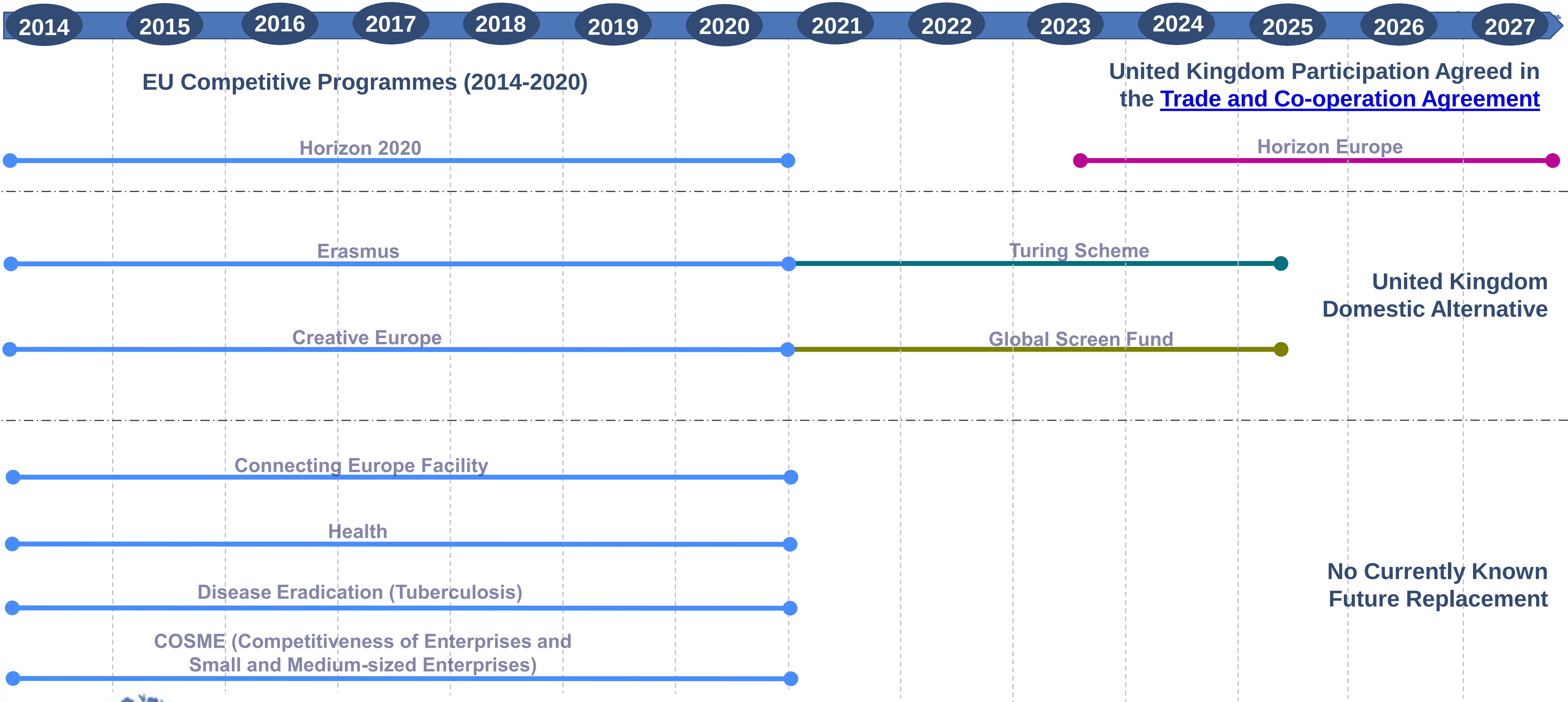
Source: RaISe – Public Finance Scrutiny Unit (2023)

European Structural and Investment Funds (ESIF) Programmes pre & post United Kingdom exit – RaISe-PFSU mapping findings of what was funded and what now is:



Source: RaISe – Public Finance Scrutiny Unit (2024)

European Competitive Fund Programmes pre & post United Kingdom exit – RaISe-PFSU mapping findings of what was funded and what now is:



Source: RaISe – Public Finance Scrutiny Unit (2024)

❖ **KEY POINTS:** Further mapping needs to be done to better understand:

- Any funding gaps arising from the United Kingdom's exit from the European Union, including the extent of any such gaps
- Where any such gaps, then how those in turn impact in the short, medium and long terms the following:
    - Northern Ireland departments' budgets
    - Departments' delivery of public services
    - Their policy and budget planning, and related decision-making

SCRUTINY POINTS:

The Committee may wish to ask the Department:

1. **For an overview of the Department's current reliance on EU funding for its programme delivery since United Kingdom exit from the EU.**
2. **Does the Department anticipate any issues relating to future programme delivery in the short, medium and long term, due to any anticipated EU funding changes?**

New puzzle piece in recent years: Shared Island Fund

Shared Island Fund

- An initiative introduced under the Irish Government's Budget 2021, to:
  - Work with the Northern Ireland Executive and the United Kingdom Government to address strategic challenges faced on the island of Ireland
  - Further develop the all-island economy, deepening North/South cooperation, and investing in the North West and border regions on the island
  - Foster constructive and inclusive dialogue and a comprehensive research programme to support the consensus-building around a shared future on the island

- The Fund commits at least €1billion through to 2030; deployed alongside other funding sources, while working through:
  - All-island partnerships with the Northern Ireland Executive and the United Kingdom Government counterparts,
  - Island-wide funding programmes with local government, education institutions and civil society

- The Department of the Taoiseach's Shared Island Unit drives and co-ordinates the initiative:
  - Including compiling and publishing February 2024 report:

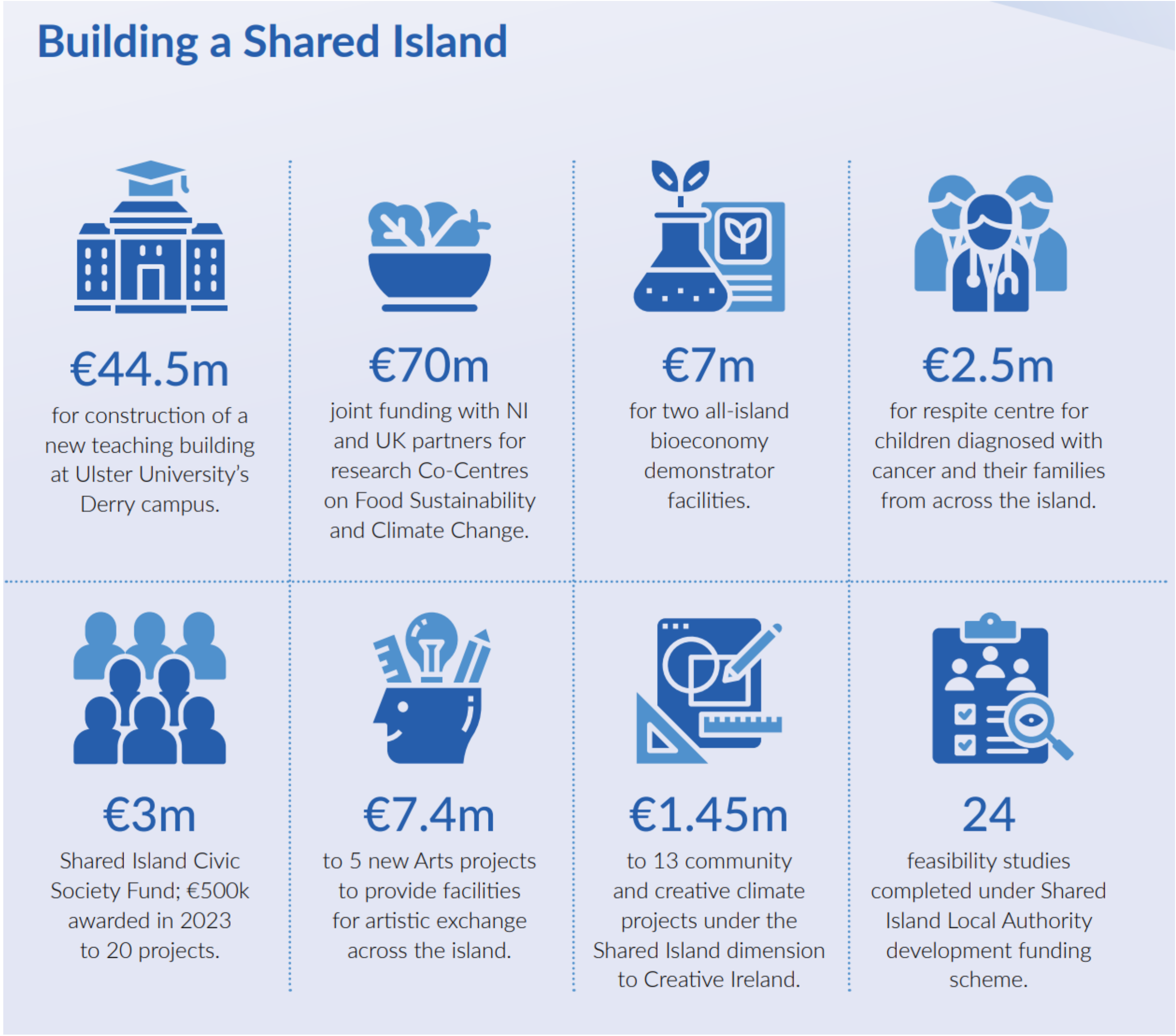
> *Shared Island Initiative Report 2023 – Action on a Shared Future sets out the third year of the Shared Island Initiative, and how the Government has taken forward its commitment to engage with all communities and traditions to build a shared future on the island, underpinned by the Good Friday Agreement.*

Shared Island Initiative

Numbers

Source:
Government of Ireland, [Shared Island Report](), February 2024

- Irish Government's Report states almost €250 million was allocated from the Shared Island Fund for the period 2021 - 2023, for projects contributing to a more connected, sustainable and prosperous island for all communities



- More recently, in February 2024:
  - The Taoiseach announced [€800 million for Shared Island projects]
  - The Executive's Finance Minister responded:

> *This funding will support the redevelopment of the A5 Western Transport Corridor and Casement Park as well as funding projects in infrastructure including an hourly rail service between Belfast and Dublin. It will create jobs, connect communities, unlock economic benefits and make a hugely positive impact on people's lives here.*

SCRUTINY POINTS:
The Committee for Finance may wish to ask the Department:

1. **For an overview of funding allocated to date under the Irish Government's Shared Island Fund, as well as the amount of funding that has been drawn down to date.**
2. **Has there been any discussion relating to future draw downs?**
3. **How does the Northern Ireland Executive receive Shared Island Initiative funding? Is it transferred to the Northern Ireland Executive – for example, into the Consolidated Fund of Northern Ireland, or administered directly by the Irish Government to the identified project sponsor, or other?**

Any Questions

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