Northern Ireland Assembly

Research and Information Service Briefing Paper

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Executive Budget 2021-2022

Finance & Economics Research Team

This briefing paper seeks to support Assembly committees in their scrutiny and advisory roles in relation to the Executive Budget 2021-22. The paper addresses the shorter timeframe for Assembly consideration of Budget proposals; amidst announcements of additional funding confirmed as part of the Chancellor's Budget. Thereafter, the paper presents available information on the range of funding sources available to the Executive for 2021-22, before briefly assessing the Executive's allocations. Included throughout are potential issues meriting consideration.

Introduction

This briefing paper seeks to support Assembly committees – largely statutory committees - when discharging their scrutiny and advisory roles relating the Executive Budget 2021-22, at both Executive and individual departmental levels. It gathers together relevant background information and highlights where further clarity would be helpful to committees.

The paper's contents are presented as follows:

- Section 1: Contextual information;
- Section 2: Fiscal transfer from the United Kingdom for the Executive Budget;
- Section 3: Executive self-financed expenditure for its Budget;
- Section 4: PEACE Plus European Union funding for the Executive Budget;
- Section 5: Executive Budget 2021-22 allocations; and,
- Section 6: Concluding remarks.

1. Contextual information

This section revisits context-setting information outlined in previous briefing papers prepared by the Finance & Economics Research Team within the Research and Information Service (RaISe), and updates that information. Importantly, it illustrates key challenging circumstances in which the Assembly initially considered the draft Executive Budget 2021-22, after its introduction in January 2021;[1] and now when the Assembly is scrutinising the proposed final Executive Budget 2021-22.

The subsections highlight numerous factors that have combined to adversely impact the Executive Budget Process for this year, 2021-22. Those factors arise from: (i) the "Northern Ireland Public Finance Framework" ("NI PFF") - i.e. a term used to describe the financial arrangements under current devolution in NI; and, (ii) uncertainties due to both the COVID-19 pandemic and the United Kingdom ("UK") Exit from the European Union ("EU").

Key amongst those factors are:

- Return of fully functioning devolved governance in Northern Ireland ("NI"), following on from a three-year political hiatus after the signing of the January 2020 "New Decade, New Approach" ("NDNA") political agreement, which included, e.g., Victims' Pension and other commitments;
- Delayed Chancellor decision-making in 2020, e.g.: delayed Spending Review; and, delayed responses to Executive/Finance Minister queries, including those relating to NDNA and carry forward/end year flexibilities;
- Issues arising due to the UK Exit from the EU, e.g. persistent unknowns, including those concerning the UK Shared Prosperity Fund;[2]
- "Time lag" between Treasury's initial confirmation of NI's Spending Envelope and subsequent Executive consideration of the Finance Minister's Executive Budget 2021-22 proposals;
- Treasury confirmation of additional funding available as part of the Chancellor's Budget 2021-22, and available for the Executive Budget 2021-22; the actual allocation of which will take place in-year; [3]
- Despite an essentially "flat" settlement in the draft Executive Budget 2021-22 relative to 2020-21, additional funding was included in the Chancellor's Budget on 3 March 2021 and in further announcements more recently,[4] resulting in a somewhat improved Spending Envelope available for the final Executive Budget 2021-22; and,

[1] https://www.finance-ni.gov.uk/consultations/budget-consultation.
[2] https://commonslibrary.parliament.uk/research-briefings/cbp-8527/.
[3] 2021-22 Final Budget - Assembly Statement March 2021 (finance-ni.gov.uk).
[4] https://www.gov.uk/government/publications/budget-2021-documents.

- COVID-19 was a dominant feature of the 2020-21 financial year; resulting in unprecedented economic and health turmoil. As a consequence, unsurprisingly in NI has a very different fiscal and budgetary position from a year ago, despite many restrictions now having been eased, and continuing to do so, while economic recovery begins.

The following subsections provide two timelines to illustrate the complexity in forming Executive Budget 2021-22. The first outlines critical events that are central to the Budget's formation, but are outside the control of the Executive, given the financial arrangements under current devolution – the NI Public Finance Framework (PFF) (subsection 1.1). The second provides an Interactive Timeline, outlining different elements making up the total funding available to the Executive in 2021-22 (subsection 1.2). Thereafter, commentaries are given, drawing on the contents of both timelines (subsections 1.2.1-1.2.2). And finally, funding sources for the Executive Budget 2021-22 are explained (subsection 1.3); followed by discussion of the economic context in NI (subsection 1.4).

1.1 Critical Events Timeline

The Timeline provided here highlights critical events that:

- Caused **delays in the Executive Budget 2021-22 timetable**; and,
- Informed the **size of the Executive's Spending Envelope for 2021-22**.

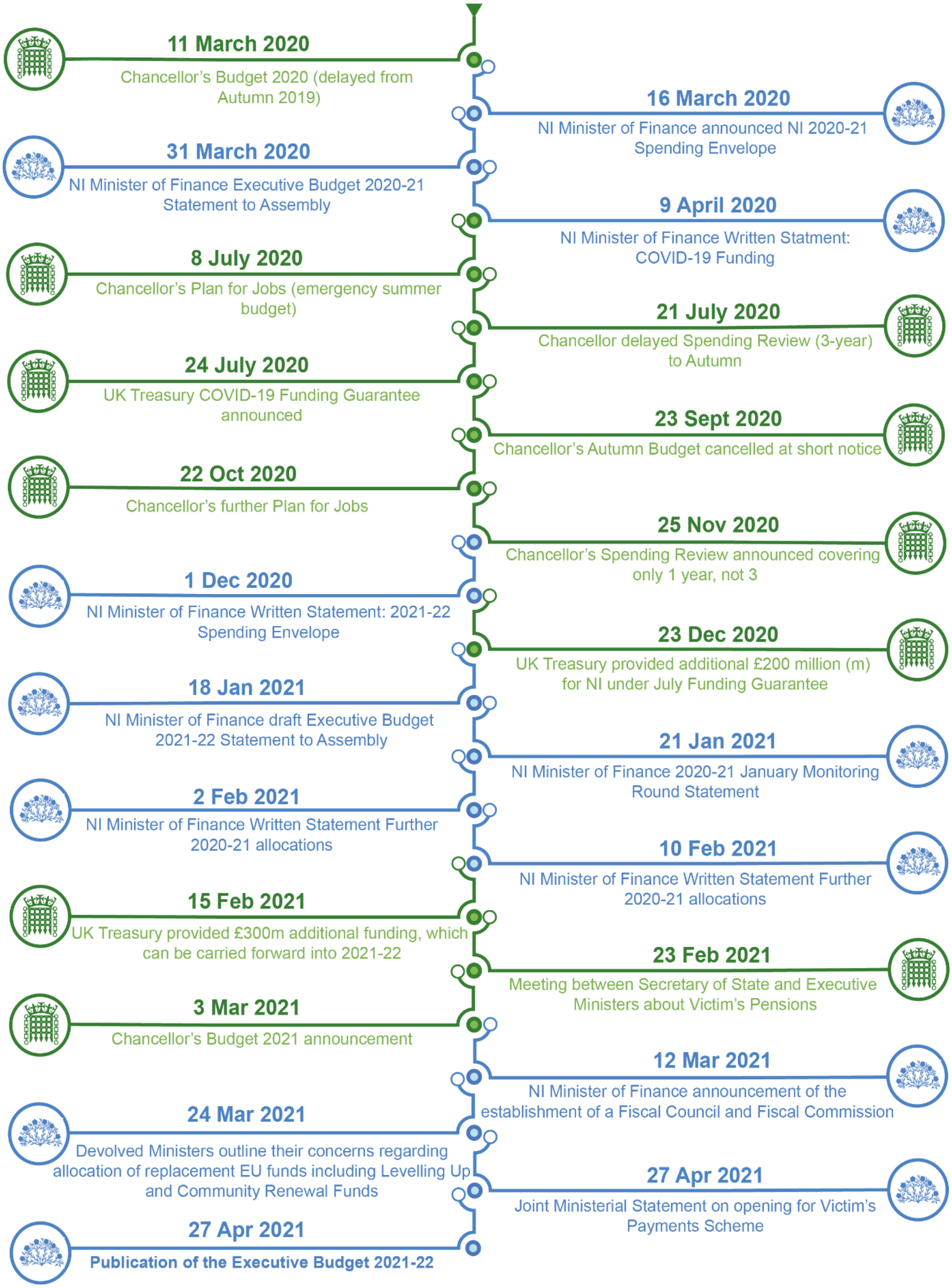
Each of the above is important because it impacts the Executive Budget, including Assembly consideration of it – i.e. the Assembly as a whole during plenary and *via* individual Assembly committees – in particular, statutory and the Audit Committee - when seeking to scrutinise relevant allocations:

1. Delays, at the UK level, have meant that the consultation process on the current Budget began very late; compressing the period of time to form and agree it. Also, as noted earlier, the time lag between Treasury initial confirmation of the Spending Envelope and subsequent Executive consideration and agreement of the Finance Minister's Executive Budget 2021-22 proposals; and,

2. Uncertainties regarding the size of the Executive's Spending Envelope has complicated the Finance Minister's planning process.

Figure 1 below outlines a "Critical Events Timeline", compiled by the Finance & Economics Research Team:

Figure 1: Executive Budget 2021-22: Critical Events Timeline



1.2 Interactive Timeline

To complement the above "Critical Events Timeline", the Finance & Economics Research Team also developed an online "Interactive Timeline", which presents additional, easy access detail to relevant documents and embedded video footage; available at: Interactive Timeline: Executive Budget 2021-22

1.2.1 Commentary on Delays

Several factors have contributed to the delays featured in the Timeline. By far the most significant was the Chancellor's delay until autumn of the planned Summer Spending Review announcement. Had the Spending Review been delivered in summer 2020 as originally planned, the draft Executive Budget could have been brought to the Assembly in the autumn.

Another issue causing delay was the passage of time between the NI Finance Minister's 1 December 2021 Statement on the Spending Envelope, and the Executive's consideration of a draft budget on 14 January 2021. The draft Executive Budget 2021-22 was then introduced to the Assembly on 18 January, even closer to the end of the current financial year on 31 March 2021.

On the second issue, uncertainty over the final size of the Executive's Spending Envelope; that point was made in the above-quoted passage from the Minister of Finance's Written Statement. It is further illustrated by the fact that the Minister of Finance was required to make **four** statements to the Assembly between 18 January 2021 and 10 February 2021 - i.e. a period of only 17 working days, and even fewer sitting days. In addition, a further £300 million of UK Government funding then was announced on 15 February 2021.[5]

The above Ministerial statements were **primarily** concerned with the 2020-21 budget year. Yet, they remain relevant to consideration of 2021-22 because of the issue of end-year flexibility, and they have come very late in the financial year. The amount the Executive is permitted to carry over from 2020-21 into 2021-22 is greater-than-usual;[6] exceeding far beyond what Treasury Budget Exchange flexibility rules allow.

In answer to an Assembly Question on 24 May 2021, the Minister of Justice confirmed that Executive Ministers had met with the Secretary of State for NI on 7 April, to discuss funding for the "Troubles Permanents Disablement Payment Scheme".[7] The meeting was arranged following an offer made by the Secretary of State to provide access to £100 million of NDNA funding for the financial years 2022-23 to 2025-26, which is when the financial pressures of the scheme on the Executive are expected to be greatest. The Minister of Justice confirmed that the Secretary of State for NI

[5] https://www.gov.uk/government/news/300m-funding-boost-for-northern-ireland.

[6] The limits to carrying funding forward are contained in the Budget Exchange section of HMT (2020) Statement of Funding Policy which states *From 2021-22 a limit of 0.75% of Resource DEL and 1.5% of Capital DEL can be carried forward in any year. Any underspends in excess of these limits will be forfeited*.

[7] Official Report 24 May 2021.

indicated that no further funding would be made available for the scheme. However, he agreed to a further meeting later in the year when more detailed information would be available on the profile of applications to the scheme, which would in-turn inform more accurate estimates of cost. According to the Minister of Finance, the total costs associated with the Scheme are estimated to be between £0.6 to £1.2 billion.[8] The Minister of Justice stated in her response to the Assembly Question that the offer of financial support *"falls considerably short of what was expected and that the UK Government would need to provide additional funding in order to avoid such a financial strain on the Northern Ireland block grant".* [9]

The responsibility for funding the payments is a matter of dispute between the Executive and the UK Government. In that regard, it is worth noting that on 9 February 2021, the Court of Appeal ruled that the Executive Office is under a legal duty to fund victims' payments and lump sums under the Victims' Payments Regulations 2020.[10] However, the Executive continues to maintain that the UK Government must fund it, having "*set the policy and legislated for it*".[11]

1.3 Funding sources for Executive Budget 2021-22

This subsection examines some of the significant issues relating to different elements of the overall funding available for allocation during the Executive budget process.

The "Spending Envelope" comprises the Departmental Expenditure Limit (DEL) elements determined at the UK level and transferred *via* the Barnett Formula – the "Block Grant". There also are several "non-Block Grant" elements, which fund the Executive's total spending plans, including so-called "Barnett Plus" funding. This is usually DEL, but is determined **outside** the Barnett Formula *via* negotiation or specific agreements (such as "Fresh Start" or "NDNA).

There are other UK-determined elements such as funding for welfare or public pensions. Those are transferred from the UK as Annually Managed Expenditure (AME).

Also, at the devolved level, the Executive determines the self-financing level it seeks. This is primarily through the rating system, but also through borrowing.

[8] Official Report 22 February 2021
[9] Official Report 24 May 2021
[10] Official Report 22 February 2021.
[11] Official Report 22 February 2021.

Finally, there are the EU-related issues concerning the Executive Budget. Post-Brexit, the new UK Shared Prosperity Fund is intended to replace EU funding; unknowns remain regarding that Fund.[12] In addition, in spite of the UK Exit from the EU, the PEACE Plus programme continues - see Box 1:

[12] UK Shared Prosperity Fund power point produced by Whitehall Departments – June 2021.

Box 1: Funding sources for the Executive Budget

Funding sources for the Executive Budget:

- **Departmental Expenditure Limit (DEL)**
  - "Core" Block Grant
  - "Non-core" Block Grant - such as COVID-19 funding and UK Shared Prosperity Fund

AND…

- Non-Block Grant DEL – "Barnett Plus"
- **Annually Managed Expenditure (AME)** - such as welfare, pensions and other non-DEL funding
- Executive self-financed expenditure - such as Regional Rate, Air Passenger Duty, various fees and charges
- Borrowing - Reinvestment and Reform Initiative (RRI)

Source: RaISe (May 2021), relying on various central and devolved government sources[13]

Under the NI PFF, the Executive's ability to set its Budget is constrained until after the UK Spending Review occurs. The outcome of that Spending Review informs the Executive's Spending Envelope. On 25 November 2020, the Chancellor announced a one-year (2021-22) outcome **only.**[14] More typically, Spending Reviews cover three or four years.

1.4 NI economic context in 2021-22

The coronavirus pandemic has had a severe impact globally, including in the UK and more particularly in NI. The Office for Budget Responsibility ("OBR") expects the UK economy to return to 2019 levels by mid-2022,[15] driven by a rebound in consumption, as the economy is reopened and given a further boost from the spending of household savings built up over successive lockdowns. However, the economy is still likely to experience some degree of lasting economic scarring as a result of the pandemic. Hence, in NI, the economy is not expected to return to pre-pandemic levels until 2024,[16] with the local economy forecast to grow 5.9% in 2021, and 4.1% in 2022; at a slightly slower pace than the UK overall. Some sectors are anticipated to bounce back quicker than others. Those sectors which have driven job growth in recent years (ICT, professional services) are expected to continue to do so; whilst the hospitality, arts, and retail sectors could take until at least 2025.

Government focus for the past year has been to support businesses and people through the pandemic. However, with the continued easing of restrictions and now moving on to gradually re-opening business and society, deciding on when to reduce or

[13] For example: NI Department of Finance. 2021-22 Draft Executive Budget. January 2020; and, UK Treasury. Statement of funding policy: Funding the Scottish Government, Welsh Government and Northern Ireland Executive. November 2020.
[14] UK Treasury. Spending Review 2020 . November 2020.
[15] Office for Budget Responsibility. Economic and fiscal outlook – March 2021. 3 March 2021.
[16] EY ITEM Club. Spring 2021 Forecast. 26 April 2021.

remove pandemic-related support, presents a significant challenge for political leaders across the UK and the Republic of Ireland. If such support is reduced too soon, many businesses will struggle to survive; but withdrawing support too late could make the cost too high; and then could present the Executive with increasingly difficult decisions on when and how to continue opening things up and whether to allocate additional funding support.

Furthermore, there remain key long-term, structural challenges that have limited our NI economic growth in the past; and they still need addressed, with urgency. Those challenges include the need to:

- Boost productivity growth;
- Reduce economic inactivity;
- Create higher-paying jobs; and,
- Address regional imbalances within the economy.

2. Fiscal Transfer from the UK for the Executive Budget

In the period since March, there have been numerous funding announcements relating to NI funding, as the Interactive Timeline provided in subsection 1.2 of this paper highlights. It is important to note that at the time of writing this paper, some of that funding has not been confirmed by the Secretary of State, and therefore cannot be included in the proposed final Executive Budget 2021-22. Instead, the Executive has agreed that allocation of that funding will take place in-year.

With the caveat noted above in mind, this section looks at the Written Statement made by the Finance Minister to the Assembly on 1 April 2021.

2.1 Core NI DEL funding for 2021-22

Table 1 below shows the funding that is available to NI *via* fiscal transfer from the UK Government in "normal" circumstances, as provided under the current PFF in NI. That funding is known as "**core DEL funding"**. The term "core DEL" is used to denote funding for "business as usual" services, and is not used for specific purposes such as COVID-19 support.

The funding shown in **Table 1 below is the "core" Block Grant** that will carry forward into future years, subject to adjustments by future UK level fiscal events, i.e. Spending Reviews and UK Budgets:

Table 1: NI Core DEL Funding 2021-22

£ million	2021-22
Resource DEL	11,596.00
Capital DEL	1,578.00
Financial Transactions Capital	73.6

Source: Department of Finance (April 2021)[17]

It is important to remember that this core funding is supplemented by all the other elements of funding shown in Box 1, earlier in the paper.

Tables 2 and 3 below show additional (i.e. "non-core") funding, which are either COVID-specific and outside the normal processes of providing funding to the Executive, or replacing EU funding. At some stage, this non-core funding will cease, e.g. when COVID-19 support measures are scaled back.

2.2 "Non-Core" NI DEL funding

As noted above, "non-core" DEL funding includes COVID-19 funding and other elements, which are set out in this subsection.

2.2.1 COVID-19 funding

Table 2 below shows the additional COVID-19 funding made available to the Executive by the UK Chancellor in November 2020 Spending Review announcement:

[17] Department of Finance. 2021-2022 Budget. Table 3.1, page 14.

Table 2: COVID-19 funding 2021-22

£ million	2021-22
Non ring-fenced Resource DEL	538.2
Capital DEL	3.6

Source: Department of Finance (January 2021)

Since the draft Executive Budget in January 2021, additional core Resource DEL and COVID-19 Resource DEL funding has been announced.

However, whilst that funding has been confirmed for 2021-22, it has not been formally notified by the Secretary of State and could not be included in the Budget outcome for departments. The Executive therefore has agreed the allocation of that funding, which it will formalise in-year. That additional funding includes:

Core DEL:

- **£4.2 million additional core Resource DEL** – announced in the Chancellor's Budget on 3 March 2021

COVID-19 funding:

- £238.1 million of Resource DEL, £75 million of Capital DEL, and £14 million of Financial Transactions Capital; allowed to be **carried forward from the 2020-21 financial year**. This is in addition to the normal level of carry forward from one financial year to the next, as permitted under the Devolved Administrations' "Budget Exchange Scheme";
- £407.7 million of Resource DEL, as **announced in the Chancellor's Budget** on 3 March 2021; and,
- £224 million Resource DEL of **Barnett Consequential,** following the announcement of further funding for the Health Service in England.

Table 3 below encapsulates the above:

Table 3: COVID-19 funding announced since draft Budget

£ million	Resource DEL	Capital DEL	FTC
Chancellor's Budget	407.7	-	-
2020-21 carry-over	238.1	75.0	14.0
Barnett Consequential	224.0	-	-
Total	**869.8**	**75.0**	**14.0**

Source: Department of Finance (April 2021)[18]

[18] Department of Finance. 2021-2022 Budget. Table 3.3, page 16.

COVID-19 funding is determined **outside** the normal arrangements for distributing funding to the UK's devolved administrations, i.e. the Barnett Formula. Although the Barnett Formula was used to determine the amounts for COVID-19 allocations to NI, Scotland and Wales, it operated in a slightly different way from usual.[19] That seems to have been primarily to ensure that the devolved administrations were not "double-funded" for UK-wide programmes, e.g. the distribution of vaccines.

The November 2020 Spending Review announcement, and the information about COVID-19 allocations in the "Statement of Funding Policy", make it clear that COVID-related expenditure is to be treated outside the established funding arrangements. That means that that funding will **not be baselined** to form future "core" NI DEL funding.

Having said that, the central principle that Barnett-generated consequentials are unhypothecated **has** remained intact. In other words, Barnett consequentials arising from COVID-19-related programmes in England **do not** automatically need to be spent on COVID-19-related policies in NI – not ring-fenced.[20]

The vast majority (94%) of COVID-19 funding shown in Tables 2 and 3 above is Resource DEL. This is primarily due to the nature of the UK Government's interventions, which have been short-term, immediate, and intended to protect livelihoods and lives. However, in the longer-term, economic policy is likely to focus increasingly on recovery and job creation, and less on business survival. Capital investment therefore is likely to be needed to boost economic growth and support the recovery in NI.

Taking the construction sector as an example, RaISe paper 81/20[21] previously noted the significant impact that COVID-19 has had; with the sector accounting for the largest share of claims on the "Self Employed Income Support Scheme" ("SEISS"). The capital investment spending that could help support recovery in the construction sector will need to be funded from:

- Conventional Capital DEL in NI 'core' funding;
- RRI borrowing; or,
- Financial Transactions Capital (FTC) DEL.

The Executive Budget 2021-22 states:[22]

> *The previous Executive designated a number of strategic Capital schemes as flagship projects. These projects receive specific ring-fenced funding which means the funding must be used for these projects or returned to the Executive. Flagship projects include the A6 Road, the Belfast Transport Hub, Casement Park, the Mothers and Children's Hospital and the NI*

[19] The operation of the Barnett Formula is detailed in the Treasury's Statement of Funding Policy. Paragraphs 3.17-3.18 in relation to COVID-19 allocations.
[20] AQW 9518/17-22 (answered 9 November 2020).
[21] RaISe (2020) Overview of COVID-19 funding in NI and the economic implications: an update. Page 23.
[22] Department of Finance. 2021-2022 Budget. Page 29.

Community Safety College. The departmental Capital Budgets provide funding to progress these strategic projects in 2021-22.

This means that a proportion of each department's allocation is already committed. It therefore is likely that such "pre-commitment" will act as a constraint on departments' ability to devise capital projects, which could help stimulate growth in key sectors like construction.

In November 2020, the Fraser of Allander Institute (the Institute) noted that the UK's reliance on the Barnet Formula for allocating devolved funding had given rise to issues that had not previously been widely experienced in the devolved funding arrangements. It observed that: [23]

…the problem with relying on the Barnett Formula during a time of fast-moving crisis was that it resulted in lags between the UK Government announcing a policy for England, and the devolved governments being able to design and announce their own schemes – which they could only do once they had learnt of the consequentials arising from the UK Government policy.

The Institute went on to note that the Treasury had responded to this problem in summer 2020, and its solution was to pre-announce future in-year funding additions, i.e. provide the "Funding Guarantee". [24] That is a significant change to the usual funding approach taken by the UK Government. A t the time, the NI Finance Minister welcomed both the additional funding, and the additional certainty provided by the new approach.[25] NI was guaranteed a total of £2.2 billion in COVID-19 funding for 2020-21.

2.2.2 EU Funding and UK Shared Prosperity Fund

Table 4 below shows the allocation to NI from the UK Government in terms of time-limited replacement for EU funding:

Table 4: EU Funding 2021-22

£ million	Resource DEL	Capital DEL
Farm support direct payments	315.6	-
Fisheries	3.1	-
Security	31.2	0.9
Total	**349.9**	**0.9**

Source: Department of Finance (April 2021)[26]

[23] Fraser of Allander Institute (24 November 2020) The evolution of the Scottish Budget 2020/21 – and a look forward to the Spending Review.
[24] HM Treasury. Scotland, Wales and Northern Ireland receive additional coronavirus funding guarantee from UK Government. 24 July 2020.
[25] NI Executive (24 July 2020) Finance Minister Welcomes additional funding.
[26] Department of Finance. 2021-2022 Budget. Table 3.3, page 16.

The Spending Review provided limited information on the planned UK Shared Prosperity Fund, proposed by the UK Government as a successor to EU Structural Funds. This paper therefore could not provide a detailed analysis of that Fund. The Finance Minister also has noted the lack of detailed information regarding that Fund.[27]

A House of Commons Library paper recently noted several issues, which should be kept in mind when the UK Shared Prosperity Fund is further developed, including:[28]

- The priorities and objectives of the Fund;
- The amount of money to be allocated;
- The method of allocating it between the countries and regions of the UK, and whether this is based on need (and what measure is used to determine need);
- The model by which funding will be allocated, whether pre-allocating an amount for a country or region or inviting competitive bids from across the UK;
- The length of the planning period and the way in which this could conflict with domestic spending priorities;
- Who administers the funds (whether they are controlled from Westminster or by the devolved administrations) and the degree to which local authorities are involved; and,
- The implications of the Fund for state aid rules.

In that context, further points to note include:

- In February 2020, the Finance Ministers of the three UK devolved administrations wrote jointly to the Treasury, stating: [29]

  It will be important to discuss the challenges for public spending as a result of leaving the European Union and how we can work together to ensure as smooth a transition as possible to a UK funding framework which delivers for all parts of the United Kingdom and respects devolution.

  A key test of this will be to complete our joint work to review and improve the statement of funding policy, which is integral to our ability to plan and manage budgets, and to formalise the finance ministers' quadrilateral as a regular forum to resolve fiscal issues that impact on all parts of the UK.

[27] NI Assembly. Official Report: Monday 14 December 2020.
[28] HoC Library (2021) The UK Shared Prosperity Fund. Page 4.
[29] The Herald Scotland. Devolved administrations send joint letter to Treasury seeking Budget talks. 16 February 2020.

- Since the UK Spending Review, the NI Minister of Finance has stated that uncertainty remains about the sufficiency of the amount of the UK Shared Prosperity Fund, and exactly how it will operate.[30]
- It has been reported that the Fund will be administered centrally,[31] which might raise the possibility that its future operation will be disputed by the UK's devolved administrations.
- On the subject of inter-governmental relations within the UK, and how any potential future disputes would be managed, useful detail can be found in the Treasury's "Statement of Funding Policy", issued November 2020. That Statement is a non-statutory policy document, which is routinely reviewed, amended and re-issued alongside Spending Reviews. The current version states:[32]

  If there is a disagreement between HM Treasury and the devolved administrations about the application of the Statement, the relevant devolved administration can pursue the matter with HM Treasury.

- The "Finance Ministers' Quadrilateral" might be a mechanism for dispute resolution, but it is not mentioned in the Statement of Funding Policy.

However, the Chancellor's March 2021 Budget provided more detail on the "Community Renewal Fund" ("CRF") that will operate as a pilot for UK Shared Prosperity Fund in 2021-22.[33] The CRF will operate on a UK-wide basis, and will be administered by the UK Government. The pre-determined **allocation for NI has been set at £11 million.**

The CRF Prospectus states:[34]

> *We are taking a different approach to delivering the UK Community Renewal Fund in Northern Ireland, which takes account of the different local government landscape in Northern Ireland compared to Great Britain. There will be a pre-determined national allocation for Northern Ireland, set at £11 million. By treating Northern Ireland as one geographical area we will ensure all communities have equal access to apply for the Fund.*
>
> *UK government will accept bids from a range of local applicants, including but not limited to universities, voluntary and community sector organisations, and umbrella business groups.*

[30] Official Report 20 December 2020. Page 66.
[31] https://www.bbc.co.uk/news/uk-scotland-scotland-politics-55687977
[32] UK Treasury (2020) Statement of Funding Policy, see paragraph 2.10.
[33] Ministry of Housing, Communities & Local Government. UK Community Renewal Fund: prospectus 2021-22. May 2021.
[34] Fraser of Allander Institute (24 November 2020) The evolution of the Scottish Budget 2020/21 – and a look forward to the Spending Review.

The CRF timeline[35] states that applications for funding must be submitted by June to the UK Government for assessment, with the first tranche of funding being released in late July. The seven published assessment criteria for projects in NI are:[36]

- Project proposal will be delivered (including all expenditure incurred) by 31 March 2022;
- Project proposal responds to a need identified in the prospectus;
- Project proposal does not duplicate other national or local provision;
- Project proposal does not conflict with national policy;
- Project proposal will be delivered by a legally constituted organisation that can receive public funds;
- Project proposal will be delivered in line with subsidy control/State Aid requirements; and,
- Project proposal will be delivered in accordance with branding requirements.

Potential issues for consideration:

1. To what extent, if any, was the Executive, including the Finance Minister and Department of Finance officials, involved in the recent review of the Statement of Funding Policy (i.e. before the Spending Review announcement in November 2020)?

2. Does the Finance Minister consider the revised Statement of Funding Policy to be an improvement?

3. Executive self-financed expenditure for its Budget

In addition to the fiscal transfer considered in section 2 of this paper, the other main elements financing the Executive's Budget 2021-22 are known as **"self-financed expenditure"**. This section considers each of those expenditure elements in turn, starting with the most significant, which is the Regional Rate. Thereafter, it briefly addresses the other elements, as follows:

- The Regional Rate
- Devolved taxes:
  - Direct Long-haul Air Passenger Duty
  - Corporation Tax
- Fees and charges, on a cost-recovery basis
  - For services, e.g. copy birth certificates
  - For regulatory purposes, e.g. MOT tests, and waste management licenses
- Borrowing

[35] UK Community Renewal Fund: prospectus 2021-22 - GOV.UK (www.gov.uk).
[36] Ibid.

It is worth noting that there are two significant recent developments in this area, which should impact on how the Executive approaches self-financing in the future. They were announced in March 2021, namely: the establishment of a permanent **Independent Fiscal Council** for NI (a NDNA commitment); and, a temporary **Fiscal Commission**.[37]

The remit of the Fiscal Council[38] will include commitments to bring greater transparency and independent scrutiny to public finances in NI. The Fiscal Council's terms of reference have been developed in line with the good practice principles published by the Organisation for Economic Development and Cooperation (OECD).[39] Its immediate focus will be to: prepare an annual assessment of the Executive's revenue streams and spending proposals; and, prepare an additional annual report on the sustainability of the public finances, implications of spending policy and effectiveness of long-term efficiency measures.

Whereas the Fiscal Commission[40] will be established on a temporary basis for 9 months. It will be tasked with examining the case for and producing a report on increasing the Executive's task varying powers. It will conduct research and provide independent advice on options for devolution of taxes and other revenue raising measures to the Finance Minister to inform future recommendations and proposals in the next Assembly mandate.

The establishment of the two bodies has been welcomed on all fronts. They have the potential to contribute significantly to the enhancement of public understanding and debate relating to NI's fiscal issues, and importantly, informing decision-making in both the Executive and the Assembly, and the wider public sector.

3.1 The Regional Rate

Aside from the Block Grant, the largest source of funding for devolved public service delivery is the revenue generated through the "Regional Rate". (This rating is distinct from the "District Rate", which is set by each of the District Councils and used to finance the services they provide.)

The Regional Rate is paid by both the domestic and the non-domestic sectors. It is set as part of the Executive budget process, to generate additional resources to support devolved public services and the work of Executive/departments.

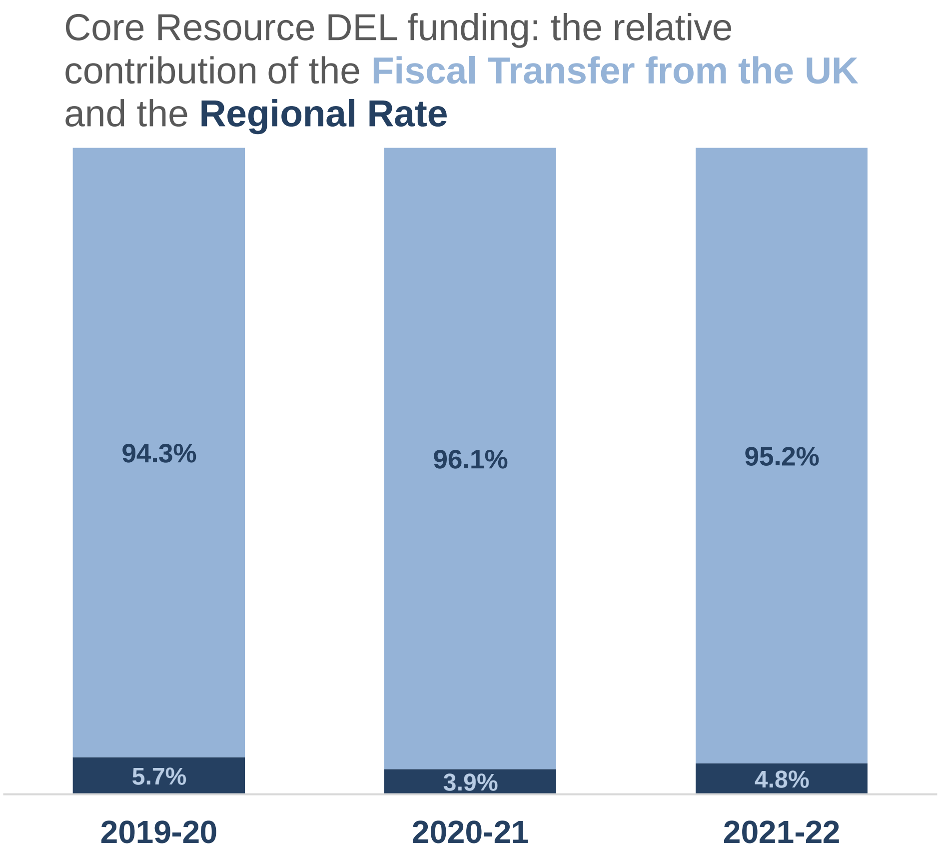
While increasing the Regional Rate would generate additional revenue, the Executive agreed to freeze both the domestic and non-domestic Regional Rate at the 2020-21 level. In his 18 January 2021 Statement, the Finance Minister announced: [41]

[37] Department of Finance. Murphy establishes Fiscal Council and Commission. 12 March 2021.
[38] Department of Finance. Fiscal Council Terms of Reference. March 2021.
[39] OECD Recommendation on Principles for Independent Fiscal Institutions. February 2014.
[40] Department of Finance. Fiscal Commission Terms of Reference. March 2021.
[41] Official Report 18 January 2021. Page 66.

> *…the Executive have the option to increase revenue through the regional rates. However, in recognition of the impact that COVID-19 has had on jobs and households, we are freezing the regional rate both for domestic and non-domestic customers. I call on councils to consider taking the same approach when setting their district rates.*

Figure 2 below shows the proportion of the Executive's Resource DEL contributed by Regional Rate revenue, relative to the Core DEL Fiscal Transfer from the UK:[42]

Figure 2: Core Resource DEL funding: fiscal transfer and regional rate



Source: Department of Finance Executive Budget publications

COVID-19 funding has provided a huge amount of additional public expenditure in NI. It therefore is difficult to get a meaningful comparison across years, and to show the "steady state" contribution of the Regional Rate to funding overall expenditure.

Figure 2 above shows the "tax contribution" made, using the Regional Rate, which is the Executive's primary revenue-raising lever. It shows projected Regional Rate revenue combined with "core" funding for 2021-22, 2020-21, 2019-20.[43] It then shows

[42] Sources: DoF 2019, 2020 and 2021.
[43] Sources: DoF for 2019, the figure for 'core' DEL is taken as total NI DEL with non-Barnett Fresh Start and Confidence and Supply funding removed. For 2020 and 2021 the figure for 'core' RDEL is taken from Tables 2.1 and 3.1, respectively.

relative contribution of each of those elements to financing Executive Resource expenditure.

In each of the three years shown above (Figure 2), more than 94% of resource DEL expenditure was financed *via* the fiscal transfer to NI from the UK. In 2020-21, revenue from the Regional Rate made up a smaller proportion of the comparable "core" DEL expenditure[44] than in 2019-20. Then for 2021-22, Regional Rate revenue is projected to fund a slightly higher proportion of Executive Resource expenditure. This is unsurprising because of the rates holiday that was provided by the Executive to businesses, in order to help them cope with the impact COVID-19.

3.2 Devolved taxes

3.2.1 Air Passenger Duty

Air Passenger Duty (APD) is a taxation imposed by the UK Government. As part of the draft Programme for Government (PFG) 2011-2015, the Executive made a commitment to eliminate APD on direct long haul flights from NI. The *Air Passenger Duty (Setting of Rate) Act (Northern Ireland) 2012* was enacted setting the rate to £0 for direct, long haul flights departing from NI. The Executive must meet the cost of the decision to abolish APD. The Block Grant therefore is adjusted annually to offset the lost-revenue cost to the UK Exchequer. The cost to the NI Block Grant has been steady at £2.2 to £2.3 million since 2016-17;[45] and in the 2021-22 Executive Budget, £2.3 million has been held centrally to meet this cost.

It is theoretically possible for the Executive to increase the level of Air Passenger Duty (APD) on direct, long haul flights departing from NI. The amount of revenue that this would raise is – in the context of the overall Executive Budget – fiscally insignificant. Yet on the other hand, there is potential that an increase in APD would have other undesired economic effects, e.g. reducing the attractiveness of NI as a destination for tourism or investment.

At present, however, this debate is apparently irrelevant because there are currently no scheduled long-haul flights out of NI.

3.2.2 Corporation Tax

Although Corporation Tax was devolved in legislation in 2015, that law has not yet been brought into operation. The Statement of Funding Policy states:[46]

> *The Corporation Tax (Northern Ireland) Act 2015 provides for the Northern Ireland Assembly to set the main rate of corporation tax in respect of certain trading profits. Commencement of the powers in the Act relies on*

[44] This means that the additional funding related to COVID-19, or the replacement of EU funding is excluded, and the comparison is between 'core' funding only.
[45] UK Treasury (2020) Block Grant Transparency.
[46] HM Treasury. Statement of funding policy: funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly. November 2020. page 39.

the Northern Ireland Executive meeting the commitments entered into in the Stormont House Agreement, including those around ensuring that the Executive's finances are demonstrated to have been placed on a sustainable footing.

3.3 Fees and Charges

There are specific rules around circumstances where a fee is charged for access to public goods or services, and the extent of the charge. The Assembly has the ultimate right to decide which services should incur a charge and to decide the allocation of public resources. The norm is to charge the full cost of providing the service, i.e. full cost recovery. The charge should therefore include all costs, including staff training, depreciation, overheads, etc.[47]

For these reasons, charges could be seen as a potential way to increase revenue. It is worth noting that the Treasury Statement of Funding Policy only refers to **recovery** of cost.[48]

3.4 Borrowing

The final source of funding for the Executive Budget 2021-22 is borrowing. There is more than one reason for governments to borrow. One is to re-phase budget finance, and make more funding available now by moving it forward from a later date.

Under the current PFF in NI, the Executive has two different kinds of borrowing powers. First, there is a **general** borrowing power, under what is called the "Reinvestment and Reform Initiative" ("RRI")[49]. Second, there is a **temporary** borrowing power. Through the RRI the Executive can borrow up to £200 million per year to fund capital projects and infrastructure.

It is the former borrowing power – the RRI – which is relevant to funding the Executive Budget 2021-22. It can be used to fund investment spending. The latter, temporary borrowing facility, is to provide the Executive with sufficient cash flow to discharge its functions, not for investment. It is therefore not considered further in this Paper.

[47] Department of Finance. Managing Public Money: Northern Ireland. June 2008. Chapter 6.

[48] HM Treasury states:

> *Income from recurrent fees and charges, which are established to recover the costs of providing public services, are recorded as negative public expenditure receipts, and therefore are available to the Assembly for spending.*

HM Treasury. Statement of funding policy: funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly. November 2020. Pages 26-27, paragraphs 9.7-9.8.

HM Treasury further states:

> *To ensure that they obtain the right level of income from such sources, departments will want to consider whether they have any services where less than full costs are currently recovered and which should move towards full cost recovery, or other services which may be appropriate candidates for the introduction of user charging*.

HM Treasury: Consolidated Budgeting Guidance: 2020-21. March 2020. Pages 72-73, paragraph 4.60. For additional information regarding this area, relevant guidance should be considered.

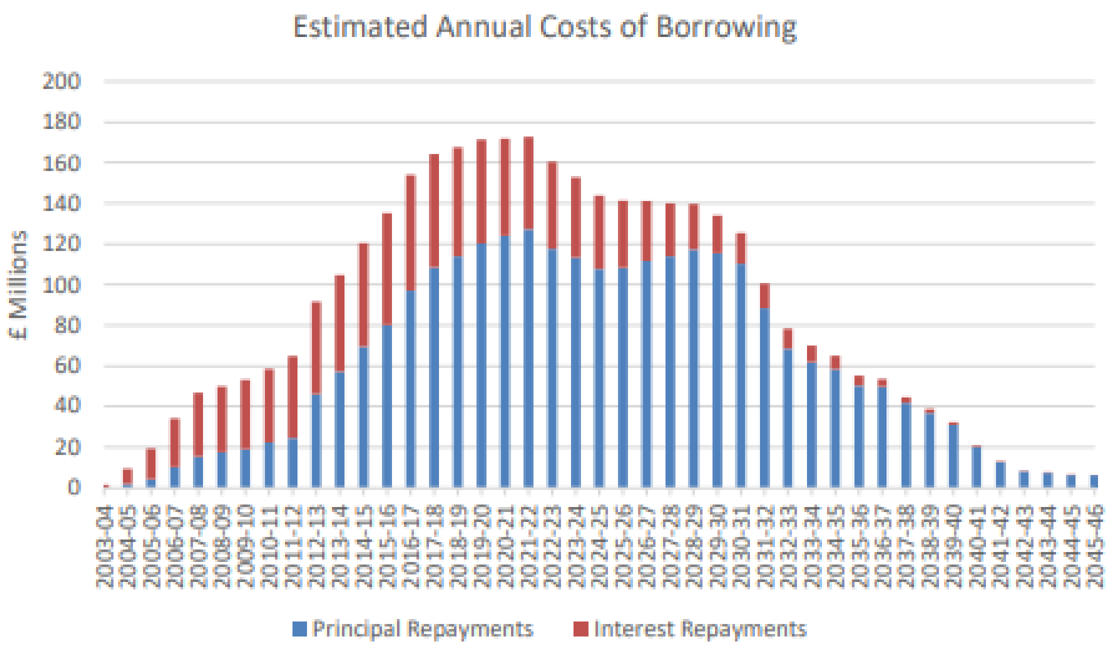
[49] HM Treasury. Statement of funding policy: funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly. November 2020. Page 40.

In 2002, the original devolution arrangements were amended to enable RRI borrowing. RRI provides the Executive with an additional borrowing facility from the National Loans Fund to fund capital investment. That additional borrowing is broadly equivalent to the local authority prudential borrowing powers in the rest of the UK. It addresses the fact that the Executive retains control over a range of functions, which are normally the responsibility of local government in Scotland and Wales.

It appears RRI does not have a statutory basis. However, the DoF has previously advised RaISe's Finance &Economics Research Team that borrowing under this initiative is covered implicitly by the 1975 Act and the *Northern Ireland Miscellaneous Provisions Act 2006.*[50]

The Executive Budget 2021-22 sets out the principal and interest repayments on the existing borrowing of £2.66 billion – as shown in Figure 3 below. It shows that the peak cost of borrowing is expected in 2021-22, assuming no further borrowing in the future:[51]

Figure 3: NI Reinvestment and Reform Initiative Borrowing Cost Profile



Source: Department of Finance (April 2021)[52]

The Executive Budget 2021-22 raises two points for consideration:

- It includes RRI borrowing of £170 million to supplement the Executive's Capital DEL budget. This includes £140 million announced in the draft Budget, plus an additional £30 million that has since been announced, to provide funding to NI Water due to the strategic nature of its pressures; and,
- It allocates £45.5 million for interest repayments during 2021-22.

[50] See RaISe paper 74/16, section 1.2.4.
[51] Department of Finance. 2021-2022 Budget. Table 3.3, Page 16.
[52] Ibid.

It was noted earlier in the paper that the construction sector in particular has suffered during COVID-19. Capital expenditure provides a means for the Executive to provide stimulus to that sector, but the current proposals (totalling £170 million) do not include full use of the £200 million available with the RRI borrowing facility.

The draft Budget consultation, carried out between 18 January 2021 and 25 February 2021, found RRI borrowing to be one of the key themes identified by respondents, stating:

> *…a number of respondents encouraged the Executive to utilise the full £200m facility.*[53]

Potential issue for consideration:

If NI Departments have not brought forward further proposals requiring RRI financing since 1 April 2021, does the Executive and the Finance Minister plan to continue to explore options for further capital projects, and utilise the full £200 million facility?

[53] Department of Finance. 2021-2022 Budget. Page 93.

4. PEACE Plus EU funding for the Executive Budget

PEACE Plus is the continuation of a EU funding programme supported by the EU and the UK Governments. It is described as an:

> *EU cross-border programme that will contribute to a more prosperous and stable society in Northern Ireland and the Border Region of Ireland.*[54]

On 17 December 2020, the UK Government announced it will:

> *…provide over £200 million in additional funding to the Peace Plus programme between now and 2027*[55]*.*

In response, the Minister of Finance said:

> *This extra funding will allow programme development to quickly progress for opening in 2021 and benefit those in our community most in need of its unique support*[56]*.*

The European Commission and the Irish Government have jointly committed €206 million (m) to the PEACE Plus programme with the UK Government providing at least €560m (£483m)[57] to the programme. With the Executive €150m (£129m) and Irish Government €52m providing additional match funding, this now will result in a total PEACE Plus programme budget of €968m (£835m).

However, although preparatory work might begin during 2021-22, the latest position is that expenditure will not be incurred until 2022-23.

In response to a query from RaISe's Finance & Economics Research Team in January 2021, the DoF stated:[58]

> *The PEACE PLUS budget will be approximately €1bn over the programming period (2021-27). The current timetable is for the Programme to be agreed by the Executive, Irish Government and [North-South Ministerial Council] by the end of the first quarter/early second quarter of 2021. The Programme will then be submitted to the European Commission for approval (this process can take a number of months). Project funding calls are expected to be open later this year, projects assessed and Letters of Offer for funding issued (schedule and content of calls are to be developed and agreed with SEUPB). Some projects may be operational towards the end 2021/22, but will take time for expenditure to be incurred and claimed.*

[54] https://www.seupb.eu/PEACEPLUS.
[55] Northern Ireland Office. UK Government announces additional £200m PEACE Plus funding. 17 December 2020.
[56] https://www.finance-ni.gov.uk/news/murphy-responds-funding-vital-peace-plus-programme.
[57] Exchange rate on 24 May 2021.
[58] Information provided by DoF to RaISe by email 19 January 2021.

A public consultation to gather the views of citizens and other key stakeholders on the PEACE Plus programme started on 10 March 2021 and closed on 12 May 2021.[59] Analysis on consultation replies is awaited.

Potential issues for consideration:

1. Can the Department of Finance provide an update regarding the proposed PEACE Plus programme timetable?
2. When will the Department of Finance complete its analysis of replies received to its recent consultation on the PEACE Plus programme?

5. Executive Budget 2021-22 allocations

Having examined all the various sources of financing for Executive expenditure, this section briefly examines the proposals in the Executive Budget 2021-22. The focus is on Executive Departments, beginning with non-ring fenced Resource DEL, before moving to Capital DEL, and Financial Transactions Capital DEL.

The Executive Budget 2021-22 allocates funding to individual Government Departments – as shown in the Tables in this section. A report on the draft Budget by Ulster University noted that this may not be the optimal way to allocate funding:[60]

> *On one level this is a reasonable approach because Departments spend the money, but it re-enforces the status quo and a siloed approach to service delivery. In contrast, the PfG* [Programme for Government] *has been developed using an outcomes-based framework and target indicators are monitored for each PfG objective… In challenging times with a challenging budget settlement, priorities will change and allocating funding along PfG priorities, would give the Executive and the public greater transparency on how the money is being allocated.*

Potential issues for consideration:

1. Has the Department of Finance given any thought to the approach of allocating funding using the outcomes-based framework?
2. Will the newly established Fiscal Council and/or Fiscal Commission examine the potential for this sort of approach?

[59] Special EU Programmes Body. PEACE PLUS Programme (2021-2027) Public Consultation – Closed! .
[60] Ulster University – Economic Policy Centre. Department of Finance: 2021-22 Draft Budget Consultation. February 2021.

5.1 Non-ring fenced RDEL

The departmental outcome for **non-ring fenced RDEL** is as shown in Table 5 below:

Table 5: Executive Budget 2021-22 Resource DEL allocations[61]

£ million	2020-21	2021-22	% change
Agriculture, Environment & Rural Affairs	519.4	553.8	6.6%
Communities	823.8	876.3	6.4%
Economy	817.7	821.3	0.4%
Education	2,276.1	2,345.1	3.0%
Executive Office	98.0	120.5	23.0%
Finance	168.6	172.1	2.1%
Health	6,158.4	6,451.9	4.8%
Infrastructure	417.9	429.9	2.9%
Justice	1,111.2	1,125.3	1.3%
Total allocation	**12,391.1**	**12,896.2**	**4.1%**

Source: Department of Finance Executive Budget publications

The Executive Budget 2021-22 document states that:[62]

> *The baseline for each department was set by taking the previous year's budget and adjusting it for certain factors including time-bound allocations. It is not equivalent to the 2020-21 budget position.*

In the noted context, it is worth noting that in the Executive Budget 2021-22, the Minister explained that: [63]

> *…. the Executive has only been provided with a standstill budget by Westminster…however year-end flexibility negotiated with Treasury has allowed a significant level of COVID-19 funding to be carried forward for use in 2021-22.*

In January 2021, when the draft Executive Budget was announced, the "core" DEL settlement was essentially flat relative to 2020-21. Since then, however, additional funding was announced in the Chancellor's Budget on 3 March 2021, with further announcements more recently.

The majority of departments' relative proportions of the total departmental Resource DEL funding has changed very little. The largest change was the Department of Health, which accounts for a share 0.3 percentage points more than in 2020-21.

The proportion of the Executive budgets allocated to Health has been rising for many years, so this is unlikely to come as a surprise, especially given COVID-19. Given the pressure schools were under during COVID-19, it might be surprising that the

[61] DoF (2021) Draft Executive Budget 2021-22. Page 57.
[62] Department of Finance. 2021-2022 Budget. Page 25.
[63] Department of Finance. 2021-2022 Budget. Page 2.

proportion going to Education fell slightly relative to last year - by 0.2 percentage points.

One of the issues raised by the Department for Education in a briefing provided to the Committee for Education, highlights a matter raised also by the Committee for Justice: provision of funding to meet commitments made in the NDNA agreement.

5.2 Capital DEL

Table 6 below shows the proposed Capital DEL allocations for Executive departments. As noted earlier in this paper, investment spending is one means through which the Executive can seek to support the post-pandemic economic recovery:

Table 6: Executive Budget 2021-22 Capital DEL allocations[64]

£ million	2020-21	2021-22	% change
Agriculture, Environment & Rural Affairs	98.5	95.5	-3.0%
Communities	214.1	224.8	5.0%
Economy	86.1	89.8	4.3%
Education	157.3	158.3	0.6%
Executive Office	18.1	15.3	-15.5%
Finance	31.9	45.0	41.1%
Health	295.0	326.5	10.7%
Infrastructure	558.2	722.5	29.4%
Justice	88.1	96.4	9.4%
Total allocation	**1,547.3**	**1,774.1**	**14.7%**

Source: Department of Finance (April 2021)[65]

Returning once again to the uncertainties that have surrounded the development of draft and final Executive Budgets for 2021-22 noted in Section 1.1, the Chancellor's change of approach from presenting a multi-year to a single-year Spending Review came only in the autumn 2020. This brings challenges to departments' planning.

Undoubtedly, the Chancellor's decision to move to a single-year was influenced by the continuing COVID-19 situation. It nevertheless does act as a constraint because it limits the departments' ability to commence projects that will continue beyond the current financial year and to develop long-term plans.[66] For this reason, the Executive Budget 2021-22 may be best viewed as a "stop-gap" measure until the Chancellor is able to deliver a medium-term plan over more than one year. Indeed, the Minister stated:[67]

[64] Department of Finance Draft Executive Budget 2021-22. Page 57.
[65] Department of Finance. 2021-2022 Budget. Table 4.3, Page 28.
[66] DoH SUB-0127-2021. 2 February 2021.
[67] Department of Finance. 2021-2022 Budget.

I hope that this one-year Budget acts as a bridge to a multi-year budget which allows the Executive to properly reprioritise its spending and plan for the longer-term.

There are two particular issues that warrant consideration: COVID-19; and, Brexit. In late 2020 and early 2021, the COVID-19 pandemic disrupted supply chains and the ability to continue with or start infrastructure projects. However, with the continued easing of restrictions and the economic recovery gathering pace, this should be less of an issue than it was at the time the draft Budget was published. Another issue is the apparent trade disruption arising from Brexit and the ongoing discussions around operation of the NI Protocol.[68] In particular, the potential impacts on supply chains, such as those for public works.

Despite all the above-noted issues, there are some indications that departments are looking beyond the immediate horizon of post-COVID recovery to the longer term. For example, the Department for Agriculture, Environment and Rural Affairs has an allocation of £15.6 million towards a Green Growth foundation programme, which will be part of working towards the UK target of net zero carbon by 2050.[69] Similarly, the Department for the Economy has an allocation of £275 million for the Economic Recovery Action Plan,[70] which aims to boost the economic recovery through investment and skills, productivity growth, and regional rebalancing of the economy.

5.3 Financial Transactions Capital DEL

The Executive Budget 2021-22 document includes £73.6 million of Financial Transactions Capital (FTC) DEL. FTC can be used only to provide loans to, or equity investment, in the private sector. It therefore has the potential to stimulate private sector investment in infrastructure projects that benefit the region, over and above the level of investment made by the Executive from its conventional Capital DEL budget.

In the Executive Budget publications, there is no breakdown of the allocation of this to departments, however. Historically, FTC DEL allocations have been problematic for departments to spend. In a statement on 20 April 2021, the Minister noted that at the conclusion of the January Monitoring Round, £55.7 million of FTC DEL remained unallocated from the 2020-21 Budget. Having said this, it is apparent from a letter provided by the Committee for Communities, that the Department for Communities was allocated £38·8 million of FTC in the draft Budget to support the co-ownership housing scheme in 2021-22.[71]

[68] UK Government Policy Papery Northern Ireland Protocol. December 2020 (updated January 2021).
[69] Letter from CAERA to CfF, dated 19 February 2021.
[70] Department for the Economy. Economic Recovery Action Plan. 25 February 2021.
[71] Letter from CfC to CfF, dated 12 February 2021.

Potential issue for consideration:

What is the Executive's total stock of unallocated Financial Transactions Capital (FTC)?

6. Concluding remarks

Below are some key points arising from the earlier sections in this paper:

- The circumstances in which the Assembly considered the draft and final Executive Budgets for 2021-22 were challenging. Numerous factors have combined during the past year to adversely impact the Executive budget process, namely the uncertainties brought about by dealing with the COVID-19 pandemic.
- As a consequence, there is a very different NI fiscal and budgetary position from a year ago, despite many restrictions having now been eased and the economic recovery beginning to gather pace.
- Added to this are the consequences of the UK Exit from the EU. Discussions on the operation of the NI Protocol is ongoing; the implications of those talks and other on the NI economy remain to be seen. Those uncertainties have combined to create a challenging environment in which the Executive Budget has been formed.
- In January 2021, when the draft Executive Budget was announced, the Budget Settlement was essentially flat relative to 2020-21. Since then, however, additional funding was announced in the Chancellor’s Budget on 3 March 2021, with further announcements more recently.
- The core Departmental Expenditure Limit (DEL) transferred from the UK via the Block Grant is comprised of: **£11.6 billion Resource**; **£1.58 billion Capital**; and, **£73.6 million in Financial Transactions Capital**.
- Since the draft Budget in January 2021, additional “core” Resource DEL and COVID-19 Resource DEL funding has been announced. However, whilst this funding has been confirmed for 2021-22, it has not been formally notified by the Secretary of State and cannot be included in the Budget outcome for Departments. The Executive therefore has agreed the allocation of this funding; which will be formalised in-year.
- Additional funding announced since January 2021 includes: £407.7 million from the Chancellors Budget; £327 million of carry-over from 2020-21; and, £224 million in Barnett Consequentials from an increase in Health funding in England.
- There have been two significant recent developments in terms of the budgetary process, which should impact on how the Executive approaches self-financing in the future. They are the establishment of: a permanent Independent Fiscal Council; and, a temporary Fiscal Commission. Both confirmed in March 2021.
- The Chancellor’s decision to move to a single-year was influenced by the continuing COVID-19 situation. It nevertheless does act as a constraint because it limits the departments’ ability to commence projects that will continue beyond the current financial year and to develop long-term plans.
- For this reason, the Executive Budget 2021-22 may be best viewed as a “stop-gap” measure until the Chancellor is able to deliver a medium-term plan over more than one year.

Appendix 1: Operation of the Barnett Formula in relation to COVID-19 allocations

The way that the Barnett Formula operates for the calculation of funding for the UK's devolved governments has been altered somewhat in the UK Government's response to COVID-19.

The operation of the Barnett Formula is set out in the UK Treasury's non-statutory policy *Statement of funding policy: Funding the Scottish Government, Welsh Government and Northern Ireland Executive (SoFP).* Usual practice is that the SoFP is updated at the time of Spending Reviews (SRs).

Alongside SR 2020, the Treasury published a new SoFP. It records a change to the operation of the Barnett Formula in relation to COVID-19 funding.

The previous SoFP was published in 2015. It explained how Barnett Consequentials were calculated at Spending Reviews:

> *At Spending Reviews, this calculation is undertaken using changes to each UK government department's* ***overall DEL budget*** *and the departmental comparability percentage; the sum of these changes represents the aggregate net change to the funding for each of the devolved administrations.*[72]

In other words, at SRs the Barnett Formula was applied to overall changes in the budgets of UK Government departments as a whole. The Formula was not applied to individual components of a department's settlement.

In relation to other funding changes (i.e. outside of the SR process), the process differed:

> *At annual fiscal events –Budgets and Autumn Statements –* ***the calculation is undertaken at programme level*** *where policy announcements change the overall DEL allocations for a UK government department. The calculation uses the change in the planned spending on each relevant programme and the comparability factor is set to either 0% or 100% dependent on whether the relevant UK government programme is devolved.*[73]

The 2020 version of the SoFP includes some additional details:

> *At Spending Review 2020, given the exceptional circumstances in relation to COVID-19 and the end of the EU transition period, programme level*

[72] HM Treasury. Statement of funding policy: funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly. November 2015. page 10.
[73] Ibid

> *comparability has been applied to COVID-19 and replacement EU funding to ensure the devolved administrations receive comparable funding.*[74]

The notable change is in the following paragraph:

> *In relation to COVID-19, the departmental comparability factors set out in Annex B do not always adequately reflect the geographic scope of the UK government's response.* ***The Barnett formula is therefore being applied at programme level****, as it has in 2020-21, to ensure the devolved administrations receive comparable funding. For example, the Department for Health and Social Care is procuring COVID-19 tests for the whole of the UK so Scotland, Wales and Northern Ireland will receive a share of the tests rather than a share of the funding. Conversely, the Department for Transport will be providing exceptional support to rail operators in England so a programme level approach again ensures the devolved administrations receive comparable funding*[75]*.*

In other words, the UK Government has not applied Barnett to, e.g. the Department for Health and Social Care's **whole** budget increase as would have usually been the case. Instead, out certain items were removed – the example given is COVID-19 tests – so that the devolved governments do not receive **both** the test procured at UK level **as well as a** Barnett share of the funding that was used to procure those same tests.

[74] HM Treasury. Statement of funding policy: funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly. November 2015. page 10.
[75] Ibid

Appendix 2: Consultation on the Budget 2021-22

Following the announcement of the draft Budget on 18 January 2021, a period of consultation commenced, ending on 25 February 2021. The consultation included meetings with key stakeholders and gathering responses from interested groups and the wider public.

The key themes identified in the responses were:

- **Multi- year Budgeting**. This was widely recognised to be most advantageous in terms of planning.
- **Welfare Reform Mitigations**. Adequate funding for Welfare Reform Mitigations for 2021-22.
- **Independent Advice Centres Funding** needed for the continuation of Independent Advice Centres.
- **PfG Alignment** - The need for the budget to be aligned with Programme for Government outcomes.
- **Shared Prosperity Fund**. The lack of information on the Shared Prosperity Fund is a concern, as is the anticipated inadequate EU replacement funding.
- **New Decade New Approach**. The perception that the New Decade New Approach has not worked and has not been adequately funded.
- **Health Services and Health Reform**. The Health budget in general and in particular the health reform budget is inadequate.
- **Social Care**. A number of respondents indicated concerns that the Social Care budget is underfunded.
- **Recurrent Funding**. Lack of recurrent funding in the health budget means there is a lack of investment in workforce.
- **RRI borrowing** – a number of respondents encouraged the Executive to utilise the full £200m facility.
- **Regional Rates**. Rates imbalance – the outcome of the Rate Review needs to be delivered. There is a perception that Domestic Rates are too low, whilst non domestic rates are too high.
- **Transformation**. Transformation funding is needed to make real change.