Northern Ireland Assembly

Research and Information Service
Briefing Paper

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Draft Executive Budget 2021-2022

Finance and Economics Research Team

This Briefing Paper seeks to support Assembly committees in their scrutiny and advisory roles in relation to the draft Executive Budget 2021-22. The Paper addresses the compressed timescale for Assembly consideration of the draft Budget proposals; amidst ongoing funding allocation changes, including those from Treasury to the Executive. 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 draft proposals. Included throughout are potential issues meriting consideration.

Introduction

This Briefing Paper seeks to support the Assembly’s statutory committees and the Audit Committee, when discharging their scrutiny and advisory roles relating the draft 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.

The Paper’s contents are presented as follows:

- Section 1: Contextual information (including a timeline of critical events);
- Section 2: Fiscal transfer from the UK;
- Section 3: Executive self-financed expenditure;
- Section 4: PEACE Plus;
- Section 5: Draft Executive Budget 2021-22 proposals; and,
- Section 6: Concluding remarks.

1. Contextual information

At the outset, it should be noted that the circumstances in which the Assembly considers the draft Executive Budget 2021-22 are extremely challenging. Numerous factors have combined to adversely impact the Executive budget process, largely due to uncertainties, which have been a regular feature in the formation of the current draft Executive Budget. Such uncertainties have included those relating to:

- Delayed Chancellor decision-making adversely impacting the Executive's ability to form its Budget, e.g.: delayed Spending Review; Treasury funding announcements – Barnett consequentials and non-Barnett – which are late and sizable too near year-end, and are opaque, including COVID-19 related and other; and, delayed responses to Finance Minister carry over requests to Treasury for unspent budget from one financial year into the next. These adverse impacts arise from the NI Public Finance Framework (PFF) – i.e. the financial arrangements under devolution in NI, requiring certain events to first occur on a UK Government level, which then in turn enables the Executive to form and manage its Budget;
- Return of fully functioning devolved government in Northern Ireland (NI) following on from a three-year political hiatus and the signing of the "New Decade, New Approach" political agreement, e.g. Victims' Pensions;
- Time lag between Treasury's initial confirmation of the Spending Envelope and subsequent Executive consideration of the Finance Minister's draft Executive Budget 2021-22 proposals; and,
- Issues arising due to the UK exit from the European Union (EU), e.g. unknowns regarding EU replacement funding, including those concerning the UK Shared Prosperity Fund.

In addition, COVID-19 has been a dominant feature of the 2020-21 financial year; resulting in unprecedented economic turmoil. In consequence, there is a very different NI fiscal and budgetary position from a year ago.

This section provides a timeline of critical events leading up to the Executive Budget 2021-22. Thereafter, it first highlights – at the time of writing this paper – existing uncertainties regarding the amount of available funding for the Executive to allocate in the Budget. It then explains the different elements that make up the total available funding.

1.1 Timeline of critical events

A Timeline is included below at Figure 1, to illustrate the complexity of the situation surrounding the formation of the draft Executive Budget 2021-22. The Timeline includes critical events, which:

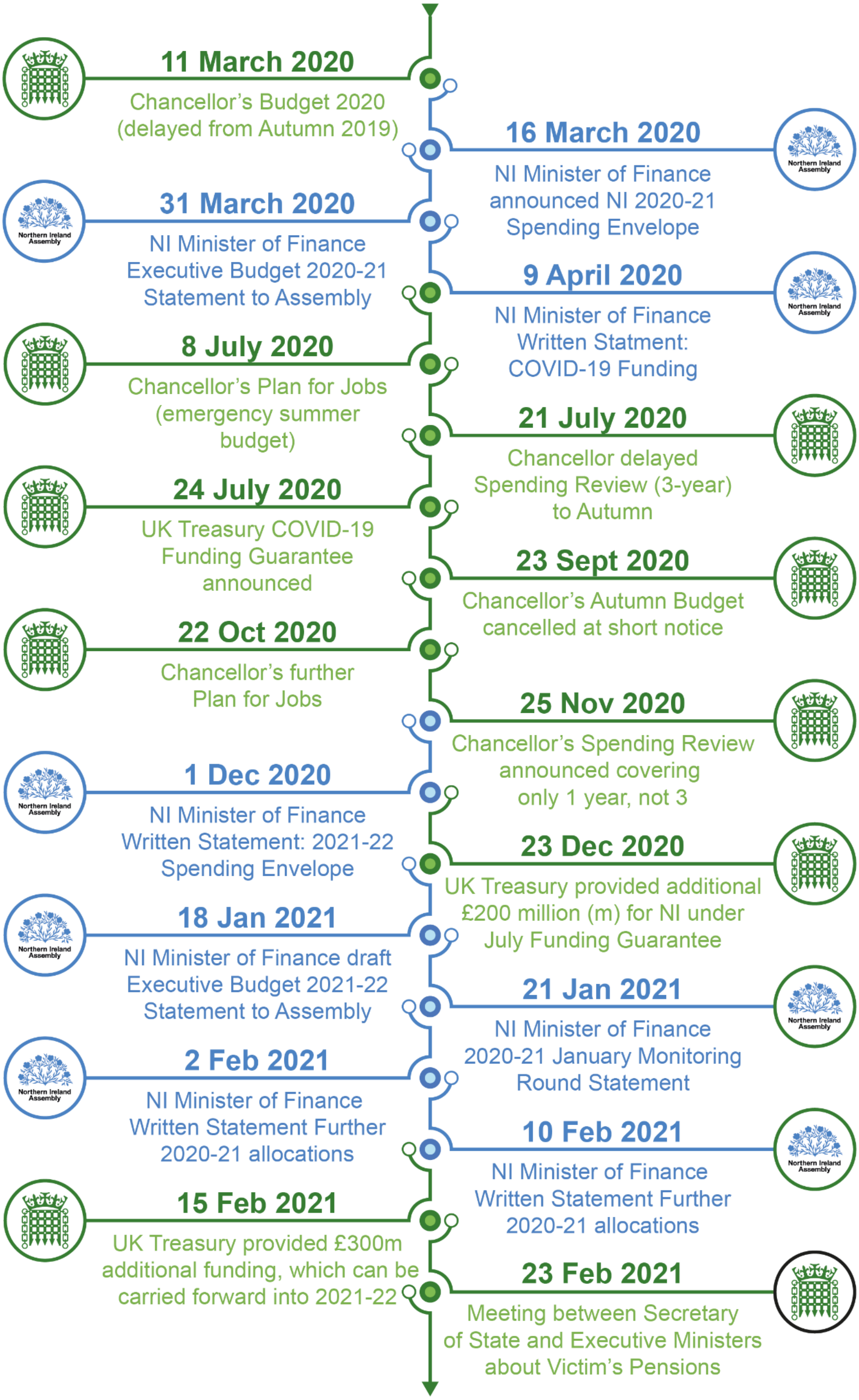
- Caused **delays in the Budget timetable**; and,
- Inform the **size of the Executive's Spending Envelope for 2021-22**.

Each of those factors is important because each impacts the Assembly's consideration of the Budget – i.e. the Assembly as a whole in the Chamber and individual committees – when seeking to scrutinise and advise on departmental allocations:

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

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

Figure 1: Draft Executive Budget 2020-21: Critical Events Timeline



1.2 Interactive Timetable

To complement the above Timeline, RaISe's Finance and Economics Research developed an online Interactive Timeline, providing additional detail through easy access to relevant documents and embedded video footage. The Interactive Timeline is available on the Assembly website, at: http://www.niassembly.gov.uk/assembly-business/research-and-information-service-raise/data-visualisations/executive-budget-2021-22/

1.3 Commentary on Delays featured in the Timeline

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 was then announced on 15 February 2021.[1]

These 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;[2] exceeding far beyond what Treasury Budget Exchange flexibility rules allow.

At the time of writing, however, the amount of unspent 2020-21 funding remains unknown. On 22 February 2021, the Finance Minister stated that he could not confirm how much funding was unspent because departments were still submitting financial information.[3]

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

[2] 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*.

[3] Official Report 22 February 2021

Again, this uncertainty means while the Executive has more funding available for the new budget year, it does not know the precise amount at present. This matter could be crucial, as there is the further unresolved issue in relation to future spending needs, namely payments for Victims and Survivors.

In answer to an Assembly Question on 22 February 2021, the Minister of Finance confirmed that Executive Ministers would be meeting the Secretary of State for NI on 23 February to discuss funding for the Troubles Permanent Disablement Payment Scheme.[4] The outcome of that meeting remains unclear. Nonetheless, it appears from recent media reports that no resolution was reached at that meeting.[5]

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.[6] However, the Executive continues to maintain that the UK Government must fund it, having "*set the policy and legislated for it*".[7]

UK Government timing delays in decisions such as this are key when determining the current draft Executive Budget, as well as in future years. 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] Clearly, it is very late in the financial year for the funding arrangements for such a significant sum to still be unresolved.

However, the UK Government argues it is the responsibility of the Executive to meet the cost of the Victims' payments. If the positions of both do not change, the cost of meeting the Scheme will have a considerable impact on the ability of the Executive to meet other expenditure needs, both for 2021-22 and beyond. Therefore, the amount of funding available is clearly a significant consideration and is addressed further in the next subsection.

1.4 Commentary on Size of the Spending Envelope featured in the Timeline

Uncertainty remains about the overall amount of flexibility that the Treasury will permit to carry over funding. There is, however, some clarity in this regard, i.e. the Executive can carry forward the £300 million announced in mid-February into 2021-22.[9] In consequence, more funding - £300 million - will be available next year than the Executive included in its draft Budget consultation. Although no detail has been provided at the time of writing, the DoF officials have advised that additional COVID-19

[4] Official Report 22 February 2021
[5] https://www.newsletter.co.uk/news/politics/no-breakthrough-in-ministerial-meeting-on-funding-victims-payments-3144625
[6] Official Report 22 February 2021
[7] Official Report 22 February 2021
[8] Official Report 22 February 2021
[9] https://www.finance-ni.gov.uk/news/finance-minister-welcomes-additional-ps300-million-towards-covid-response

funding would be allocated in the Revised Executive Budget when it comes back to the Assembly.[10]

Beyond the noted £300 million, uncertainties still remain as to what other funding flexibility there may be. This in turn means NI departments must work to the understanding under the PFF rules that they either spend the funding by the end of March 2021,[11] or return it to the Treasury at financial year end.

Potential issues for consideration:

1. **What is the current position in relation to the funding of the Victims' Pension Scheme?**
2. **More generally, what steps are the Executive or the Finance Minister taking to reduce uncertainties in the Executive Budget Process in future, including, but not limited to, those arising from inherent constraints in the current financial arrangements under devolution in NI – i.e. its Public Finance Framework (PFF)?**

1.4 Funding sources for draft Executive Budget 2021-22

This section unpacks some of the significant issues relating to different elements of the overall funding available for allocation during the Executive Budget Process.

The 'Spending Envelope' (often called the 'Block Grant') comprises the Departmental Expenditure Limit (DEL) elements determined at the UK level and transferred via the Barnett Formula. There are also several 'non-Block Grant' elements that 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 'New Decade, New Approach').

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

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

Finally, there are the EU-related issues. Post-Brexit, the new UK Shared Prosperity Funding is intended to replace EU funding. In spite of the UK Exit from the EU, the PEACE Plus programme continues - see Box 1.

[10] https://niassembly.tv/committee-for-finance-meeting-wednesday-24-february-2021/

[11] For the most recent RaISe Commentary on departments' financial forecasting and expenditure profiles, see http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2017-2022/2021/finance/0721.pdf

Box 1: the funding sources for the Executive Budget

Specified funding sources for the Executive Budget

Spending Envelope from UK level:

- Departmental Expenditure Limit (DEL) fiscal transfer via the 'core' Block Grant
- DEL 'non-core' Block Grant i.e. COVID-19 additions and UK Shared Prosperity Fund

AND

- Non-block grant DEL (i.e. Barnett 'Plus')
- Welfare, pensions and other non-DEL funding (i.e. Annually Managed Expenditure)
- Executive self-financed expenditure (i.e. the Regional Rate, Air Passenger Duty, various fees and charges)
- Borrowing
- PEACE Plus

Under the PFF, the Executive's ability to set its Budget is constrained until after the UK Spending Review occurs. The outcome of the Spending Review informs the Executive's Spending Envelope. On 25 November 2020, the Chancellor announced a one-year (2021-22) outcome **only.**[12] More typically, Spending Reviews cover three or four years.

On 1 December 2020, the Minister of Finance made a statement to the Assembly, which detailed the various components of the planned fiscal transfer from the UK level. These are detailed in Section 2, before Executive self-financing is detailed in Section 3.

[12] UK Treasury (2020) Spending Review 2020

2. The Fiscal Transfer from the UK

The funding announced to the Assembly on 1 December 2020 is shown in this sub-section. These allocations are described here as 'planned' because, as with so much else during COVID-19, the allocations are liable to change as the pandemic continues to unfold.

2.1 Core NI DEL funding for 2021-22

Box 2 shows the funding that would be available to NI *via* fiscal transfer from the UK in 'normal' circumstances, meaning if COVID-19 and Brexit had not happened. In the Spending Review, this is described as 'core funding'.

Boxes 3 and 4 then 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, these non-core monies will cease, e.g. when COVID-19 no longer creates such difficulties.

The funding shown in Box 2, however, is the 'core' Block Grant that will roll forward into future years, subject to adjustments by future UK level fiscal events (i.e. Spending Reviews and UK Budgets.)

Box 2: NI Core DEL Funding 2021-22

Core Funding

Non Ring-fenced Resource DEL	£11,596.0 million
Capital DEL	£1,578.0 million
Financial Transactions Capital	£73.6 million

Source: DoF (2020) [Department of Finance - Budget 2021-22: Funding Available]

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

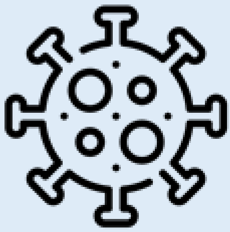
2.2 'Non-Core' NI DEL funding

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

2.2.1 COVID-19 funding

Box 3 below shows the additional funding made available to the Executive by the UK Chancellor in the Spending Review 2020, flowing directly in consequence of the UK Government's COVID-19 response.

Box 3 COVID-19 funding 2021-22



COVID-19 Funding

Non Ring-fenced Resource DEL	£538.2 million
Capital DEL	£3.6 million

Source: DoF (2020) [Department of Finance - Budget 2021-22: Funding Available]

As noted in Section 1 of this Paper, the timeline of critical events relating to draft Executive Budget 2021-22 has continued to develop. It should be noted that additional funding has subsequently been provided, including:

- £200 million announced on 23 December 2020. The Minister of Finance indicated that he hoped to be able to carry this forward into 2021-22. It now seems, however, that this allocation **must** **be spent** **during** **2020-21**.
- £300 million announced on 14 February 2021. The Minister of Finance has stated that this **can** **be carried** **forward** **into 2021-22.**

Further points to note include:

- The specified funding comprises DEL funding only. When the Furlough Scheme ends (currently due to end April 2021, subject to further announcements by the UK Government), it is to be expected that there will be an increase in welfare payments as unemployment rises. Such welfare payments are met from Annually Managed Expenditure (AME), which is **not** part of the Executive's budget process, and therefore are outside the scope of this Paper.

- As noted, COVID-19 funding is determined **outside** the normal arrangements for distributing funding to the UK's devolved governments, 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.[13] This 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. For more detail, see Appendix 1.

On this second point, the Fraser of Allander Institute noted in November 2020, just prior to the Spending Review announcement, that the treatment of COVID-19 funding by the Chancellor would be highly significant:

> *Of critical importance here will be the extent to which COVID-related funding changes announced during 2020/21 – particularly around the NHS and business support measures – will be baked-in to departmental settlements, or will be unwound in the expectation of the beginnings of recovery.*[14]

In other words, would COVID-19 allocations to UK departments (and the Barnett consequentials arising therefrom) be rolled forward into departmental baselines? Such an approach by the Treasury would have implied sustained public expenditure at a much higher level than over recent years.

In the end, the Spending Review announcement, and the information about COVID-19 allocations in the Statement of Funding Policy, made clear that COVID-related expenditure is to be treated outside the established funding arrangements. This means that they 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.[15]

It may be worth noting that the vast majority of COVID-19 funding shown in Box 3 is Resource DEL. This is primarily due to the nature of the UK Government's interventions – short-term, immediate, intended to protect livelihoods and lives. However, in the longer term, capital investment is likely to be needed to create economic stimulus.

RaISe paper 81/20 noted, for example, the relatively disproportionate impact of COVID-19 on construction:

[13] 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.
[14] https://fraserofallander.org/the-evolution-of-the-scottish-budget-2020-21-and-a-look-forward-to-the-spending-review/
[15] AQW 9518/17-22 (answered 9 November 2020)

An example of such negative impact can be found in the NI sector with the largest number of self-employed, i.e. construction –more than a fifth of the total. These self-employed range from those working on large scale regeneration projects, to local painters and decorators. In the short term, it was reasonably foreseeable that these people were likely to suffer most, especially those working on small projects, where premises have had to close. Statistics collected on the SEISS reflect this, with the largest number of grant claimants coming from the construction sector.[16]

Whilst it is understandable that COVID-19 funding is directed in a particular way, a consequence is that the capital investment spending that might help drive 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 draft Executive Budget consultation states:

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.[17]

This means that a proportion of each department's allocation is already committed. It is likely therefore, 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.

This situation arises because of the way the funding is distributed within the UK, primarily *via* the Barnett Formula. This is an issue that potentially will be considered by a future NI Fiscal Commission (referred to at the start of Section 4) because there are some arguments that COVID-19 has exposed weaknesses in the system. However, some argue that strengths have been underlined also.

In October 2020, at a roundtable seminar organised by the Institute for Government, in partnership with Nuffield Foundation, discussion addressed COVID-19 funding administered under the Barnett Formula. UK officials from central and devolved institutions attended, along with academics and others, including think tanks. Amongst identified advantages for allocating such funding in that manner was the elimination of the need for bi-laterals, which allowed for quick response, with no need for negotiating.

In contrast, in November 2020, the Fraser of Allander Institute (the Institute) noted that the UK's reliance on the Barnet Formula for allocating devolved funding has given rise

[16] RaISe (2020) Overview of COVID-19 funding in NI and the economic implications: an update page 23
[17] DoF (2021) Draft Budget 2021-22 see page 56

to issues that hitherto have not been widely experienced in the devolved funding arrangements:

> *…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.*[18]

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).[19] This is a significant change to the usual funding approach taken by the UK Government. At the time, the NI Finance Minister welcomed both the additional funding, and the additional certainty provided by the new approach.[20] NI was guaranteed a total of £2.2 billion in COVID-19 funding for 2020-21.

In October 2020, a further announcement by the Chancellor increased the amount of funding guaranteed to the Executive to £2.4 billion. This provided an additional £200 million Resource DEL for allocation, and - as noted elsewhere - there have been further late allocations.[21]

By 5 November 2020, £16 billion in COVID-19 funding had been guaranteed to devolved administrations, including:

- Scottish Government -£8.2 billion;
- Welsh Government -£5.0 billion; and,
- Executive -£2.8 billion.[22]

Formal Barnett consequentials were generated subsequently, in accordance with the Funding Guarantee (the Guarantee). The Chancellor's announcement of the 2020 Spending Review outcome, published 25 November 2020, stated the following in relation to the £16 billion Guarantee:

> *...£2 billion of this guaranteed funding is yet to be generated through the Barnett formula.*[23]

The additional £200 million received by the Executive on 23 December 2020 was a direct consequence of the Guarantee.

[18] Fraser of Allander Institute (24 November 2020) The evolution of the Scottish Budget 2020/21 – and a look forward to the Spending Review

[19] https://www.gov.uk/government/news/scotland-wales-and-northern-ireland-receive-additional-coronavirus-funding-guarantee-from-uk-government

[20] NI Executive (24 July 2020) Finance Minister Welcomes additional funding

[21] DoF (2020) 2020-21 October Monitoring and COVID-19 Funding, see page 2

[22] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/932977/ECONOMIC_SUPPORT_FACTSHEET_5_November.pdf , see page 4

[23] HMT (2020) Spending Review 2020, page 31 (footnote 11)

As noted above, NI's allocation of COVID-19 for 2021-22 was set at the Spending Review at £0.53 billion. Of course, it is quite possible that as COVID-19 evolves, there may be changes to this amount.

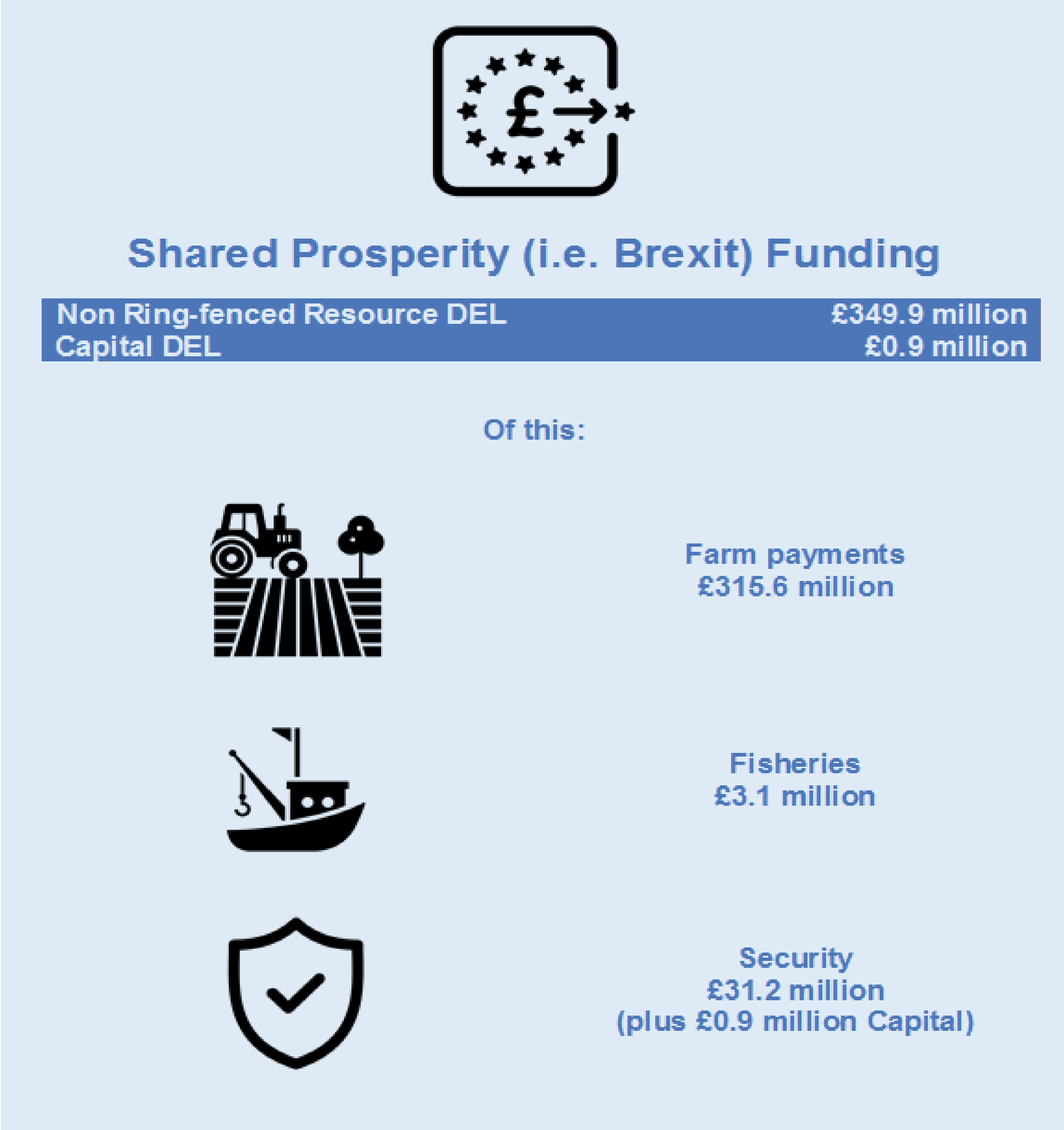
Potential issue for consideration:

For 2021-22, what has the Treasury advised the Department of Finance about Treasury's approach to COVID-19 funding, i.e. guaranteeing funding in advance of Barnett consequentials? Please detail.

2.2.2 UK Shared Prosperity Fund

Box 4 shows the allocation to NI from the UK Government in terms of time-limited replacement for EU funding.

Box 4: NI Shared Prosperity Funding 2021-22



Source: DoF (2020) [Department of Finance - Budget 2021-22: Funding Available]

A recent House of Commons Library paper on the UK Shared Prosperity Fund noted few details are currently available about the Fund. This point has also been made by the NI Minister of Finance.[24] With the absence of detail at the time of writing, no detailed analysis is provided here.

However, the House of Commons Paper did note several issues, which should be kept in mind when developing the Fund, i.e.:[25]

- *the priorities and objectives of the Fund;*

[24] http://aims.niassembly.gov.uk/officialreport/report.aspx?&eveDate=2020-12-14&docID=319621#AQO%201351/17-22

[25] HoC Library (2021) The UK Shared Prosperity Fund see page 4

- *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 this context, further points to note include:

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

  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.[26]
- Since the UK Spending Review, the NI Minister of Finance has stated that uncertainty remains about the sufficiency of the amount of the Shared Prosperity Fund, and exactly how it will operate.[27]
- It has been reported that the Shared Prosperity Fund will be administered centrally,[28] which might raise the possibility that its future operation will be disputed by the UK's devolved governments;
- 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. (Note that this non-statutory

[26] https://www.heraldscotland.com/news/18239163.devolved-administrations-send-joint-letter-treasury-seeking-budget-talks/
[27] http://aims.niassembly.gov.uk/officialreport/report.aspx?&eveDate=2020-12-14&docID=319621#AQO%201351/17-22
[28] https://www.bbc.co.uk/news/uk-scotland-scotland-politics-55687977

policy document is commonly reviewed, amended, and re-issued alongside Spending Reviews.) The current version states:

> *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.*[29]

- The 'Finance Ministers' Quadrilateral' might be a mechanism for dispute resolution, but it is not mentioned in the Statement of Funding Policy. There is, however, a reference to the Joint Ministerial Council as a forum for dispute resolution:

> *This aligns with the process outlined in the agreement on dispute avoidance and resolution in the Memorandum of Understanding between the UK government and devolved administrations, as referred to in paragraph 2.1 above, under which matters can also be raised through the Joint Ministerial Committee. Funding policy and public expenditure allocation across the United Kingdom, as non-devolved or reserved matters, remain the responsibility of the UK government.*[30]

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 (pre-Spending Review announcement in November 2020)?

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

3. If so, how is it improved? Please explain in detail.

[29] UK Treasury (2020) Statement of Funding Policy, see paragraph 2.10
[30] UK Treasury (2020) Statement of Funding Policy, see paragraph 2.11

3. Executive self-financed expenditure

In addition to the fiscal transfer considered in the preceding section of this Paper, the other main elements financing the Executive's Draft Budget 2021-22 are so-called 'self-financed expenditure'. This section considers each of these 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 licences
- Borrowing

It is worth noting at the outset that there are two ongoing developments in this area, which could impact on how the Executive approaches self-financing in the future: firstly an Independent Fiscal Council for NI (a 'New Decade New Approach' commitment); and, secondly, a Fiscal Commission (as announced by the Finance Minister).

In answer to an Assembly Question, the Minister of Finance recently confirmed that he submitted proposals for both the Fiscal Council and the Fiscal Commission for Executive consideration.[31] The eventual shape of these bodies, when eventually established, remains to be seen. Nevertheless, there is clearly the potential for them to contribute to the enhancement of public understanding and debate relating to NI's fiscal issues.

4.1 The Regional Rate

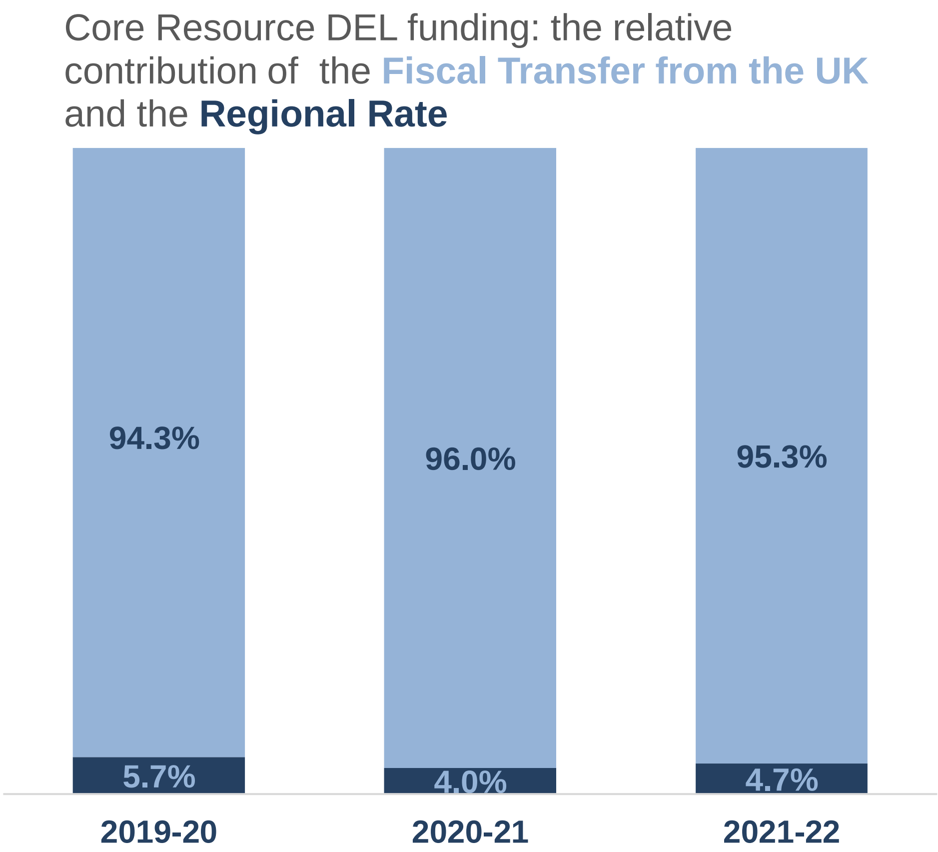
In his 18 January 2021 Statement, the Finance Minister announced the Executive's intention to freeze the Regional Rate:

> *Of course, 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.*[32]

[31] Official Report 23 February 2021
[32] Official Report 18 January 2021, see page 66

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.[33]

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



Source: DoF Budget publications

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

Figure 2 attempts to show, in effect, the 'tax contribution' made using the Regional Rate, which is Executive's main revenue-raising lever. It shows projected Regional Rate revenue combined with 'core' funding for 2021-22, 2020-21, 2019-20.[34] It then shows relative contribution of each of those elements to financing Executive Resource expenditure.

In each of the three years shown above, more than 94% of resource DEL expenditure was financed via the fiscal transfer to NI from the UK.

[33] Sources: DoF 2019, 2020 and 2021

[34] 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 3.1 and 3.2.

It can be seen that in 2020-21, revenue from the Regional Rate made up a smaller proportion of the comparable 'core' DEL expenditure[35] 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 hardly surprising because of the rates holiday that was provided to businesses to help them cope with the impact COVID-19.

To put it another way, NI public expenditure seems to have become slightly more reliant on transfers from the UK than it was prior to COVID-19. Again, this might not be particularly surprising: because of the limited nature of NI's fiscal powers. It is arguably inevitable that the fiscal response to the pandemic would be driven by the UK level.

3.2 Devolved taxes

In the context of the 2021-22 Budget - which the Minister of Finance has referred to as a 'standstill budget'[36] - one option to increase revenue. If so, spending power would be to raise devolved taxes, aside from/in addition to rates. The Executive's options here are, however, extremely constrained by the current PFF in NI – i.e. the prevailing financial arrangements under devolution, as noted below.

3.2.1 Air Passenger Duty

- 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 empowered to adjust that rate in future.
- The Block Grant is adjusted annually to offset the lost-revenue cost to UK Exchequer.
- The cost to the NI Block Grant has been steady, at £2.2 to £2.3 million between 2016-17 and 2021-22.[37]

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 it appears there are no flights currently leaving NI for long-haul destinations. On this matter, the current draft Executive Budget proposals, as noted in the consultation paper, state:

[35] 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
[36] BBC News, 25 November 2020 NI to get extra £920m after Spending Review
[37] UK Treasury (2020) Block Grant Transparency

…due to state aid rules the Executive must meet the cost of the decision to abolish APD.[38]

3.2.2 Corporation Tax

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

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 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.[39]

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. [40]

For these reasons, increasing charges should be seen as a straightforward way to increase revenue. It is worth noting that the Treasury Statement of Funding Policy only refers to **recovery** of cost.[41]

4.4. Borrowing

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

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).[42] Second, there is a **temporary** borrowing power. Through

[38] DoF (2021) Draft Executive Budget 2021-22 see page 60
[39] UK Treasury (2020) Statement of Funding Policy, see paragraph 12.8
[40] See DoF (2008) https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/managing-public-money-ni-chapters.pdf chapter 6 for more details
[41] HMT (2020) Statement of Funding Policy (pages 26-27)
[42] UK Treasury (2015) Statement of funding policy :funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly page 36

the RRI the Executive can borrow up to £200 million per year to fund capital projects and infrastructure.

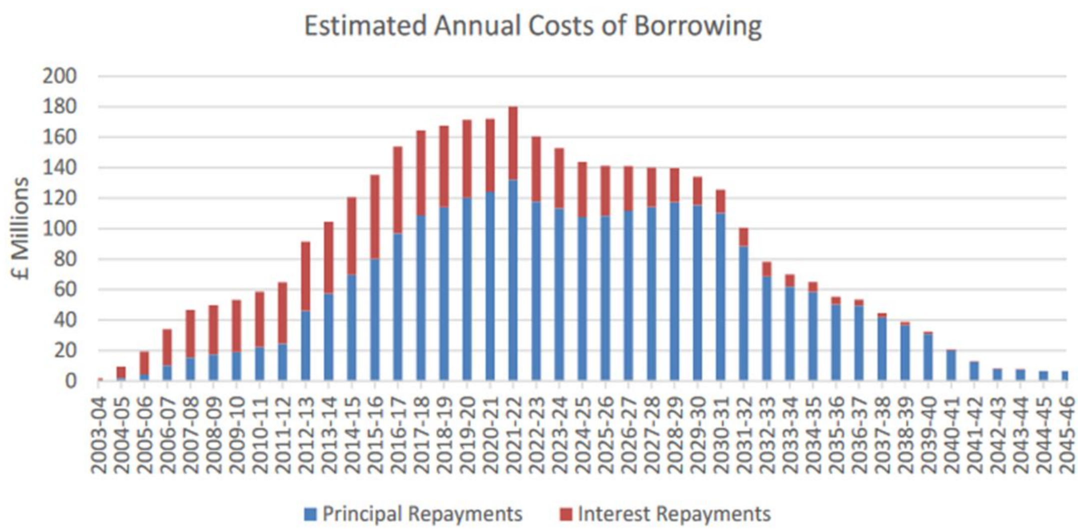
It is the former borrowing power – the RRI – which is relevant to funding the draft Executive Budget 2021-22. It can be used to fund investment spending. The latter, temporary borrowing facility, is to provide the Executive with sufficient cash flow to discharge its functions, not for investment. It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

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. This 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 and Economics Research Team that borrowing under this initiative is covered implicitly by the 1975 Act and the *Northern Ireland Miscellaneous Provisions Act 2006*.[43]

The draft Executive Budget 2021-22 shows the current repayment profile for the stock of NI debt, as highlighted here in Figure 3 below:[44]

Figure 3 NI RRI Borrowing Cost Profile



As Figure 3 shows, the peak cost is currently in 2021-22, assuming no further borrowing in the future.

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

[43] See RaISe paper 74/16, section 1.2.4

[44] DoF (2021) Draft Executive Budget 2021-22 see page 17

- It includes RRI borrowing of £140 million to supplement the Executive's Capital DEL budget; and,
- It allocates £47.9 million for interest repayments during 2021-22.

It was noted in subsection 3.2.1 of this 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 do not include full use of the RRI borrowing facility.

During his 18 January 2021 statement, the Minister of Finance explained:

> *With regard to RRI borrowing, I have identified that two Departments have asked for £70 million each — the Department for Communities and the Department for Infrastructure. That will help the Department for Infrastructure to carry out the very necessary water and sewerage work. It will allow for other development, not just public-sector development but private sector as well, and stimulate construction and development. For the Department for Communities, as we have said, there is an NDNA commitment to a significant housebuilding programme.*[45]

Whether further capital projects requiring support from RRI borrowing have come forward since then will be confirmed in the Executive's Revised Budget proposals.

Potential issue for consideration:

If departments have not brought forward further proposals requiring RRI financing since 18 January 2021, does the Executive plan to continue to explore options for further capital projects?

[45] Official Report 18 January 2021

4. PEACE Plus

PEACE Plus is the continuation of a 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.*[46]

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.*[47]

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.*[48]

However, Box 5 below shows that although preparatory work might begin during 2021-22, the latest position is that expenditure will not be incurred until the following year.

Box 5: PEACE Plus Funding[49]

PEACE Plus Funding

Information from DoF 19 January 2021

- **Total PEACE Plus budget 2021-27 approximately €1 billion**
- **No funding currently profiled for 2021-22**
- **First expenditure under PEACE PLUS likely to be in 2022-23**

In response to a query from RaISe's Finance and Economics Research Team, the DoF stated:

> *The PEACE PLUS budget will be approximately €1bn over the programming period (2021-27). The current timetable is for the Programme*

[46] https://www.seupb.eu/PEACEPLUS

[47] https://www.gov.uk/government/news/uk-government-announces-additional-200m-peace-plus-funding?utm_source=10917207-6164-4f00-b04a-a7900ad7f3f0&utm_medium=email&utm_campaign=govuk-notifications&utm_content=daily

[48] https://www.finance-ni.gov.uk/news/murphy-responds-funding-vital-peace-plus-programme

[49] Information provided by DoF to RaISe by email 19 January 2021

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.[50]

Potential issue for consideration:

Can the Department of Finance provide an update regarding the proposed Programme – in particular the timing for the North-South Ministerial Council?

[50] Information provided by DoF to RaISe by email 19 January 2021

5. Draft Executive Budget 2021-22 proposals

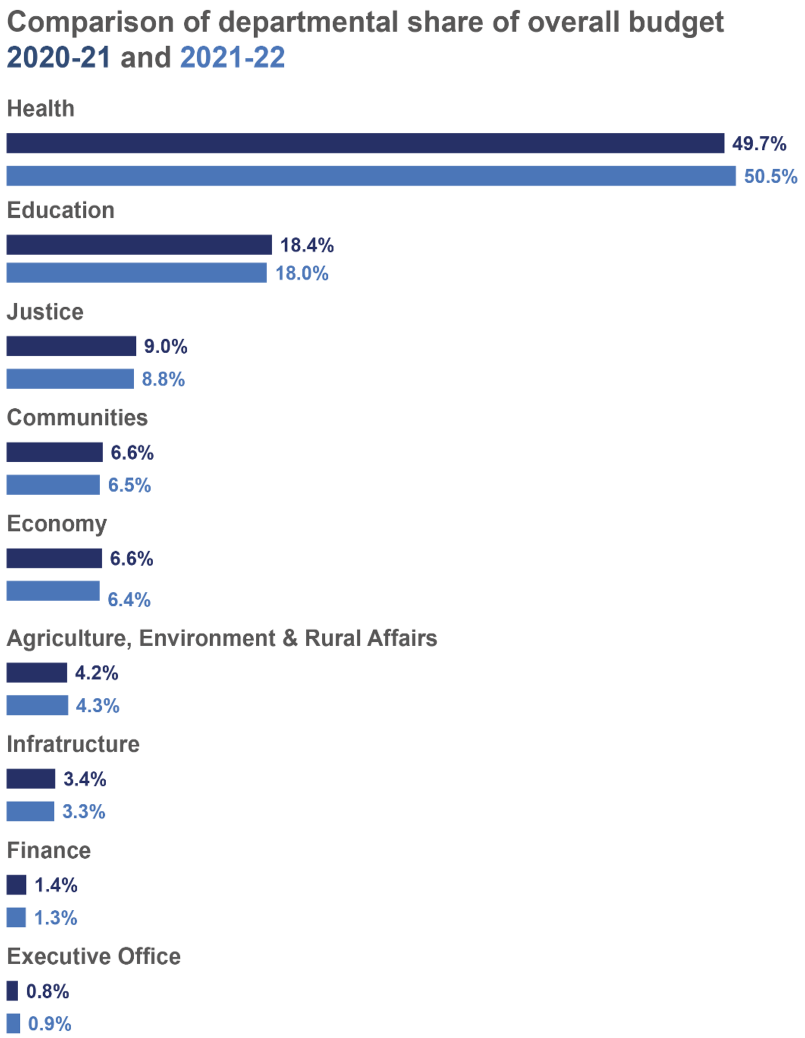
Having examined all the various sources of financing for Executive expenditure, this section briefly examines the proposals in draft Executive Budget 2021-22. The focus is on Executive departments, beginning with Non-ring fenced Resource DEL, before moving to Capital DEL, and Financial Transactions Capital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

Given all the uncertainties discussed throughout this Paper, and the absence of published departmental budget proposals, analysis of the allocations proposed in the draft Executive Budget is of somewhat limited value. As events have transpired – shown in the Timeline provided in Section 1 – there have been several developments. As a result, the sums proposed for allocation in the draft Executive Budget document will undoubtedly change.

5.1. Non-ring fenced RDEL

At the time of writing, the proposed departmental outcome for **Non-ring fenced RDEL** was as shown in Figure 4 below.

Figure 4: Comparison of allocations to departments



The draft Executive Budget 2021-22 document clearly states that:

> *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.*[51]

For this reason, and because of the myriad uncertainties referred to earlier in this Paper, Figure 4 above does not draw attention to the amounts of funding allocated to departments in the draft Executive Budget. Instead, the chart illustrates the **relative proportions of the departmental total.** This is a way of examining the 'preferences' revealed by the allocations.

In this context, it is worth noting that in his Statement to the Assembly, the Minister explained that:

> *…the Spending Review outcome provided a broadly flat cash position for normal departmental spending…*[52]

In consequence of this position, and also of the compressed timetable (as shown in the Timeline), and the various uncertainties, the Executive chose to:

> *…largely rolled over Departments' existing baselines for another year.*[53]

This statement is largely borne out by the relative proportions shown in Figure 3: the majority of departments' relative proportions of the total departmental RDEL funding changed by 0.2 percentage points or less.

Only two departments' proposed allocations are more than 0.2 percentage points different:

- The proposed proportion of total departmental RDEL going to Health is 0.8 percentage points smaller for 2021-22 than it was in 2020-21; and,
- The proposed proportion of total departmental RDEL going to Education is 0.4 percentage points smaller for 2021-22 than it was 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 have been under during COVID-19, it might, however, come as something of a surprise that the proportion going to Education has fallen more than other departments.

In this context, it is therefore worth recalling that additions to Health funding have to come from somewhere else in the allocations, if the overall funding has not increased. As the second-largest departmental budget, Education is therefore always likely to be under some pressure.

[51] DoF (2021) Draft Executive Budget 2021-22 page 54
[52] Minister's Statement, 18 January 2021, page 2
[53] Minister's Statement, 18 January 2021, page 2

One of the issues raised by the Department 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 New Decade New Approach (NDNA) agreement.

In relation to Education, the Department highlighted several NDNA-related pressures totaling £110.4 million, the largest element of which was for the teacher's pay deal at £44 million.[54] The Committee for Justice noted an NDNA commitment to increase police officers to 7,500, but highlighted a concern that, based on the Department of Justice (DoJ) draft allocation, there might be a requirement to **reduce** officer numbers by 300.[55]

Potential issues for consideration:

1. Has the Department of Finance conducted an assessment of the full funding commitments and pressures arising as a result of New Decade, New Approach?

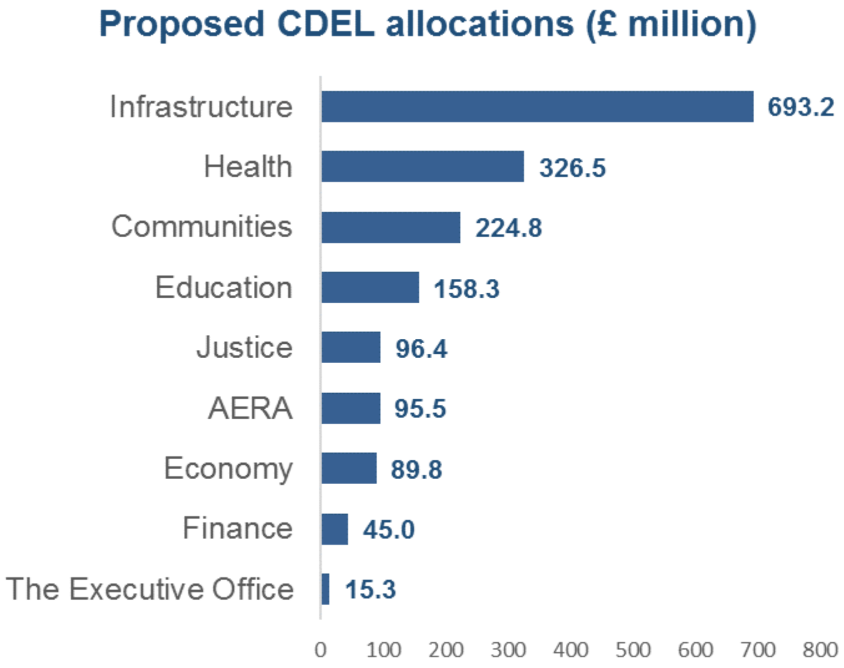
2. If so, is there a long-term plan for addressing these?

5.2. Capital DEL

Figure 5 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 economic recovery after COVID-19.

[54] Letter from DE, dated 8 February, provided by CfE to CfF, Tab 4
[55] Letter from CfJ to CfF, dated 12 February 2021

Figure 5: Draft Executive Budget 2021-22 Capital DEL allocations[56]



Returning once again to the uncertainties that have surrounded the development of Draft Executive Budget 2021-22 as was noted in the Timeline provided earlier in this Paper, the Chancellor's change of approach from presenting a multi-year to a single-year Spending Review came only in the autumn. 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 does nevertheless 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.[57] For this reason, the draft 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.

For this reason, this Paper does not seek to offer the more in-depth analysis of Capital DEL allocations that might have been possible with a more certain funding position and a longer timescale for consultation and scrutiny by committees. Having said this, there are two particular issues that warrant consideration: COVID-19; and, Brexit.

In a recent answer to an Assembly Question, the Minister for Infrastructure, who is in charge of the largest Capital DEL allocation, explained:

> *COVID-19 initially disrupted or stopped many activities due to difficulties in the supply chain, social distancing requirements and staff absences.*

[56] DoF (2021) Draft Executive Budget 2021-22 page 57
[57] DoH SUB-0127-2021, dated 2 February

> *Although the situation is now much improved, COVID-19 continues to have an impact.*[58]

The impact of COVID-19 on infrastructural development is one thing. Another is whether apparent trade disruption arising from Brexit and the operation of the NI Protocol is another, including, for example, 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.[59]

Potential issues for consideration:

1. To what extent has the Executive experienced or expect to experience disruption; and what is the anticipated impact of that disruption on Capital DEL expenditure? Please detail.

2. In particular, to what extent has the disruption to the movement of goods across the Irish sea impacted on capital projects? Please detail.

3. If such disruption has occurred and or is expected, what consideration has been given by the Executive, including the Finance Minister and other Ministers directly impacted, about potential mitigations? Please detail.

5.3 Financial Transactions Capital DEL

The Tables in the draft Executive Budget 2021-22 document include £73.6 million of Financial Transactions Capital (FTC) DEL. The document, however, does not appear to mention the allocation of this to a department. Historically, FTC DEL allocations have been problematic for departments to spend, and on 2 February 2021, £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.[60]

Potential issues for consideration:

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

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[58] See AQW 12733/17-22
[59] Letter from CAERA to CfF, dated 19 February 2021
[60] Letter from CfC to CfF, dated 12 February 2021

2. How much FTC remains in the NI Investment Fund?

6. Concluding remarks

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

- The unprecedented nature of the public health crisis caused by COVID-19 has disrupted all aspects of life and resulted in economic turmoil.
- The public finance processes have been far from immune from this disruption. This is evidence by the timeline for draft Executive Budget 2021-22. There been a large number of policy and spending announcements by the Chancellor, and many announcements have come late in the year leading to delays in the timetable and uncertainty over the amount available to the Executive for allocation.
- Added to this are the consequences of the UK Exit from the EU, which apparently have resulted in disruption to trade across the Irish Sea. The full extent of these consequences remains unknown at this time, including the impact on NI-based businesses.
- These uncertainties combine with other factors to make for a challenging environment to form the Executive Budget. Unresolved issues remain, including, but not limited to, e.g.: around funding for large liabilities such as the Troubles Permanent Disablement Payment Scheme; and, the design and operation of the UK Shared Prosperity Fund.
- There appear to be pressures arising from commitments made in the New Decade, New Approach; and these are recurrent pressures relating to teachers' or police pay. At the time of writing, it is unclear what the Executive strategy is to meet these over the long term.
- Also at the time of writing, the 2021 UK Budget is expected to set out the next phase of the plan to tackle the virus and protect jobs following on from the Prime Minister's announcement on 22 February 2021. It is to be published on 3 March 2021, alongside the latest forecasts from the Office for Budget Responsibility (OBR).[61]
- The Chancellor's decisions are likely to have further implications for NI. The increasing UK deficit[62] will act on a constraint on the Chancellor's thinking and flexibility to act. This may mean that his willingness to respond to calls, such as extending the Furlough Scheme[63] or retaining the temporary £20/week increase in Universal Credit may be curtailed.[64] At the time of writing, these remain to be seen.
- Under the prevailing arrangements for devolution, it seems some of the Chancellor's decisions may change the funding available to NI through the Barnett Formula. Whether such changes impact on the 2021-22 Budget year or beyond remains to be seen.
- In addition, it may be that the Chancellor sets out a timetable for the next Spending Review. The timetable for that process will certainly have an impact on NI.

[61] https://www.gov.uk/government/news/budget-2021
[62] https://obr.uk/budget-deficit-continues-to-rise-sharply/
[63] https://www.personneltoday.com/hr/cbi-extend-furlough-june-2021-before-budget/
[64] https://housingnet.co.uk/pdf/keep_the_lifeline_-_why_the_government_should_keep_the_ps20_uplift_to_uc.pdf

In conclusion, it remains to be seen as to how many of the noted issues (and others) will be clarified when the Executive's Revised Budget is made available for consideration.

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.*[65]

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.*[66]

The 2020 version of the SoFP includes some additional details:

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65 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf page 10

66 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf see page 10

At Spending Review 2020, given the exceptional circumstances in relation to COVID-19 and the end of the EU transition period, programme level comparability has been applied to COVID-19 and replacement EU funding to ensure the devolved administrations receive comparable funding.[67]

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.*[68]

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.

67 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938410/Statement_of_Funding_Policy_2020.pdf see page 11

68 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938410/Statement_of_Funding_Policy_2020.pdf see page 11

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