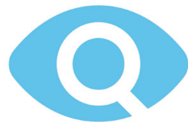


Northern Ireland
Fiscal Council
Bringing transparency to NI's public finances

The public finances in Northern Ireland:

a comprehensive guide

November 2021: First Edition

Contents

	Foreword	1
Chapter 1	Executive summary	3
Chapter 2	Governance and public finance in Northern Ireland	13
Chapter 3	Public spending and revenue in Northern Ireland	31
Chapter 4	The Northern Ireland Executive and the UK public finance framework	39
Chapter 5	The Executive: spending & financing	73
Chapter 6	The Northern Ireland Budget process	117
Annex A	Key publications	133
Annex B	Supplementary tables	137

Foreword

The Northern Ireland (NI) Fiscal Council was established in 2021 to bring greater transparency and independent scrutiny to the region's public finances, focusing in particular on the finances of the NI Executive. In doing so we hope to inform both public debate and policy decisions to everyone's benefit.[1]

As we set about this task, we thought that it would be useful to begin by preparing a reasonably comprehensive reference guide to the NI public finances that we can update over time and draw upon in our other outputs. So, in this first edition of it, we summarise the NI Executive's finances – where the money comes from and where it goes, and how it is managed, legislated for and reported on within the UK public finance framework. And we explain how the Executive fits into the broader governance arrangements and public spending and revenue picture for the region and compare its role and finances with those of the other devolved administrations.

The members of the Fiscal Council are responsible for the content of the publication, but we have relied enormously on the hard work and expertise of our current and former colleagues Jonathan McAdams, Karen Weir, Colin Pidgeon, Philippa Todd, Ryan Robinson, Stephen Barrett and Paul Montgomery. We are also very grateful for the time and patience of many outside experts, including from: the NI Departments (especially Finance and Communities), the NI Audit Office, the NI Statistics and Research Agency, the NI Fiscal Commission, the UK Treasury, Office for Budget Responsibility, Northern Ireland Office, Office for National Statistics and National Audit Office, the Institute for Government, the Institute for Fiscal Studies and the Fraser of Allander Institute. We have received many helpful comments on various drafts of different parts of the document – all of which we have treated on their merits. We have come under no pressure from NI Executive or UK Government Ministers, advisers or officials to include, exclude or change any material.

The document was finalised shortly after the UK Government's Spending Review on 27 October 2021, but prior to the publication of the Executive's Draft Budget. As noted above, we plan to update the document over time and would be grateful for any suggestions how to build on and improve it in future editions. These can be sent to info@nifiscalcouncil.org.

The publication is structured as follows:

- Chapter 1 is an **executive summary**.
- Chapter 2 describes the responsibilities of the three **layers of government** operating in NI and the corresponding shares of spending and revenue.
- Chapter 3 describes the size, composition and evolution of **public spending and revenues in NI**, combining all three layers of government.

[1] Find out more about the NI Fiscal Council at www.nifiscalcouncil.org

- Chapter 4 describes **how the Executive manages its finances** within the boarder framework set up by the UK Treasury for the UK as a whole.
- Chapter 5 describes **where the Executive's money come from and where it goes**, both in terms of NI departments and particular functions.
- Chapter 6 describes the **Budget process** in NI, including the implications of a return to multi-year budgeting and the ongoing annual budget cycle.

1 Executive summary

Governance and public finance in Northern Ireland

People in NI benefit from and pay for public spending delivered through three distinct layers of government: the UK Government in London, the NI Executive / Assembly in Belfast and 11 city, district and borough councils. Scotland and Wales have similar triple-layer systems. England has no devolved administration or legislature of its own, but a more complicated system of local government.

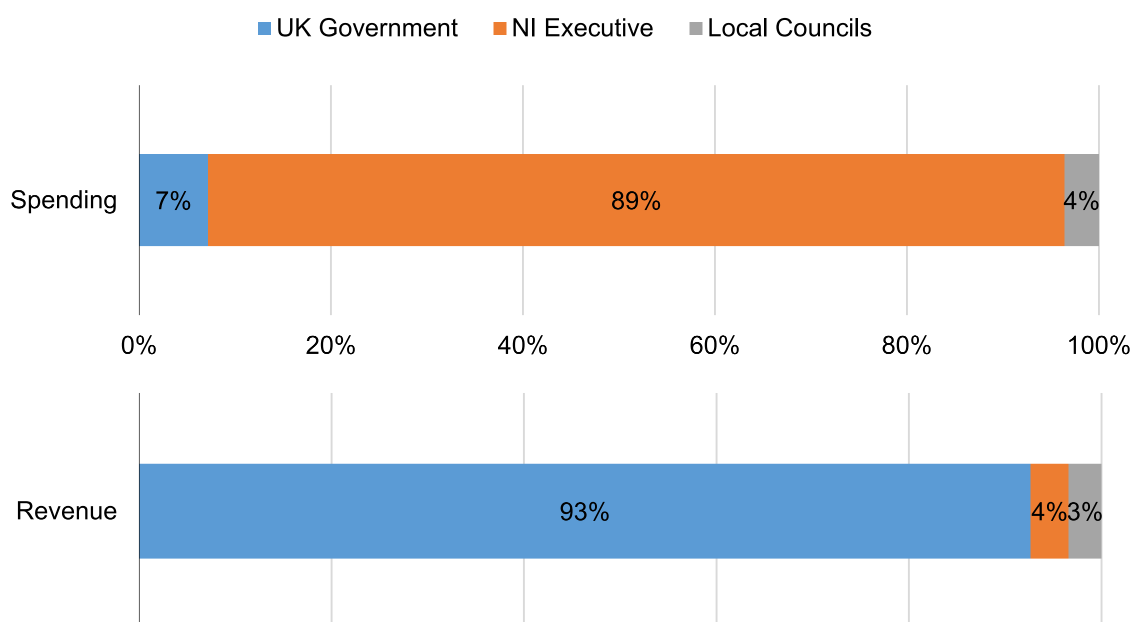
The NI Executive is structured to be a multi-party and cross-community coalition, comprising a First and deputy First Minister and eight departmental Ministers. The parties' strength in the Executive and the order in which they choose their departments broadly reflect their strength in the Assembly. The Department of Finance leads on the Budget and its current Minister is Conor Murphy of Sinn Féin.

Relative to its counterparts in Scotland and Wales, and to the UK Government in England, the Executive is responsible for a very large share of 'identifiable'[2] public spending in NI – almost £9 in every £10. The Executive has responsibilities in NI that in the other regions fall either to the UK Government (e.g. pensions and social security benefits) or to local government (e.g. education, social care and roads).

Like the other devolved administrations, the Executive finances its spending from various sources, but it raises less in tax and relies more on grants from the UK Government than the Scottish and Welsh Governments – devolution of tax-raising powers having been much more limited than in those two regions. The Executive raises less than £1 in every £20 of NI tax revenue, almost all from Regional Rates.

[2] Spending for the specific benefit of a particular region or country, most of which occurs within the region.

Chart 1.1 – Identifiable spending and tax revenue in NI by layer of government



Source:HMT Country and Regional Analysis 2020 and ONS Country and regional public sector finances: financial year ending 2020

Public spending and revenues in Northern Ireland

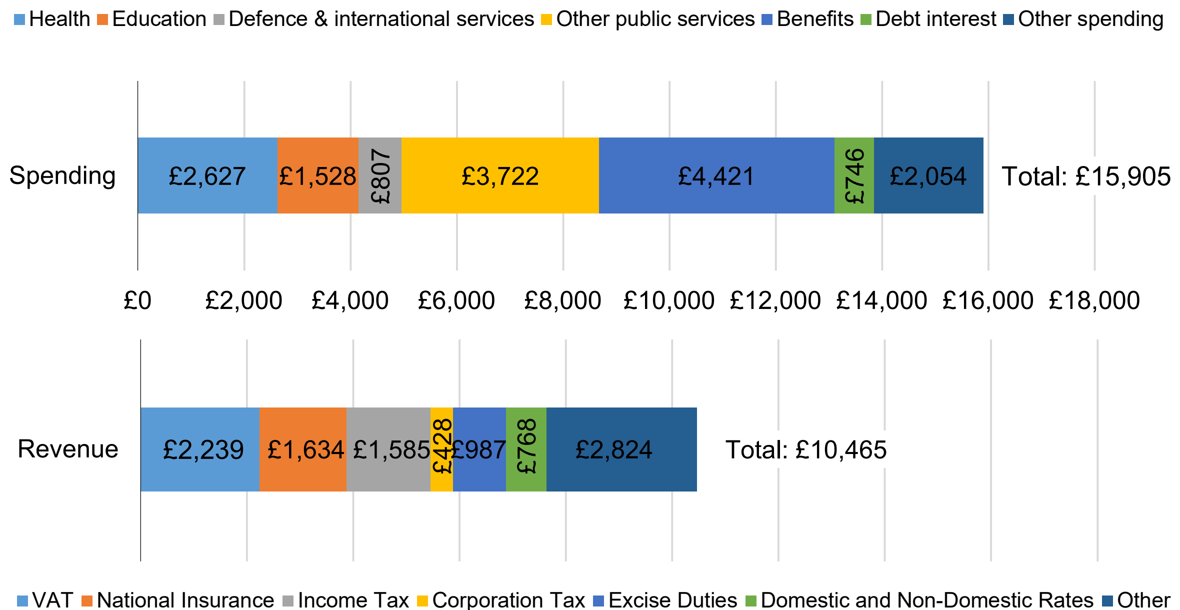
The UK Government, the Executive and NI's local councils and public corporations spent[3] £30.1 billion (or £15,905 per person) in 2019-20,[4] 3.4 per cent of the £885.9 billion total for all UK public spending. Spending was higher per person in NI than in the other regions, both on pensions and benefits and public services (bar transport), but the percentage difference with England has fallen over the last 20 years.

In 2019-20 the UK public sector raised £828.3 billion from taxes and other sources, with NI contributing 2.4 per cent of this at £19.8 billion (£10,465 per person). This was significantly lower than NI's 2.8 per cent proportion of the UK population that year. Revenue raised per person in NI was lower than in England and Scotland but 6 per cent higher than in Wales. NI contributes much less income tax and corporation tax per head than England, but roughly the same amount of VAT and significantly more in excise duties. This reflects lower employment and wage rates in NI, the redistributive impact of the tax and spending system, and higher levels of smoking.

Relatively high public spending and relatively low revenues mean that NI runs a larger implicit budget deficit per person (£5,440) than the other three UK regions (and all nine regions within England), and this has been the case for at least the past 20 years. The economic impact of Covid-19 and the policy response to it mean that the figures for 2020-21 will show much larger deficits for all regions of the UK.

[3] Total Managed Expenditure (TME), including both 'identifiable expenditure' and the region's population share of other public spending that benefits the whole UK (e.g., on defence and foreign policy)
[4] ONS Country and Regional Public Sector Finances: financial year ending 2020 – 21 May 2021

Chart 1.2 – Composition of NI public spending and revenue per person in 2019-20, by function



Source: ONS Country and regional public sector finances: financial year ending 2020

The Northern Ireland Executive and the UK public finance framework

Like the UK Government, the Executive has to make judgements on spending, revenue and borrowing when it prepares a Budget. But its ability to borrow is limited by UK legislation, most of its revenue comes from UK Government grants and its spending plans focus largely on public services and investment. Unlike its Scottish and Welsh counterparts, the Executive is responsible for state pensions and social security, but the default is to maintain broad parity with the UK system.

The Executive's Budget decisions affect the UK public finances. So, like the other devolved administrations, the Executive has to manage its spending and financing within the Treasury's framework for managing spending across the UK as a whole. The mechanics of this are set out in the Treasury's *Statement of Funding Policy*.

At first glance, the Treasury treats the devolved administrations much like Whitehall departments. Each has a 'Departmental Expenditure Limit' (DEL) within which to meet commitments that the Treasury deems it to have control over in the short term and the ability to plan over the medium term – notably the day-to-day cost of public services and capital investment. And each is also responsible for some 'Annually Managed Expenditure' (AME), which is more volatile and/or demand-led. But the Treasury gets less involved in how the devolved administrations spend their DELs than it does with Whitehall departments – it does not agree policies with them, approve business cases, scrutinise spending or undertake performance

assessments. This is done by the finance departments of the administrations, but they are generally less powerful than the Treasury in the UK context.

The Executive's DEL spending is largely financed through a 'Block Grant' from the UK Government that is regularly adjusted to reflect changes in UK Government spending in England or other regions via the 'Barnett formula'. The Block Grant also includes 'non-Barnett additions', some specific to the Executive (typically in support of political agreements to underpin power-sharing) and some common to all devolved administrations. The Block Grant jumped 30 per cent in 2020-21 thanks to the 'Barnett consequentials' of higher UK spending responding to Covid-19 and to non-Barnett additions in support of the 'New Decade New Approach' (NDNA) agreement that paved the way for the Assembly and Executive to return in 2020.

The October 2021 Spending Review sees the Block Grant drop from £15.9 billion in 2021-22 (still inflated by the response to the pandemic) to £14.8 billion in 2022-23 before rising again to £15.2 billion in 2024-25. The settlement is larger than most observers expected because the Office for Budget Responsibility's assessment of the fiscal outlook has improved, and the Chancellor has used the proceeds largely to top up the spending plans that he had pencilled in at the last Budget in March 2021.

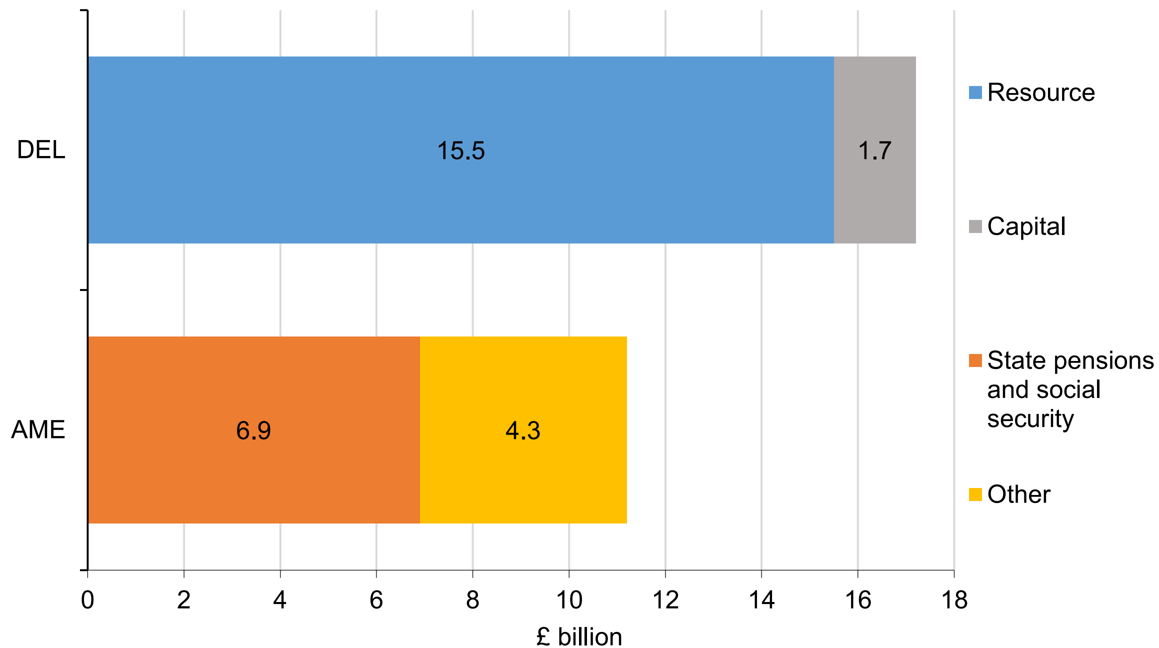
The Executive's other sources of finance include income from fees and charges,[5] Regional Rates, funding from the EU (some continuing after Brexit) and borrowing. These are treated in a way that may appear counter-intuitive to the casual observer of the Treasury's public finance framework, namely as negative spending that creates room for additional gross spending within a given net DEL envelope.

The Treasury penalises DEL overspends (in principle) and allows underspends to be carried forward (within limits) through its 'Budget Exchange' scheme, which encourages the Executive to manage this spending carefully. This is less true for AME spending, which is dominated by state pensions and social security benefits, but also includes items like public service pensions and student loans. When the Executive implements AME policies broadly comparable to those elsewhere in the UK, the UK Government meets the costs, without penalties or carry-forwards.

As noted, the Executive Budget process focuses largely on the allocation of DEL spending. So it is striking that on the two occasions in recent years when public finance management has either contributed to or threatened to contribute to the collapse of the power-sharing institutions, this has been related to items of AME rather than DEL, namely welfare and Renewable Heat Incentive (RHI) payments.

[5] Throughout this document we use the phrase 'income from fees and charges' to cover anything classified as 'sales of goods and services' in the National Accounts.

Chart 1.3 – NI Executive DEL and Departmental AME spending in 2020-21



Source: HMT PESA 2021

The Executive can borrow up to £3 billion in total to finance capital investment. This is more per person than the Scottish and Welsh Governments, in part because the Executive has some responsibilities that fall to local councils in Scotland and Wales and therefore undertakes some of the borrowing that councils would undertake in those regions. As of October 2021, outstanding borrowing was around £1.5 billion.

The Executive can also borrow up to £250 million per annum to help manage its in-year cash flow, but it has not yet needed to do so (unsurprisingly, as it can draw on the UK Consolidated Fund for day-to-day needs). The Scottish and Welsh Governments have been granted larger overdraft facilities than this, as they also have to contend with uncertainty around the revenues from their devolved taxes. For this reason they are also allowed to smooth cash flow across multiple years.

Like the other devolved administrations, in extremis the Executive can call on the Treasury's contingency reserve. The Treasury has also used the reserve to provide financial support for political agreements, like the Fresh Start and Confidence and Supply agreements. The Scottish and Welsh Governments are allowed to run their own contingency reserves, instead of having access to Budget Exchange.

The Executive: spending & financing

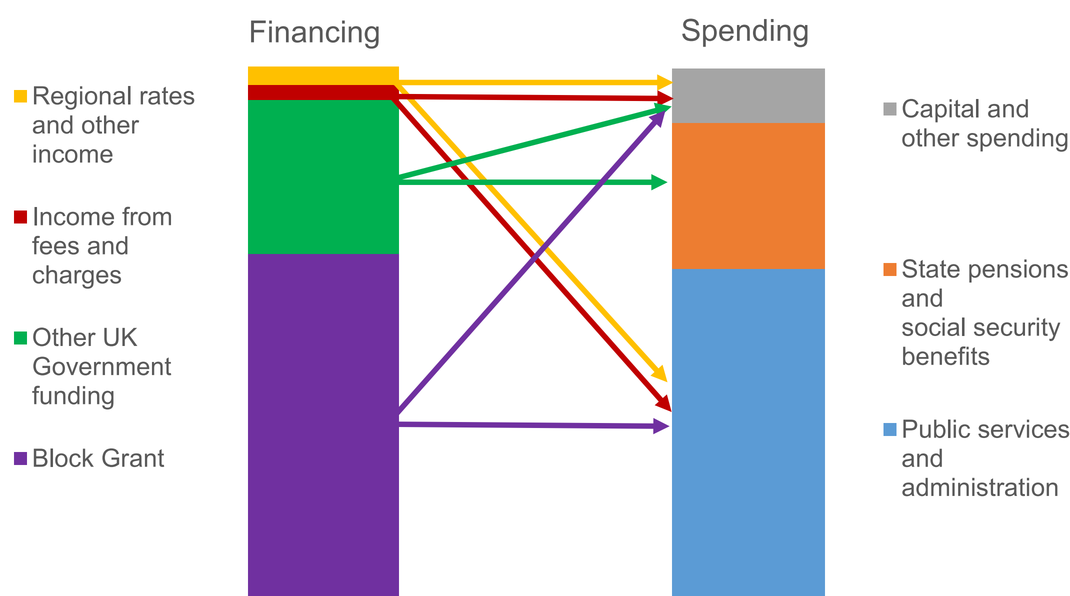
Painting a coherent picture of what the Executive spends and where the money comes from is not as simple as it sounds. There is no single data source that reconciles spending, financing and flows of cash between the UK Government and the Executive in a straightforward way for any given year, let alone a run of them.

Doing the best we can with different data sources, we present a breakdown of total gross spending and financing that adds up to £22.0 billion in 2019-20, rising 17 per

cent to £25.5 billion in 2020-21 thanks largely to the impact of higher UK Government spending in response to the Covid-19 pandemic. (This is smaller than the headline number for the Executive's Total Managed Expenditure, as we try where possible to remove 'non-cash' spending and financing – for example the accounting charge for depreciation. This remains work in progress.)

On this measure, the biggest areas of spending by the Executive are public services and administration (63 per cent in 2020-21), state pensions and social security benefits (27 per cent) and capital spending on assets and grants (10 per cent). The main sources of financing for this spending are the UK Government Block Grant (65 per cent), other UK Government funding (29 per cent), income from fees and charges (3 per cent) and Regional Rates (3 per cent). EU funding accounted for 2 per cent of financing in 2019-20, but in the wake of Brexit has largely been replaced by (for now at least) broadly equivalent amounts of UK Government funding.

Chart 1.4 – Gross spending by the Executive and its financing in 2020-21



Source: HMT PESA 2021

Another way to get a big picture overview of the money flowing into and out of the Executive is to look at its bank statement. The Department of Finance publishes an annual *Public Income and Expenditure Account*, showing flows of cash into and out of the NI Consolidated Fund. The flows in are dominated by UK Government funding and the flows out by payments of 'supply' to finance spending by NI departments.

Looking at the Executive's spending by department, the biggest spenders are Health (mostly on the day-to-day running costs of the healthcare system) and Communities (mostly on state pensions and social security benefits), with Education third. Unfortunately, when the Executive publishes its departmental Budget plans and forecasts, it does not accompany them with comparable data for past years.

The composition of the Executive's spending can also be viewed through the lens of the OECD's 'Classification of the Functions of Government', which looks at the uses

to which funds are put rather than the department that spends them. Over the past five years this highlights the contrast between above-average growth in health, transport, enterprise, environmental protection and science, and below-average growth in education, public order, housing and employment.

The Executive and its agencies and arm's-length bodies offer occupational pensions to their employees. These are unfunded 'pay-as-you-go' schemes, in contrast to the funded scheme for NI local government employees. In any given year payments to retirees from these schemes normally exceed contributions by current employees, but the UK Government provides funding to cover the shortfall. Increases in public sector employment and pay rates are currently shrinking the funding required by increasing contributions, but in the longer term they will also increase payments.

On the financing side, the largest recorded source of income for the Executive after UK Government funding is income from fees and charges (around £770 million in 2019-20), which receive relatively little public attention. As noted above, we use this description as shorthand for all income that the Executive receives that is classified as 'sales of goods and services' in the National Accounts. It includes items such as non-domestic water charges, further education fees and dental charges.

Regional Rates on domestic and non-domestic property are the Executive's only significant direct source of tax revenue and raised £656 million in 2019-20. The Executive froze or increased the domestic poundage only modestly between 2007 and 2017, while increasing the non-domestic poundage more sharply. In marked contrast, during the three years in which the Executive was not sitting the UK Government increased the non-domestic poundage with inflation and the domestic poundage more sharply. During the pandemic, the domestic poundage has been frozen and the non-domestic poundage reduced by 12.5 per cent. In addition, businesses in sectors most affected by Covid-19 have been granted rates holidays in 2020-21 and 2021-22. Domestic rates bills tend to be lower per household on average than the equivalent taxes elsewhere in the UK, but non-domestic rates are among the highest in the UK and Ireland even after the reduction in 2020.

The Executive received roughly £400 million a year in funding from the European Union during the last three years of the UK's membership, primarily in Common Agricultural Policy (CAP) payments for farmers and land managers. Income from the EU is still expected to total almost £200 million in 2021-22, as some previously agreed funding has yet to be disbursed while PEACE programme funding for NI and the border area of the Republic of Ireland will continue at least to 2027.

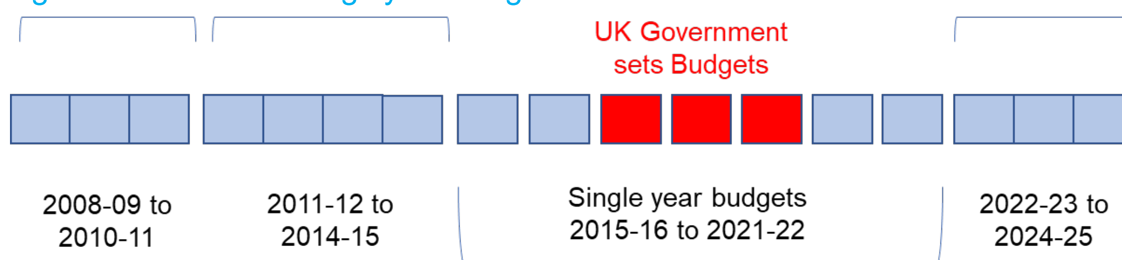
When the Executive sets spending or charging policies that are more generous than those in England or the rest of the UK, this is referred to as 'super-parity'. Examples include domestic water charges, welfare reform mitigations, university tuition fees, concessionary transport fares and charges for domiciliary care. It is often argued that bringing these more into line with UK policy would free resources to spend elsewhere (which it would), but it is for the Executive and Assembly to judge if they are worth the cost – they are policy choices like any other. 'Sub-parity' policies are rarer but include less generous childcare support in NI than elsewhere.

The Northern Ireland Budget process

The publication of the UK Government Spending Review on 27 October 2021 holds out the prospect of a return to multi-year budgeting by the NI Executive following seven successive single-year Budgets. In principle, this should provide a relatively stable and predictable financial foundation for longer-term planning and reform.

As shown in Figure 1.1, there have been nine Budgets in NI since the Executive was restored in 2007. The first two were multi-year Budgets coinciding with multi-year Spending Reviews in the UK that provided relative certainty regarding the size of the Block Grant. The UK announced a fresh multi-year Spending Review running from 2016-17 to 2019-20, but because of political instability and then the collapse of the power-sharing institutions NI had a succession of single year-Budgets during this period including three years when they were set by the UK Government. The UK and NI both had single-year Budgets in 2020-21 and 2021-22, because of the disruption from Brexit and Covid-19. The new Spending Review runs from 2022-23 to 2024-25 and the Executive aims to agree a Budget spanning the same period.

Figure 1.1 – Multi- and single-year Budgets in NI since 2007



Source: Northern Ireland Fiscal Council

As noted, the Executive's Budget-setting process focuses on spending by NI departments on public services and capital spending. Key steps include:

- When the UK Government sets DELs for Whitehall departments at a **Spending Review** (or other fiscal event), the change in DELs from one year to the next (relative to a baseline excluding one-off items) translates into a change in the Executive's DEL and Block Grant via the Barnett formula.

- When time permits the Executive publishes both **a Draft and a Final Budget** setting out resource and capital DEL allocations (and AME forecasts) department by department. The Department of Finance leads this process, but the relative autonomy of individual departments and the need for agreement in the multi-party coalition means that it is less able to dictate the outcome than the Treasury is usually able to do at UK level.

- Under the Fresh Start Agreement, there should be a **consultation period** of at least 8 weeks between the Draft and Final Budget, with the latter required before the end of the fiscal year. But the date of the Draft Budget (and the length of the consultation) depends on the date of the UK Spending Review, how long it takes the Northern Ireland Office formally to confirm the Block Grant and (especially) how long it takes the Executive to agree the Draft. Stakeholders frequently complain that the consultation period is too short.

Whether the Executive Budget covers a single or multiple years, the administrations and legislatures in both NI and the UK also operate an annual budget cycle:

- Agreement on a Budget does not in itself give NI departments **authority to spend**. This requires separate Assembly approval through 'Estimates' (which include one or more 'Requests for Resources' for each department) and Budget Acts that require formal cross-community support from MLAs.

- The Budget Act is not normally passed until early summer, well into the fiscal year. So departments have to be given pre-emptive authority to spend (typically 45 per cent of what they spent in the previous year) through a **Vote on Account**. The UK Parliament does the same, which ensures that there is money 'in' the NI Consolidated Fund for departments to draw upon.

- Spending allocations agreed at the beginning of each fiscal year are reviewed at **In Year Monitoring Rounds** (IMYRs) in June, October and January. At each, the Department of Finance rejigs departmental allocations to reflect changes in the Executive's overall financial position and any bids for extra resources or surrendering of unneeded resources by departments.

- Alongside the June IYMR, the Department of Finance publishes **provisional outturns** for the previous year. The size of any underspends reported for resource, conventional capital and financial transactions capital determines what proportions of those underspends (and the associated unspent Block Grant) can be carried forward under the Treasury's Budget Exchange rules.

- The **UK Government's autumn fiscal event** generally updates the DEL Block Grant for the rest of the year, via the Barnett consequentials of any in-year changes to Whitehall DELs. But it is only finalised in the Supplementary Estimates process in mid-January, with any major changes likely to be carried forward to the following year. The Executive can reflect this position in its January Monitoring Round and Spring Supplementary Estimates.

Covid-19 required changes to the Budget process for the devolved administrations to reflect the fact that UK Government spending plans were repeatedly re-opened and increased through 2020-21. Rather than require the administrations to wait for in-year spending increases to be reflected in Barnett consequentials at the UK Budget or Spring/Autumn statement, the Treasury provided a 'Barnett Guarantee' eventually worth £16.8 billion (including £3 billion for the Executive) so that they could fund their Covid-19 spending in parallel with spending increases in England. In the end, the Barnett consequentials exceeded this, so no top-up was needed.

At each UK fiscal event, the Office for Budget Responsibility prepares five-year forecasts for the UK public finances, incorporating (but not separately identifying) the Executive. It incorporates departmental DELs for the years for which they have been decided and an aggregate DEL envelope (implicitly including the Executive) for any subsequent years, as well as AME forecasts for all five years. The Executive submits 'pre-measures' AME forecasts to the OBR, which it is free to amend and may then also adjust for any relevant UK policy measures being announced.

For all its complexity, the NI Budget process is in some respects more open and transparent than the UK one, albeit complicated by the politics of the multi-party coalition. For example, the UK Government does not publish a Draft Budget or details of unsuccessful departmental bids for additional resources.

2 Governance and public finance in Northern Ireland

People in NI benefit from and pay for public spending delivered through three distinct layers of government – the UK Government in London, the NI Executive and Assembly in Belfast and 11 local councils across the region.

Scotland and Wales have similar triple-layered systems, but the distribution of spending responsibilities and revenue-raising powers differs significantly from region to region. This contrasts with a more uniform allocation in most explicitly federal systems of government. England has no devolved administration, but a more complicated and in some places multi-layered system of local government.

The Northern Ireland Assembly and Executive

The NI Assembly and Executive were created in their current forms following the Belfast / Good Friday Agreement in 1998.[6] The Agreement was endorsed by referenda in both NI and the Republic of Ireland and then took legislative effect in the UK Parliament through the Northern Ireland Act 1998.[7] This process broadly coincided with the creation of the devolved administrations and legislatures in Scotland and Wales. In each case, the newly created institutions were granted various fiscal powers hitherto exercised by the UK Government in London.

The NI Assembly, meeting in Stormont, is composed of 90 'Members of the Legislative Assembly' or MLAs, elected from the same 18 constituencies that return MPs to Westminster. Five MLAs are elected for each constituency, using the single-transferable vote system of proportional representation. Elections are held every five years, but an 'extraordinary' election can be held if the Assembly resolves to dissolve itself or if a First and deputy First Minister fail to be nominated.

Most votes in the Assembly are decided by a simple majority, but on important or controversial matters – which include the Executive's Budget – the Assembly votes by the special threshold of 'cross-community support'. This is defined as either:

- **'parallel consent'** – an overall majority plus a majority of Unionists and a majority of Nationalists (sometimes called '50:50:50'); or

- **'weighted majority'** – an overall majority of 60 per cent plus at least 40 per cent of the Nationalists and 40 per cent of the Unionists voting.

The Northern Ireland Act divides the legislative responsibilities that were held by the UK Government prior to 1998 into three categories (Table 2.1):

- The Assembly has legislative authority over **'transferred matters'**

[6] The Belfast Agreement / Good Friday Agreement: www.gov.uk/government/publications/the-belfast-agreement
[7] The Northern Ireland Act 1998 https://www.legislation.gov.uk/ukpga/1998/47/contents

- The UK Government retains authority over **'excepted matters'**, and
- The Assembly can legislate on **'reserved matters'** if there is cross-community support and if it has the agreement of the Secretary of State for Northern Ireland in the UK Government.

Table 2.1 – Legislative authority under the NI devolution settlement

Transferred matters	Excepted matters	Reserved matters
· health and social services · education · employment and skills · agriculture · social security · pensions and child support · housing · economic development · local government · environmental issues, including planning · transport · culture and sport · the NI Civil Service · equal opportunities · policing and criminal justice	· the constitution · Royal succession · international relations · defence and armed forces · nationality, immigration and asylum · elections · national security · nuclear energy · UK-wide taxation · National Insurance Contributions · currency · conferring of honours · international treaties	· firearms and explosives · financial services and pensions regulation · broadcasting · import and export controls · navigation and civil aviation · international trade and financial markets · telecommunications and postage · the foreshore and seabed · disqualification from Assembly membership · consumer safety · intellectual property

Source: Northern Ireland Act 1998 (as amended)

This three-way categorisation is unique to NI, with the reserved matters listed in Schedule 2 of the Northern Ireland Act and excepted matters in Schedule 3. Some responsibilities have moved from one category to another – most significantly when policing and criminal justice were devolved and moved from the reserved to the transferred category on 12 April 2010 following the 2006 St Andrew's Agreement.[8]

It is not uncommon for the Assembly to legislate for reserved matters (with the consent of the Secretary of State), but this is usually in Bills that deal primarily with transferred matters but include a small number of provisions dealing with reserved matters. (Recent examples include the Pensions Bill, the Criminal Justice (Committal Reform) Bill and the Justice (Sexual Offences and Trafficking Victims) Bill). It is much less common for the Assembly to legislate on a reserved matter alone.

Taxes or duties that apply to the UK as a whole – or that are *"of the same character"* as those applying to the UK as a whole – remain excepted matters in the hands of the UK Government, except where they are explicitly devolved (as in the case of setting a corporation tax rate, should the Executive and the UK Government agree to commence the provisions legislated for that in 2015). But the Assembly does have

[8] Northern Ireland (St Andrews Agreement) Act 2006: https://www.legislation.gov.uk/ukpga/2006/53/contents

the power to introduce entirely new taxes as it did with the Carrier Bag Levy[9] and the temporary Large Retail Levy.[10] But neither is (or was) a large revenue-raiser.

The Executive is structured to ensure that power is shared by the unionist and nationalist communities in a multi-party coalition. Partly as a result, the status of Ministers and departments – and their relationships with the Assembly or Parliament – differs between Stormont and Westminster in ways that may influence spending and budget management, both within and across departments.

In the UK Government:

- The **Prime Minister** holds office by virtue of being able to command a majority in the House of Commons and then allocates government functions to Secretaries of State and other Ministers. According to the *Cabinet Manual*: *"As powers generally rest with the Secretary of State, and departments do not have their own legal personality, the structure of government departments tends to change to reflect the allocation of functions to ministers."*[11] The Prime Minister can hire and fire Ministers as s/he wishes and reorganise departmental responsibilities through 'machinery of government' changes.

- The **Cabinet** is *"the ultimate decision-making body"* of the UK Government, according to the *Manual*, and the Prime Minister decides which Ministers to appoint to it. All Ministers – not just those in the Cabinet – *"are bound by the collective decisions of Cabinet, save where it is explicitly set aside, and government ministers take collective responsibility for Cabinet decisions. and carry joint responsibility for all the Government's policies and decisions."*

- When a UK Minister resigns, any Secretary of State can exercise executive and prerogative power in the area for which he or she was responsible. This avoids any gap in the exercise of Ministerial authority, so that **civil servants** are never required to exercise statutory, executive or prerogative power.

The situation in NI is different in several respects:

- **NI Departments** have a legal personality and their role and number are set out in legislation, most recently the Departments Act (Northern Ireland) 2016.[12] So machinery of government changes are less straightforward and require the approval of the Assembly. There are currently nine Ministerial departments (down from 12 previously), including the Department of Finance which takes the lead in the Budget process and the management of

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[9] The Republic of Ireland introduced a levy to discourage carrier bag use in 2002. Wales followed in 2011, Northern Ireland in 2013 and Scotland in 2014. Finally, Westminster voted to introduce one in England in 2015. The levy functions as a conventional tax in Northern Ireland, with the receipts collected by the Department of Agriculture, Environment and Rural Affairs and required to be used to finance environmental projects, whereas in the other regions retailers can keep the proceeds.

[10] The Large Retail Levy was introduced in April 2012 for three years. It levied an additional regional rate on large retail stores with a Net Annual Value (NAV) of over £500,000. This was used to finance a 20 per cent rates relief for small businesses with a NAV of between £5,001 and £10,000.

[11] The Cabinet Manual: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/60641/cabinet-manual.pdf

[12] https://www.legislation.gov.uk/nia/2016/5/contents

public expenditure at the NI level. Each department manages its own budget within the allocation set via the Executive's Budget process.

- The **Executive** (strictly speaking 'the Executive Committee') does not take and impose decisions across government as the UK Cabinet does (at least in principle). Rather it *"exercises executive authority on behalf of the NI Assembly and takes decisions on significant issues and matters which cut across the responsibility of two or more Ministers".* [13] It also agrees proposals by Ministers for new legislation and is responsible for drawing up a Programme for Government and an agreed budget for Assembly approval.

- The Executive is chaired by a **First Minister and deputy First Minister** from the largest parties of each community in the Assembly, with the larger of the two getting to appoint the First Minister. Despite the difference in job title, both individuals have the same authority, take decisions jointly and are required to seek consensus on all issues. They are supported by The Executive Office (TEO), which also has responsibility for equality, poverty and good community relations. As one constitutional expert has put it:

  > *"The First Minister and deputy First Minister hold office jointly as a dyarchy and if one resigns the other also loses office. They are semi-presidential figures in the sense that they cannot be removed by the Assembly. But they do not, unlike most chief executives, appoint the other ministers".* [14]

- Under the terms of the 1998 Northern Ireland Act, most **Ministers** are appointed by the d'Hondt system, which allocates departments to the parties broadly in proportion to their seats in the Assembly, with the largest party having the first choice and then the second largest and so on. (The Finance portfolio is currently held by Sinn Féin, who had second choice of department in 2020.) The one exception is the Minister of Justice, elected by the Assembly separately following a cross-community vote. Parties do not have to take up the posts to which they would be entitled under the d'Hondt system – following the May 2016 Assembly election the SDLP and Ulster Unionists chose instead to form NI's first 'official opposition'. As Jess Sargeant and Jill Rutter of the Institute for Government have put it:

  > *"Parties can decide whether or not they want to be in government but have no choice over whom they are in government with".* [15]

- With the make-up of the Executive determined by electoral arithmetic rather than negotiation, the **Programme for Government** is the creation of the 'coalition' once in office rather than being a precondition to forming one,

[13] https://www.northernireland.gov.uk/topics/your-executive
[14] Vernon Bogdanor, Devolution in the United Kingdom, OUP 2001.
[15] Jess Sargeant and Jill Rutter, Governing without ministers, Institute for Government 2019 https://www.instituteforgovernment.org.uk/publications/governing-without-ministers-northern-ireland

as was the case when the Conservatives and Liberal Democrats negotiated a joint programme before taking office in the UK in 2010.[16] This means that agreeing a Programme for Government is less urgent in NI and by October 2021 had yet to be completed 20 months after the Executive took office.

- NI Ministers do not take **collective responsibility** for the decisions of other departments or the Executive. (So much so that Ministers have on occasion taken decisions made by their 'colleagues' from other parties to judicial review.[17]) The 2018 Buick judgement by the NI Court of Appeal clarified that NI Ministers – unlike their UK, Scottish or Welsh counterparts – have full executive authority in their areas of responsibility, within any broad programme agreed by the Executive and endorsed by the whole Assembly.

- The 1998 Northern Ireland Act provided for short **periods of time without Ministers**. Under these circumstances, civil servants can exercise executive authority, albeit under significant limitations. For example, cross-cutting matters (e.g. controversial or significant issues) can only be dealt with by the Executive and cannot normally be made in the absence of a Minister.

The Executive has been suspended on four occasions since 1998, most notably between October 2002 and May 2007 (after the Ulster Unionist Party declined to share power with Sinn Féin) and it recently did not meet – rather than being formally suspended – between January 2017 and January 2020 (after Sinn Féin's deputy First Minister resigned and the party declined to nominate a successor).

During the first of these periods, NI returned to 'Direct Rule' from Westminster (as between 1972 and 1998). The UK Government took responsibility for government decisions in NI, with Ministers in the Northern Ireland Office (NIO) directing the Northern Ireland Civil Service (NICS), and it could legislate for NI by Order in Council – a type of secondary legislation – on any transferred matter. But Direct Rule was not re-imposed in 2017. With a longer hiatus in prospect than envisaged under the 1998 Act, the UK Parliament bestowed temporary powers on NI civil servants to undertake the day-to-day running of the administration, albeit with considerable constraints on their ability to make significant policy decisions. The Permanent Secretary of the Department of Finance and other departmental Permanent Secretaries managed individual departmental budgets and monitoring exercises. In doing so they tended to act as caretakers – retaining the direction of previous policy and as a consequence largely rolling over previous departmental Budget allocations. During both periods the Executive's Budget had to be voted on in Westminster, with the Secretary of State for NI responsible for this process.

Under the New Decade New Approach agreement (NDNA) of January 2020, the period within which the Northern Ireland Office must call an Assembly election if the main party of either community withdraws from the Executive has been

[16] The Coalition: our programme for government https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/78977/coalition_programme_for_government.pdf
[17] https://www.agendani.com/bmap-faces-judicial-review/

increased to 24 weeks (this is being legislated for in late 2021). In a new departure, even if the Executive is not meeting *"Ministers will remain in office in a care-taker capacity to allow for greater continuity of decision-making"*, rather moving to Direct Rule or handing control to the NI Civil Service:

> *"Ministers will be required to act within well-defined limits, including as set out in the Ministerial Code and in accordance with the requirement for an Executive Committee to consider any decisions that are significant and controversial or cross-cutting, and, as appropriate, the restrictions that are in place during a pre-election period. Assembly Committees will also continue to function and discharge their important duties."*[18]

Leaving aside the special circumstances when the Executive is suspended, differences in the roles of Ministers, departments and the Cabinet/Executive between Westminster and Stormont might be expected to help shape spending and public finance management decisions, sometimes in quite subtle ways. For example:

- Once funding has been allocated to an NI department the **Minister has greater freedom** than his or her Whitehall counterpart to allocate money between different priorities (subject to any statutory duties the department may have). This room for manoeuvre is also reflected in the fact that the Estimates presented to the Assembly typically provide a less detailed programme-by-programme breakdown than those at Westminster.

- Consistent with having their powers vested individually by statute, each department's Permanent Secretary[19] also serves as its accounting officer – rather than having a single accounting[20] officer across all departments as in the Scottish and Welsh Governments. Sargeant and Rutter argue that *"this reinforces the tendency of departments to act as individual fiefdoms and makes **cross-cutting working** harder even than in Whitehall"*.

- Akin to the selection of playground football teams, the d'Hondt allocation system means that 'difficult' departments are likely to be chosen later in the process and by parties with less political clout and representation in the Assembly. Sargeant and Rutter argue that *"from a budget and policy advancement point of view, there are clear benefits to a department of being headed by one of the big two parties: the absence of typical collective decision-making means a **department headed by a smaller party** will find it difficult to advance its policy agenda and is liable to see its budget cut."*

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[18] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/856998/2020-01-08_a_new_decade__a_new_approach.pdf

[19] A departmental Minister can make a 'Ministerial Direction' to a Permanent Secretary in certain circumstances to ensure a specific action is taken. For example, during Covid-19 multiple Directions were issued where the accounting officer was not able to demonstrate in the time available that interventions represented value for money, but Ministers felt they needed to act swiftly.

[20] Strictly speaking 'accountable officer' in Scotland. The Permanent Secretary is the Principal Accountable Officer, who designates Directors General as Portfolio Accountable Officers to manage the budgets delegated to them

- The mandatory multi-party Executive complicates **reallocation of spending between departments** as circumstances evolve from Budget to Budget, because of the need also to reallocate between parties. Hence in part (some stakeholders argue) the frequency of UK-funded[21] support packages for political agreements, which provide extra resources without the need for politically painful reallocation of existing budgets.

- The **Department of Finance** plays a powerful but less decisive role in determining Budget outcomes than the Treasury does in the UK context. This partly reflects the legal status of individual departments and the political dynamics of a multi-party coalition. The Department of Finance has no formal authority over other departments (beyond certain specific statutory powers in the absence of a Budget Bill being passed).[22]

The makeup of the Executive on 1 November 2021 is shown in Table 2.2. Each department is scrutinised by a committee of MLAs in the Assembly, for which the composition again broadly mirrors each party's overall representation. On 1 November 2021 the Finance Committee – which takes the closest interest in the Executive's Budget – had three Sinn Féin, two Democratic Unionist and two SDLP members, plus one each from the Ulster Unionists and Traditional Unionist Voice. With most of the parties represented in the Assembly also in the Executive, scrutiny and challenge to budgetary (and other) policies usually manifests itself more through individuals and committees than a formal 'Opposition'.

Table 2.2 – The NI Executive on 1 November 2021

Portfolio	Minister	Party
First Minister	Paul Givan	DUP
Deputy First Minister	Michelle O'Neill	Sinn Féin
Agriculture, Environment and Rural Affairs	Edwin Poots	DUP
Communities	Deirdre Hargey	Sinn Féin
Economy	Gordon Lyons	DUP
Education	Michelle McIlveen	DUP
Finance	Conor Murphy	Sinn Féin
Health	Robin Swann	UUP
Infrastructure	Nichola Mallon	SDLP
Justice	Naomi Long	Alliance

Source: NI Executive

The Northern Ireland Office

The Northern Ireland Office (NIO) was created to help implement Direct Rule in 1972, joining the Scottish Office (1885) and the Welsh Office (1965) as the UK Government's third territorial department. According to the *Cabinet Manual*:

> *"The Secretaries of State for Scotland, Wales and Northern Ireland represent the interests of Scotland, Wales and Northern Ireland in the Government,*

[21] And also Irish Government funded, as in the case of the A5 road project.
[22] Section 59 of the Northern Ireland Act 1998

and promote the Government's objectives in Scotland, Wales and Northern Ireland. The Scotland Office, Wales Office and Northern Ireland Office manage the day-to-day devolution issues which arise between the Government and the Devolved Administrations and are responsible for managing the devolution settlements."

As well as working alongside the Executive to help improve the effectiveness and delivery of the devolved institutions, the NIO (unlike the Office of the Secretary of State for Scotland or Wales) has additional responsibility for national security and – as we have seen – it has to be ready either to run the NI administration or to help the NI Civil Service (and Ministers serving in a caretaker capacity) do so in the event that there is no functioning Executive and/or Assembly.

As regards finance, the NIO is the formal conduit through which UK Government provides cash to the Executive to cover expenditure within the DEL Block Grant and AME. The UK Parliament approves cash for the NIO through its Estimates process, which is then drawn down by the Executive as needed. Following the political crisis over the setting of an Executive Budget for 2014-15 (described below), the Secretary of State for Northern Ireland must also confirm any UK funding that the Executive will receive before it can be included in its Draft Budget – even if the Treasury has already approved it. Under normal circumstances, this is done in good time, but in the unique circumstances when the Treasury confirmed additional Covid funding for 2020-21 very late in the previous year, the Secretary of State did not confirm it in time for the Budget. The funding was included later in the year.

When there is a sitting Executive, day-to-day negotiations over UK financial support for the Executive primarily take place directly between the NI Department of Finance and the Treasury, but the NIO has input. But the NIO plays a particularly important role when major political agreements are being negotiated with the UK and Irish governments, as well as the NI political parties, as financial support is typically important in these but only one part of a multi-dimensional agreement.

The UK territorial departments have their own Cabinet Ministers and responsibilities, and their objectives may align with or differ from those of the devolved administrations and the Treasury at any given time. And the politics of the relationship can differ from region to region when it comes to matters of finance – despite receiving more grant per person than other parts of the UK, the NI Executive has often complained that the financial support it receives is inadequate or less than promised while the current public narrative of the Scottish Government tends to focus more on the certainty of funding and what it sees as the erosion of the devolution settlement by the Internal Market Act and Brexit.[23] That said, all three devolved administrations have argued publicly for greater certainty around their UK funding, both in the 2021 Spending Review and in Covid-19 support.

[23] For example: https://www.gov.scot/publications/brexit-uk-internal-market-act-devolution/

Local councils

Local government in NI has undergone significant reorganisation in recent years. From 1973 to 2015 there were 26 local councils across the region, but a review[24] by the Executive in 2002 recommended reducing this number and this was supported subsequently by the UK Government. After an extended debate over how far-reaching the consolidation should be, the Executive opted in 2012 to create 11 city, borough and district councils and these became operational in 2015 (Figure 2.1).

Figure 2.1 – Local council boundaries since 2015

Source: Northern Ireland Audit Office

Councillors in NI are elected by single-transferable vote for terms of four years in multi-member wards. The most recent elections were in May 2019. Reflecting the desire for cross-community representation, as at Stormont, councils in NI tend to operate on the 'committee' system (as distinct from 'leader plus cabinet' or directly elected mayors), with a number of politically balanced service committees setting policy, making decisions and monitoring performance. Most serve populations of around 150,000, although Belfast City Council and Armagh City, Banbridge and Craigavon Borough Council are larger and Fermanagh and Omagh District Council is significantly smaller. As Table 2.3 shows, these population differences are reflected in their annual budgets (shown for 2019-20). Spending per head lies within a relatively narrow range for most Councils, with Belfast an outlier at the top and Mid Ulster lying at the bottom. The highest spending councils cover large urban areas that include most of NI's local communities with high levels of multiple deprivation.

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[24] NI Assembly, Review of Public Administration, 4 March 2002. This was the first official review of local government in NI since Patrick Macrory's in the late 1960s, when 73 local councils were serving a population of around 1.5 million, See A. Quinlivan, *Northern Ireland's diminishing councils and what this means for democracy*, The Guardian, 8 June 2014.

NI local councils are roughly the same size in population terms as middle-ranking district and unitary authorities in England. The largest English councils – the Metropolitan Counties of the West Midlands, Greater Manchester and West Yorkshire – each serve 2-3 million people, significantly larger than NI as a whole.

Table 2.3 – Local council populations and spending in 2019-20

Council	Population (thousands)	Spending (£ million)	Spending per head (£)
Belfast	344	226.4	659
Derry and Strabane	151	85.4	564
Mid and East Antrim	139	75.2	540
Causeway Coast and Glens	145	78.2	540
Lisburn and Castlereagh	146	78.0	534
Fermanagh and Omagh	117	56.8	484
Armagh, Banbridge and Craigavon	216	103.7	480
Antrim and Newtownabbey	144	68.0	474
Newry, Mourne and Down	181	82.7	456
Ards and North Down	162	69.8	431
Mid Ulster	149	61.1	411

Source: Department for Communities

Local councils in NI have long had a narrower range of responsibilities than their counterparts in the rest of the UK, despite gaining some functions from the Executive in the 2015 reforms. Their current responsibilities include various local services (including waste collection, street cleaning, off-street parking, health and safety, environmental protection, licensing, sports facilities, parks, community centres and the arts) as well as local planning, economic development, tourism and heritage services (such as conservation areas). But, in contrast to councils elsewhere in the UK, they are not responsible for education, social care, roads, public housing, fire and police services, libraries or street-lighting.

NI councils finance their spending from various sources of income, plus borrowing (especially for capital projects). Table 2.4 shows that the District Rates (domestic and non-domestic) are their biggest source of income, followed by fees and charges and revenue and capital funding from the Executive.

Table 2.4 – Income of NI local councils

					£ million
	2015-16	2016-17	2017-18	2018-19	2019-20
District Rates	566	579	601	625	638
Service fees, charges and other income	186	194	189	210	224
Revenue funding from the Executive	50	50	50	61	52
Capital grants from the Executive	62	16	22	21	31
Total income	**864**	**839**	**862**	**917**	**945**

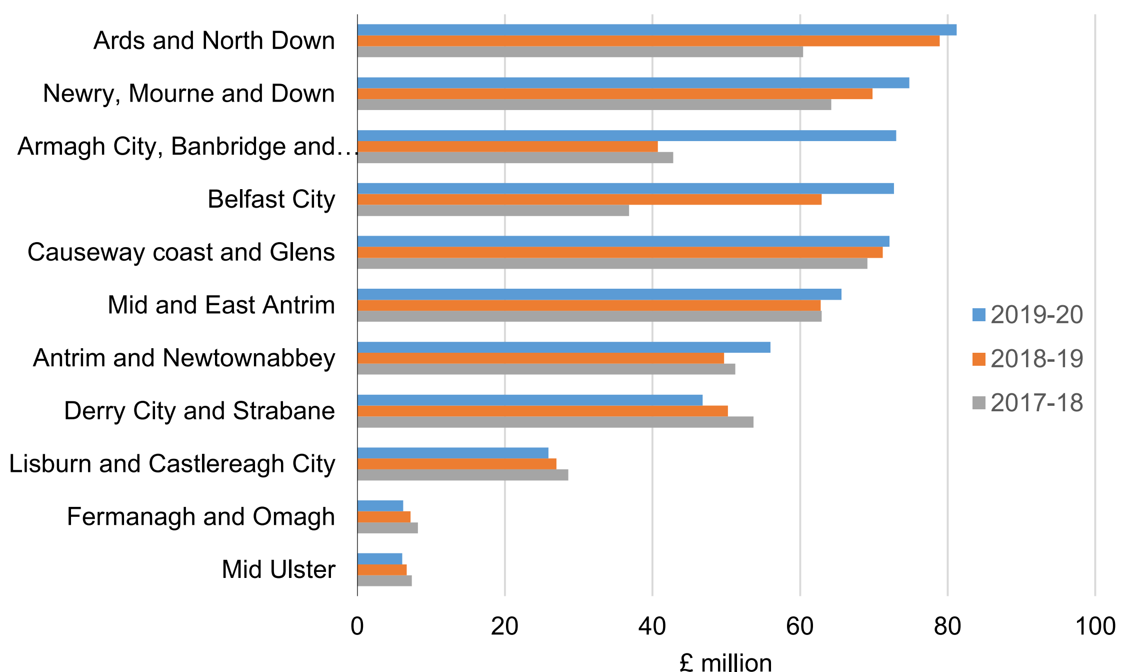
Source: Councils' audited financial statements

Under the Local Government Act (Northern Ireland) 1972, NI local councils were permitted to borrow for any purposes relevant to their functions, subject to departmental approval. The Local Government Finance Act (Northern Ireland)

2011 removed the requirement for departmental approval and put more emphasis on Chief Financial Officers' assessment of affordability. It also introduced a new prudential system for capital finance, encouraging councils to invest in the assets that they need to improve their services and allowing them to raise finance without government consent – as long as they could afford to service the debt. In addition to borrowing from central government via the National Loans Fund, councils (unlike the Executive) can borrow from banks and other commercial lenders.

Capital borrowing increased significantly in 2018-19 for the first time since the 2015 reforms – and then again in 2019-20. Loans outstanding at 31 March 2020 totalled £580.4 million, up £95.1 million since 2017-18. This was driven mainly by Belfast City Council and Ards and North Down Borough Council in 2018-19 and Armagh City, Banbridge and Craigavon Borough Council in 2019-20 (Chart 2.1).

Chart 2.1 – Outstanding local council capital borrowing



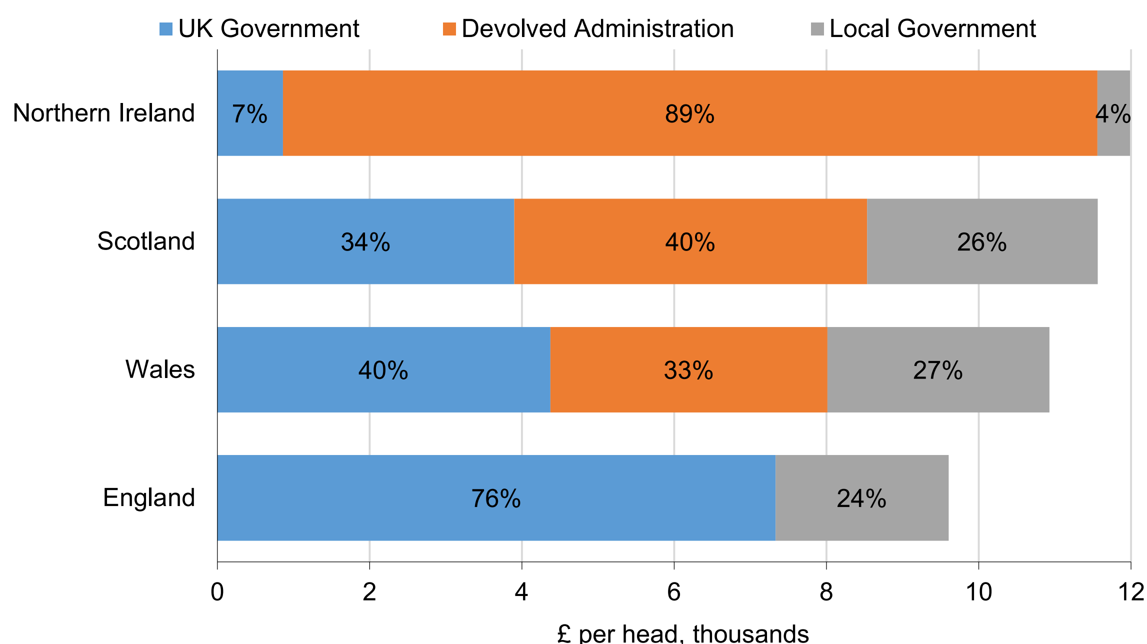
Source: Councils' audited financial statements

Spending responsibilities and their financing

The allocation of responsibility for particular services and functions between the UK Government, the Assembly/Executive and the local councils is reflected in the proportions of overall public spending in NI that each of them accounts for.

As Chart 2.2 illustrates, at £10,701 per head the Executive was responsible for 89 per cent of what the Office for National Statistics calls 'identifiable' public spending in NI in 2019-20, namely that which is for the specific benefit of the region (and which to a great extent happens within its physical borders). This is more than double the shares for the Scottish and Welsh Governments and higher even than the UK Government's share of identifiable spending in England.

Chart 2.2 – Identifiable public spending per head by layer of government



Source: ONS Country and regional public sector finances:financial year ending 2020

As we have seen, and as shown in Table 2.5, this in part reflects the fact that the Executive is responsible for some spending that in the other regions is undertaken by local councils (such as on education and social care).[25] The Executive is also formally responsible for some spending that the UK Government is responsible for in the other regions, notably on state pensions and social security benefits.

The devolution of responsibility for pensions and social security to the Assembly and Executive is a legacy of its devolution to the first NI Parliament under the Government of Ireland Act 1920. But the Executive's de facto control over the system is weaker than this suggests, as from the outset the intention was always to maintain substantive parity between NI social security system and that of the rest of the UK. This was recognised formally in the Northern Ireland Act 1998, which requires the Executive and UK Government to consult to try to achieve *"single systems of social security, child support and pensions for the United Kingdom"*. As we describe in Chapter 4, this commitment came under strain in 2014 when the UK Government implemented welfare reforms that the Executive did not initially agree to implement, prompting a political and budget crisis that threatened to collapse the power-sharing institutions until the Stormont House and Fresh Start Agreements.

The Scottish Government does not have the same formal responsibility for welfare spending as the Executive, but some elements of the system were devolved to it in 2016 – including benefits for carers, the sick and the disabled, plus those that help people on low incomes meet childcare, funeral and heating costs.

[25] The growth of academies means that responsibility for state schools in England is increasingly shifting from local authorities to the UK Government.

Table 2.5 – Primary responsibility for spending by layer of government

	England	Scotland	Wales	NI
Health	UK	SG	WG	Exec
Education	UK / Local	Local	Local	Exec
Policing and criminal justice	UK	SG	UK	Exec
Local services	Local	Local	Local	Local
Social care	Local	Local	Local	Exec
Welfare benefits	UK	UK	UK	Exec
Foreign policy and defence	UK	UK	UK	UK
Debt interest: DA borrowing		SG	WG	Exec
Debt interest: UK borrowing	UK	UK	UK	UK

Note: UK = UK Government, SG = Scottish Government, WG = Welsh Government, Exec = NI Executive
Source: Northern Ireland Fiscal Council

As we discuss in greater detail in Chapter 4, the Treasury divides the spending for which the Executive is responsible into a portion covered by single- or multi-year Departmental Expenditure Limits (DELs) – including most public services and capital investment – and what is referred to as Annually Managed Expenditure (AME). The latter is spending that the Treasury judges the Executive to have limited control over in the near term because it is 'demand-led', pre-committed or unpredictable. This includes state pension and social security spending, as well as public service pension payments and student loan outlays. The Treasury provides the Executive with funding to cover the cost of its AME programmes at equivalent generosity to those in other regions. If the Executive wishes to make any elements of its AME programmes more generous (known as 'super-parity'), then it has to meet the cost from other income from within its DEL envelope.

As we explain in Chapter 4, the Executive's DEL is not in fact a limit on the total amount that it can spend on the activities that the Treasury puts in this category. It is a net limit equal to the Block Grant that the UK Government provides. The Executive, like the other devolved administrations, has other sources of finance for DEL spending that the Treasury treats as negative DEL, thereby creating room for additional gross spending within the original net limit (Table 2.6). If we look at all sources of financing for DEL spending (discussed in greater detail in Chapter 5):

- The biggest by far is the **Block Grant from Westminster.** The 'Barnett Formula' ensures that when the UK Government increases spending on items for which one or more devolved administrations are responsible, their Block Grant is increased by a broadly equivalent amount per head.

- The Block Grant also includes **'non-Barnett additions'**, for example financial support for political agreements, such as the New Decade New Approach (NDNA) agreement in 2020. Like the other devolved administrations, it has also received earmarked grant funding for items such as 'City Deals'.

- The Executive's largest non-grant source of finance is **income from fees and charges** (i.e. 'sales of goods and services' in the National Accounts), such as non-domestic water charges and further education fees. But these are generally netted off spending and receive little attention in its Budgets.

- The Executive and NI local councils both levy **domestic and non-domestic rates**. In Scotland and Wales, revenue from council tax and business rates (the equivalents of NI's domestic and non-domestic rates) all goes to councils.

- NI departments still receive some **grants from the EU,** notwithstanding Brexit. Some previously agreed funding has yet to be completed, while the Executive will continue to receive support under the PEACE programmes.

- The Executive also receives **loan repayments** plus **grants, asset sales, interest receipts and other income**.

- The Executive can (and does) **borrow** to finance capital spending and could in principle (but in practice does not need to) borrow to finance non-capital spending to manage its cash-flow within-year.

- In extremis the Executive can seek access to the Treasury's contingency **reserve**. The reserve is also sometimes used to finance non-Barnett additions.

- Up to pre-set limits, the Treasury also allows the Executive to **carry forward unspent DELs** to the following year through 'Budget Exchange'. The Scottish and Welsh Governments operate their own contingency reserves instead.

Table 2.6 – Sources of financing for devolved administration DEL spending

	Scottish Government	Welsh Government	NI Executive
Block grants from UK Government			
Barnett formula related	●	●	●
Non-Barnett additions	●	●	●
Income from fees and charges			
Usually classified as 'negative spending'	●	●	●
Local taxes			
Non-domestic rates	●	●	●
Council tax / Domestic rates			●
Grants from the EU			
Some residual payments since Brexit	●	●	●
Devolved taxes			
Land and/or buildings transactions tax	●	●	
Landfill / Landfill Disposals tax	●	●	
(Rates of) income tax on earned income	●	●	
Long haul air passenger duty			Devolved and set at zero
Other income			
Including loan repayments, grants and asset sales	●	●	●
Borrowing			
For capital and non-capital purposes	●	●	●
Internal reserves			
From previous underspends	●	●	
Flexibility offered by UK Treasury			
Access to Treasury reserve	HMT	HMT	HMT
Budget Exchange			HMT

Note: HMT = Wholly or partly at the discretion of UK Treasury Ministers
Source: Northern Ireland Fiscal Council and HMT

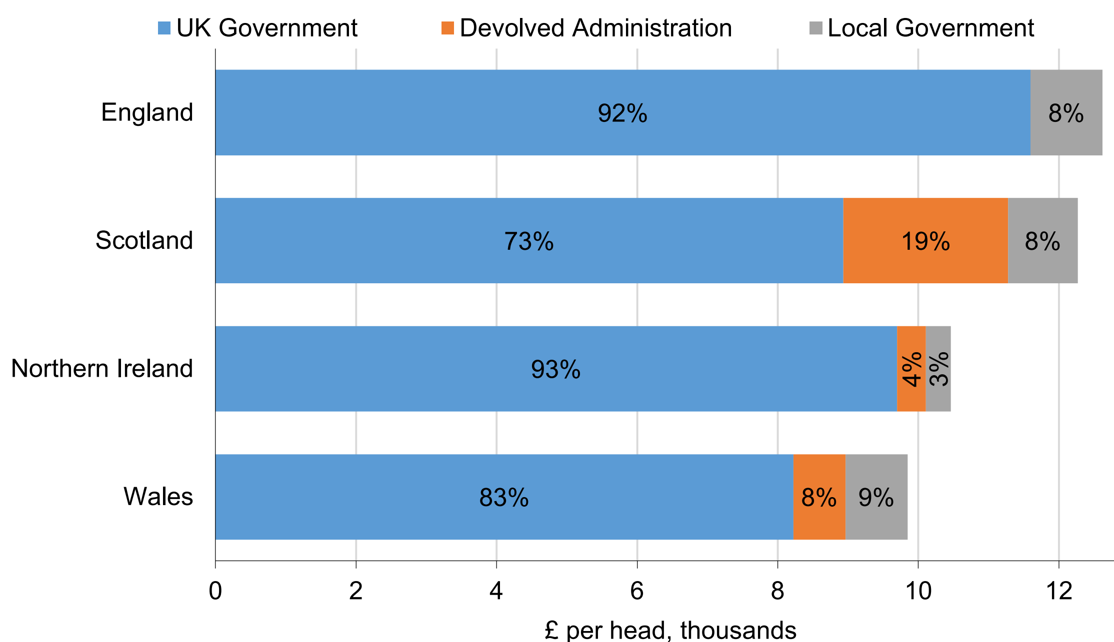
In contrast to its responsibility for a relatively large share of public spending in NI, the Executive raises a relatively small proportion of identifiable[26] tax revenue. This reflects the relatively limited devolution of tax-raising powers to date, which the NI Fiscal Commission (set up alongside the Fiscal Council) is currently reviewing.[27]

Chart 2.3 shows that the Scottish Government raises around 19 per cent of identifiable Scottish revenues, thanks to the devolution of the rates and thresholds (but not the tax-free personal allowance) for non-savings and non-dividend income tax and of taxes on property transactions and landfill.[28] The Welsh Government raises a more modest 8 per cent – primarily because it has less control over the rates and thresholds for income tax than the Scottish Government does in Scotland

[26] Based largely on where taxpayers live, with corporate tax revenues allocated for simplicity according to the distribution of employment rather than shareholders.
[27] https://www.fiscalcommissionni.org/
[28] Another 10 per cent of revenues – from VAT – are in principle to be 'assigned' to the Scottish Government. This seemed a good idea at the time, not least on presentational grounds, but the idea may be shelved because of the potential volatility and uncertainty implied for the size of its block grant by the volatility of survey estimates of Scotland's VAT share. https://fraserofallander.org/vat-assignment-paused-for-now-but-will-it-be-pulled-for-good/

and receives a correspondingly smaller share of receipts. The Executive raises only about 4 per cent of NI's revenues, almost entirely from the Regional Rates.

Chart 2.3 – Identifiable tax revenue by layer of government in 2019-20



Source: ONS Country and regional public sector finances:financial year ending 2020

In Scotland and Wales, tax devolution has been motivated primarily by the desire of their administrations to have greater control over the amount of money they can spend, as well as to pursue different objectives in terms of income distribution and influencing the behaviour of individuals and firms. The main attraction for the UK Government has been to make the administrations more accountable for their spending. Tax devolution in NI has been motivated more by the possible impact of competition from lower taxes in the Republic of Ireland and the desire to promote economic activity. Air passenger duty for long-haul flights was devolved to the Executive (in exchange for a cut in the Block Grant) and then set at zero in 2013, to make NI more attractive to trans-Atlantic passengers. But no such flights currently operate. Westminster then legislated in 2015 to allow the Executive to set its own corporation tax rate on most trading profits and the Executive announced its intention to set a much lower 12.5 per cent rate to match that in the Republic. But exercising this power requires specific agreement between the UK Government and the Executive[29] – and enthusiasm for the idea at Stormont seems to have waned. It remains to be seen what if any further devolution of tax-raising powers the NI Fiscal Commission might recommend – and what appetite there might be to act on it.

[29] A deduction from NI's block grant would be required for the devolution of Corporation Tax and in the legislation the operation of the power is dependent on the Executive being able to sustain such a revenue loss. This is described in more detail in the Fresh Start Agreement: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479116/A_Fresh_Start_-_The_Stormont_Agreement_and_Implementation_Plan_-_Final_Version_20_Nov_2015_for_PDF.pdf

How different is fiscal devolution in NI?

The devolution of tax and public spending in the UK has been an uneven process, advancing with different speeds and scope in the different regions. At first glance, the Assembly and Executive stand out as having much greater formal responsibility for public spending than their counterparts in Scotland and Wales, but much less responsibility for tax. But the picture is not quite as straightforward in practice.

On the spending side, the Executive (and its predecessor administrations) certainly dominate local government as a deliverer of services. The 2015 reforms extended the original 'baths, bins, births and burials'[30] mandate of NI's local councils, but their responsibilities remain modest relative to those of their counterparts elsewhere in the UK. And the Executive's historic responsibility for the NI welfare system is more apparent than real, with relatively little divergence from rules and rates elsewhere.

On the tax side, the Executive is unusual in having only Regional Rates and long-haul air passenger duty devolved to it (with the latter now set to zero) and primary legislation in place to devolve a corporation tax rate-setting power. (The Carrier Bag Levy also raises a tiny amount of revenue, which is used to finance spending rather than being left in the hands of retailers as elsewhere in the UK.[31]) The Scottish and Welsh Governments have more tax levers to pull and the former in particular has implemented significant structural reforms – announcing a move from a 'slab' to a 'slice' tax on property transactions (which the UK Chancellor then adopted) and making the income tax schedule more progressive. But in neither Wales nor Scotland has the government significantly raised or lowered the overall tax take.

[30] Knox, C. (1998). Local government in Northern Ireland: Emerging from the bearpit of sectarianism. Local Government Studies, 24 (3), 1–13

[31] The primary purpose of the tax is to discourage the use of carrier bags and the revenue it raises has fallen significantly from its initial level as it has succeeded in doing so.

3 Public spending and revenues in Northern Ireland

Before focusing specifically on the finances and Budget process of the NI Executive, we look at the scale and composition of all public spending that benefits NI citizens and of all the tax and other revenues that they contribute, irrespective of the level of government responsible for them – UK, Executive or local council.[32] The gap between the two gives a measure of the overall 'budget deficit' the region runs.

When comparing spending and revenue over time or between regions, raw cash numbers may not be particularly informative. So, when comparing figures over time, we can adjust for inflation using the whole-economy GDP deflator (so that a pound in any given year would buy roughly the same volume of goods and services) and show them in 2019-20 prices. This is 'real terms' spending. When comparing figures across regions, we can adjust for differences in population (by expressing them as pounds per person). The NI population reached 1.89 million in mid-2019[33], up from 1.68 million in mid-1999. This was an increase of 12 per cent over 20 years, compared to 14 in England, 8 in Scotland and 9 in Wales.

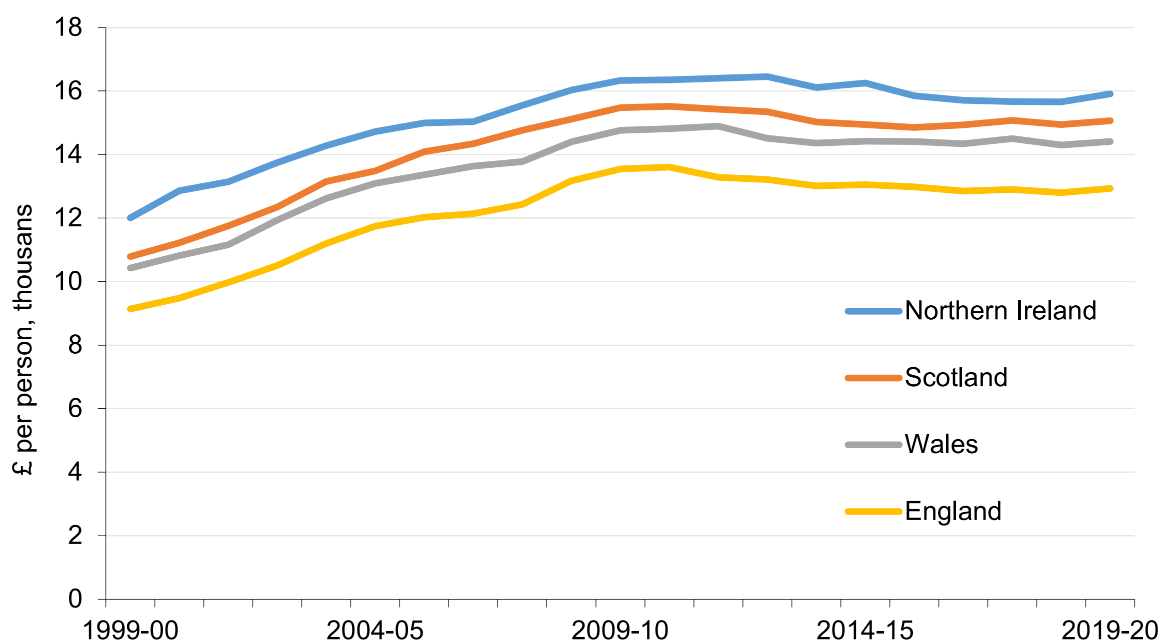
Public spending

In 2019-20 – the latest year for which comprehensive data are available (and in which the figures were still largely undistorted by the Covid-19 pandemic) – the three layers of government (plus public corporations) spent £30.1 billion[34] in NI, out of a total of £886.0 billion for the UK public sector as a whole.[35] This includes both the identifiable spending that *specifically* benefits NI's citizens (as shown in Chart 2.2) plus NI's population share of UK-wide non-identifiable spending.

NI's 3.4 per cent share of total UK public spending is much bigger than its 2.8 per cent share of the population. As a consequence, at £15,905 public spending per person was 23 per cent higher in NI than in England, compared to premia of 16 per cent in Scotland and 11 per cent in Wales. Chart 3.1 shows that spending per person in NI has consistently been around £2,500 a year higher in real terms than in England over the past 20 years, although in percentage terms this premium has declined by around a quarter because of the rise in spending in all regions under Labour between its 2000 Spending Review and the 2008-09 financial crisis.

[32] In doing so we draw in particular on the *Country and Regional Public Finances* (May 2021)[32] and *Country and Regional Analysis* (November 2020) publications of the Office for National Statistics and on analysis by the Institute for Government
[33] ONS, Mid-Year Population Estimates, Mid-2019. NISRA's population estimate for end June 2020 is 1.895 million (NISRA 25 June 2021, Mid Year Population Estimate for Northern Ireland).
[34] ONS Country and Regional Public Sector Finances: financial year ending 2020 – 21 May 2021
[35] 'Identifiable' spending that can be attributed directly to NI plus its population share of 'non-identifiable' spending (on defence, debt interest and the like).

Chart 3.1 – Public spending per person across the UK in 2019-20 prices



Source:ONS Country and regional public sector finances: financial year ending 2020
Note: Total Managed Expenditure, including identifable and non-idetifiable spending

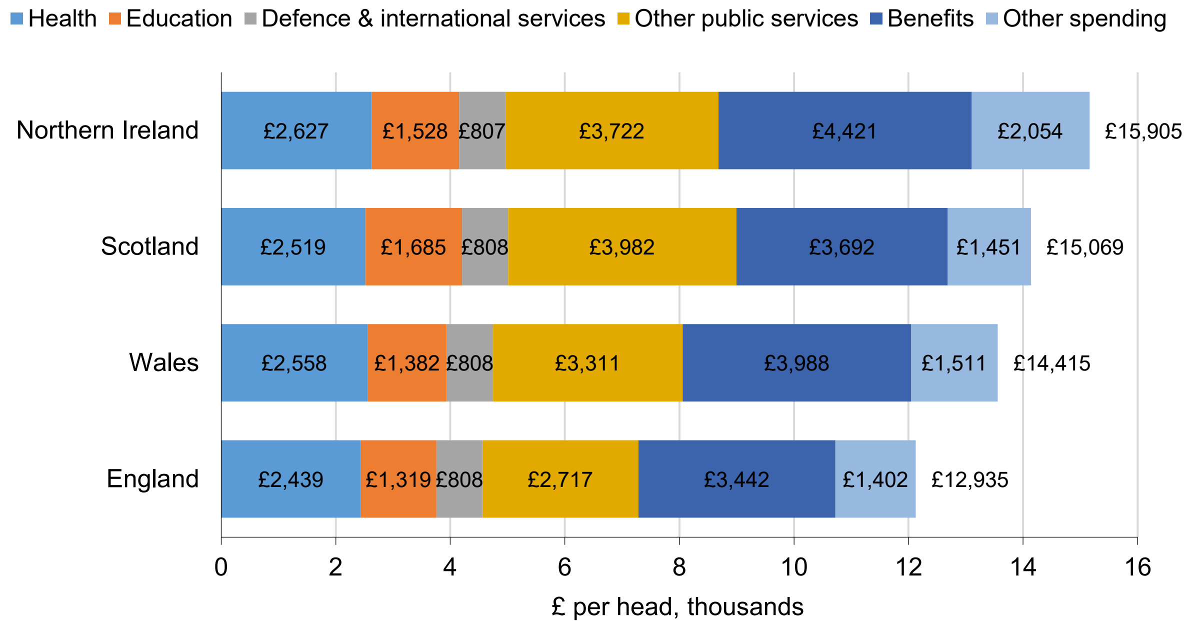
Public spending per person is higher in NI than elsewhere in the UK mainly because:

- Spending on **welfare benefits** is higher. Lower average incomes and employment rates increase entitlement to benefits for people of working age (now mostly Universal Credit). NI also has a relatively young population, with more spending on child benefit outweighing less on old-age benefits.

- Spending on most **domestic public services** is higher. Health and education are the big-ticket items in absolute terms, but the percentage differential is even greater in sectors like agriculture (reflecting NI's relatively large and relatively low productivity farming sector), adult social care (reflecting more extensive support) and public order and safety (reflecting the political and security environment). Water supply also remains in the public sector (as in Scotland[36]), having been privatised in England and Wales. Transport is the main item on which spending (specifically capital spending) in NI is lower, reflecting partly its less extensive transport network.

[36] Although water supply remains in the public sector in Scotland, there are separate and identifiable water charges paid through metering or as an addition to Council Tax bills.

Chart 3.2 – Composition of public spending per person in 2019-20



Source: ONS Country and regional public sector finances:financial year ending 2020

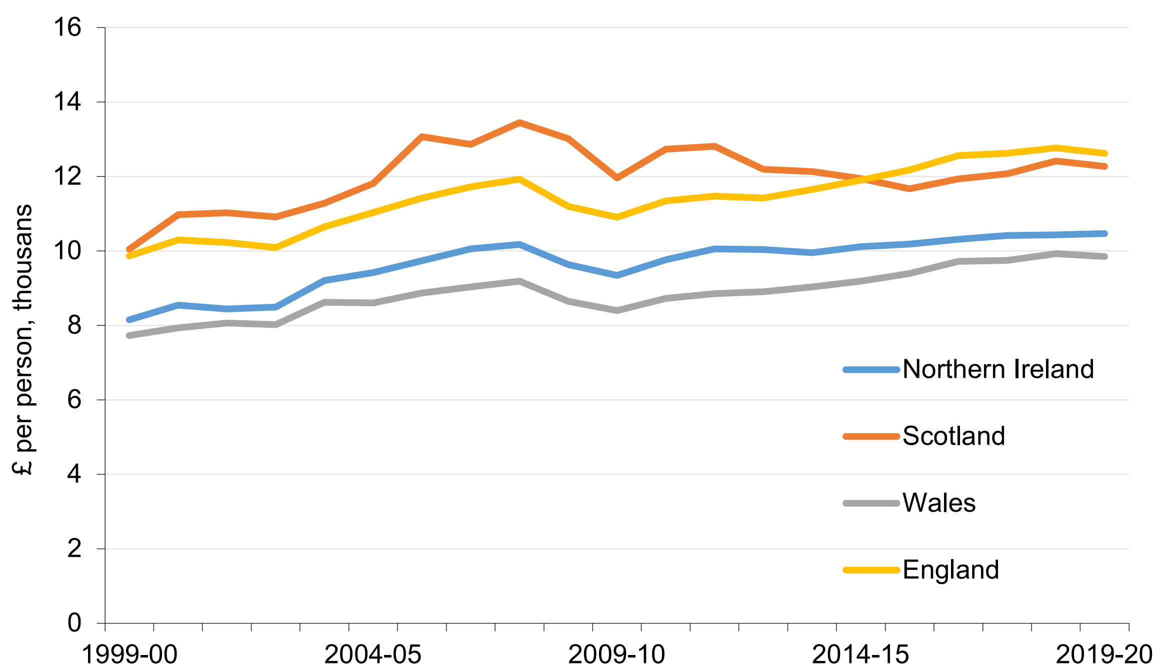
Revenues

In 2019-20 the UK public sector received £828.3 billion from taxes and other sources, such as charges, interest payments and public corporation surpluses. NI contributed £19.8 billion or £10,465 per person,[37] 17 per cent less than from England but 6 per higher than from Wales.[38] Chart 3.3 shows that NI has held the same relative position for the past 20 years. The main change has been the fall in Scotland's relative contribution as net North Sea oil and gas receipts have declined.

[37] ONS Country and Regional Public Sector Finances: financial year ending 2020 – 21 May 2021

[38] Based largely on where taxpayers live, with corporate tax revenues allocated for simplicity according to the distribution of employment rather than shareholders.

Chart 3.3 – Revenue per person across the UK in 2019-20 prices



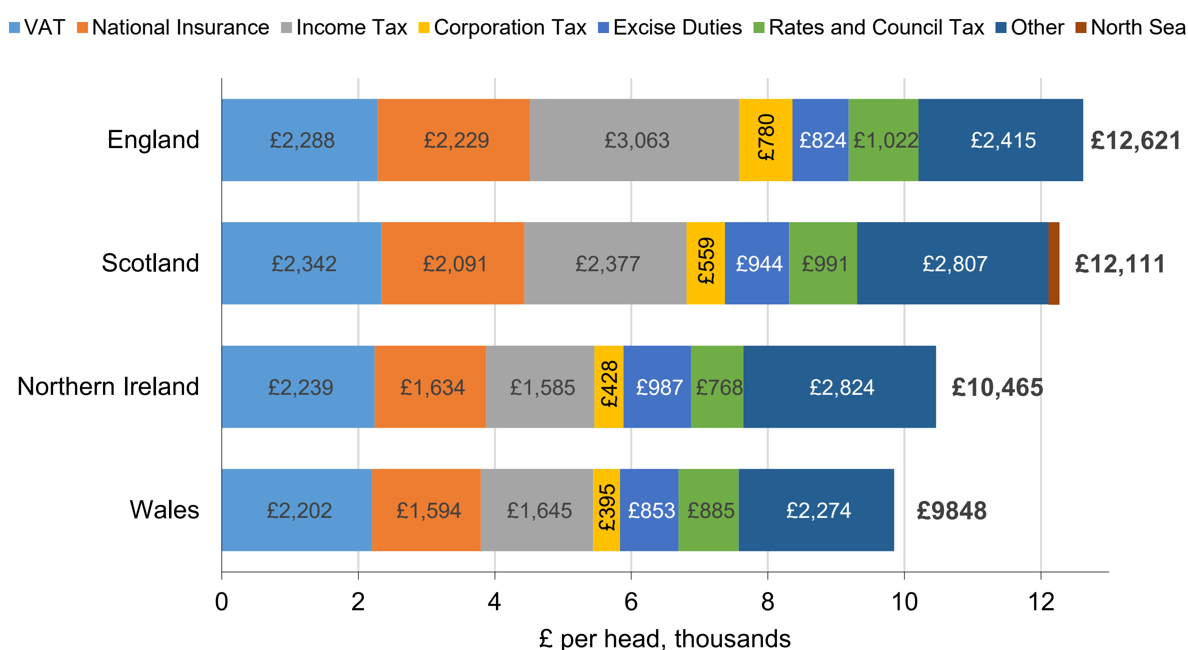
Source:ONS Country and regional public sector finances: financial year ending 2020

Revenues per head are lower in NI than England primarily because NI contributes only half as much income tax and corporation tax (Chart 3.4). Yet, at the same time, it contributes roughly the same amount of Value Added Tax (VAT) and a quarter more in excise duties. This reflects both the distribution of household income (before taxes and benefits) and the progressivity of the tax in question, namely the extent to which people with higher incomes and spending pay not merely a higher *amount* of tax but also a higher *proportion* of their income and spending.

As regards the former, household income before tax and benefits is much lower in NI than in England, thanks to lower employment rates, lower earnings on average and fewer very high earners paying relatively high average tax rates. But consumption is sustained by income redistributed via the benefit system from the rest of the UK (and in practice mostly from London and the South-east and East of England, which have surpluses vis a vis the other English regions as well as the other nations[39]). As regards the latter, VAT and excise duties are less progressive than income tax – the average tax rate paid does not rise as sharply as income rises. NI's outsized contribution to excise duties comes mostly from tobacco (rather than alcohol), with more people smoking – and smoking more – in NI than in England.

[39] ONS Country and Regional Public Sector Finances: financial year ending 2020 – 21 May 2021 https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2020

Chart 3.4 – Composition of revenues per person in 2019-20



Source: ONS Country and regional public sector finances: financial year ending 2020

Other revenue includes 'gross operating surplus', which at £1,716 per head is higher in NI than the other regions. This is a combination of the profits of public corporations and a derived surplus for central and local government.

Corporations are classified to the public sector if the ONS judges that the public sector exerts effective control over them rather than based on who owns them. As of July 2021, the main NI public corporations were:

- **Northern Ireland Housing Executive (landlord function):** The NIHE was originally established by the Housing Executive Act (NI) 1971 (superseded by the Housing (Northern Ireland) Order 1981). Under the Act, the Housing Executive assumed the housing responsibilities of 65 separate authorities and is NI's single regional housing authority. It is split into two elements for classification purposes – a landlord element which is a Public Corporation and a regional element which is a Non-Departmental Public Body (NDPB).

- **Northern Ireland Transport Holding Company:** NITHC is a public corporation constituted under the Transport Act (Northern Ireland) 1967 as NI's main public transport provider. It is the parent company of the region's publicly owned bus and rail operators – NI Railways, Ulsterbus and Citybus (trading as Metro) – which operate under the brand name Translink.

- **Public Trust Ports:** The Public Trust Ports in Belfast, Derry/Londonderry, Warrenpoint and Coleraine are autonomous, self-financing statutory bodies. They operate on a commercial basis with the profit generated by their activities reinvested to improve their facilities.

- **Forest Service**: The role of the Forest Service is *"to supply timber, to provide public access to forests and protect forest environments, to enhance plant health and standards of production, and to work with partners to deliver public services and promote economic development"*. An agency of the Department of Agriculture, Environment and Rural Affairs, it has been a Non-Financial Public Corporation from 1 April 2020.

Although similar in many respects, Northern Ireland Water is not strictly speaking a public corporation, but rather an NDPB for budgeting purposes and a government-owned company for legal and accounting purposes. Pre-1973, water and sewerage were the responsibility of commissioners in Belfast and local councils elsewhere in NI. In 1974 responsibility was transferred to a new Water Executive (later the NI Water Service) which remained in the public sector when supply was privatised in England and Wales in 1989. NI Water was established in its current form in 2007.

The profits of public corporations are relatively small and stable in NI and largely measured from information in the Whole of Government Accounts. The relative strength of gross operating surpluses in the region is driven instead by those of central and local government, which are assumed (under international statistical definitions) to be the same as capital consumption costs. For sub-national entities, the ONS often apportions these based on civil service headcount. So regions like NI with a higher per-capita proportion of civil servants will end up with a higher gross operating surplus. But the ONS is planning to update this methodology to base the apportionment of capital consumption costs more on capital investment, which should bring NI's gross operating surplus more into line with the other regions.

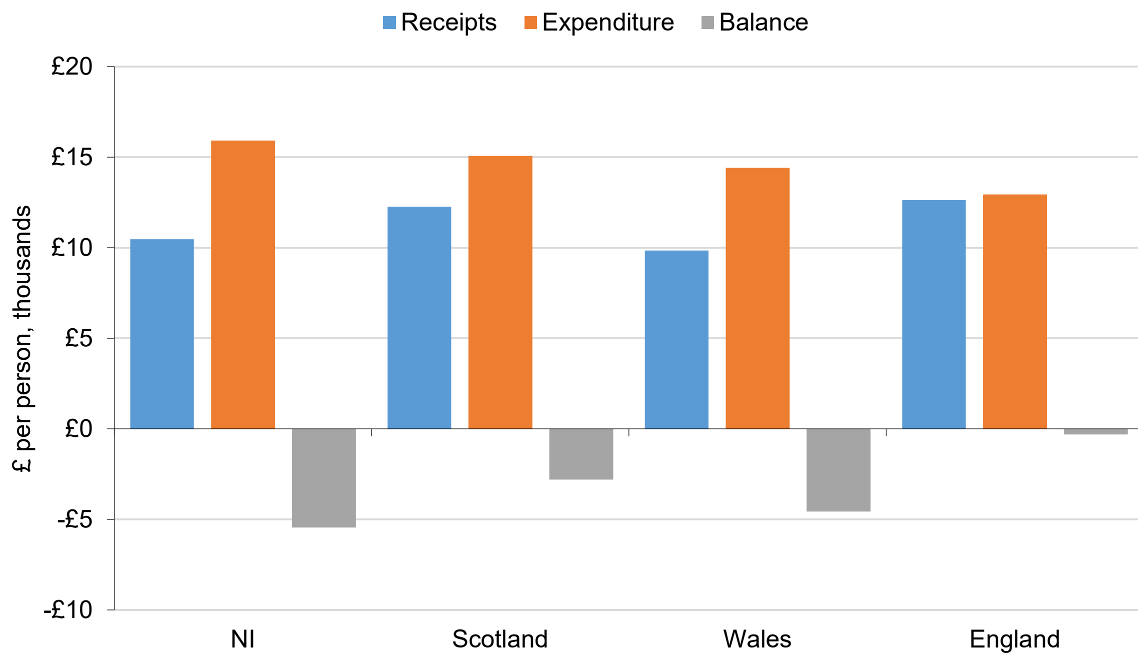
The fiscal balance

The combination of relatively high spending and relatively low revenues means that NI runs a significant notional budget deficit – the gap between the two – both in absolute terms and relative to the other regions of the UK. This gap is termed the net fiscal balance and is estimated each year by the Office for National Statistics.[40]

At £10.3 billion or £5,440 per person (Chart 3.5), NI's deficit in 2019-20 was around 21 per cent of its gross domestic product for 2019[41] (a measure of the cash size of the economy), compared to 21 per cent in Wales, 11 per cent in Scotland and just 1 per cent in in England. The figures for 2020-21 would show far larger deficits in all four nations, thanks to the impact of the pandemic on tax revenues and the cost of the UK Government's policy response, primarily in higher public spending.

[40] Sometimes referred to as the 'subvention', 'fiscal transfer' or subsidy that NI receives from the rest of the UK. However, deficits and surpluses are not precise measures of transfer when the UK public sector as a whole is in surplus or deficit.
[41] https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/regionaleconomicactivitybygrossdomesticproductuk/1998to2019#main-points (Table 1)

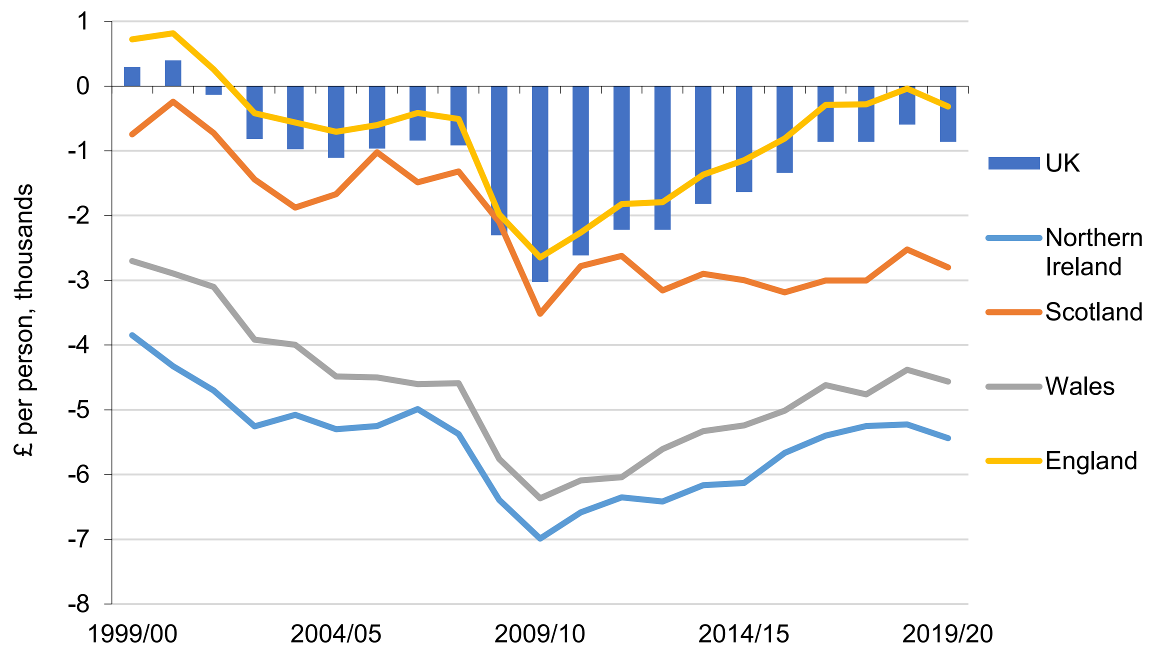
Chart 3.5 - Net fiscal balance per person across the UK, 2019-20



Source: ONS Country and regional public finances: financial year ending 2020

Chart 3.6 shows that in real terms per person NI has consistently recorded the most negative net fiscal balance of the four UK regions over the past 20 years (and the same would be true if we further subdivided England into its nine regions). The chart shows that pre-Covid the fiscal balances improved significantly in England, Wales and (to a slightly lesser degree in) NI as the economic recovery following the financial crisis and a mix of tax increases and spending cuts reduced the UK budget deficit. There was no obvious improvement in Scotland, reflecting the simultaneous fall in oil and gas revenues thanks to lower prices and production.

Chart 3.6 - Net fiscal balances per person in real terms (2019-20 prices)



Source: ONS Country and regional public finances: financial year ending 2020

4 The Northern Ireland Executive and the UK public finance framework

One challenge when trying to track the evolution of the Executive's finances from official publications is that the control and reporting of its spending, revenue and borrowing are not determined and presented in isolation, but within the broader framework through which the Treasury manages the UK public finances.

In some important respects, the Treasury treats the devolved administrations (and especially the Executive, given its limited tax-raising powers) as it would a Whitehall department. It sets limits on what the Executive can spend (albeit in a mostly formula-based way), in principle penalising any over-spending and allowing at least part of any under-spending to be carried forward to the following year. But it does not involve itself as deeply in how the money is spent as it would with a Whitehall department – it does not agree policies, approve business cases, scrutinise spending or assess performance. That role falls to the administrations' departments of finance. The role of the Northern Ireland Office (NIO) is an added dimension – the NIO acts the formal conduit for the Executive's funding from the UK Government and since 2016 must formally confirm even funding that the Treasury has already agreed to before it can be included in the Executive's Draft Budget.

In this chapter we compare Budget-making in the UK Government and the Executive, before looking at how the Executive has to manage its finances within the Treasury's public spending framework – beginning with the financing of the two main categories of spending and then turning to the Executive's borrowing powers.

Budget-making at the UK and NI levels

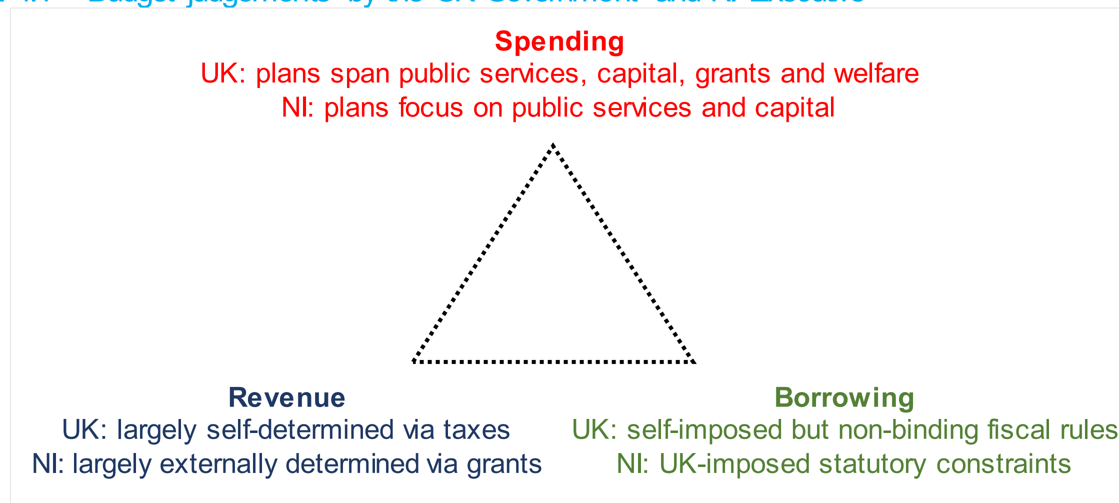
For any government or sub-national administration, Budget-making involves three interdependent judgements: how much to spend (and on what); how much revenue to raise (and from whom); and whether and how much to borrow or repay debt. But the constraints within which they are made differ from jurisdiction to jurisdiction.

In the UK context, under normal circumstances (which have not prevailed for some time thanks to Brexit and Covid-19) these judgements are made over a five-year horizon at the Budget and one other 'fiscal event' a year – an Autumn or Spring Statement, depending on the timing of the Budget. They are informed by – and then reflected in – forecasts for the UK public finances prepared at each event by the official-but-independent Office for Budget Responsibility (OBR). The Government's choices are not subject to any formal external constraints, although policymakers are naturally mindful of how voters, the Bank of England (in setting monetary policy) and current and potential investors in government debt might respond.

Judgements at any two points of the triangle shown in Chart 4.1 imply a judgement at the third – and different points dominate decision-making at different times. Since 1997, UK governments have operated under self-imposed fiscal rules and objectives (covering different measures of public sector borrowing and debt)

designed to reassure financial market participants and others that the public finances will be managed prudently. In George Osborne's November 2011 Budget, a downgrade to the OBR's five-year forecast for potential GDP growth – which reduced its forecasts for tax revenues and raised its forecasts for the budget deficit – prompted the Government to take policy action to remain on course to meet the fiscal rules, in that instance largely by cutting future spending plans. From 2016, objectives for public spending dominated, with political decisions (for example on extra NHS funding in 2018) and unfavourable forecast revisions (for example as a result of the Brexit vote) seeing the Government prefer to rewrite its rules and plan to borrow more rather than cut spending or raise taxes. Following the special circumstances of the pandemic response, in Autumn 2021 Rishi Sunak increased spending, taking advantage of favourable forecast changes but also raising taxes in order to ensure that his fiscal goal of a falling debt-to-GDP ratio remained in sight.

Chart 4.1 – Budget judgements by the UK Government and NI Executive



In terms of composition, the UK Government is free to determine most public spending, notably on public services and administration, infrastructure and other capital investment, grants (for example to local authorities) and social security. But spending on some items, most obviously debt interest and public service pension payments, depends largely on past government decisions and thus has to be taken mostly as given over the medium term. On the revenue side, the UK Government raises almost all its income from taxes – where it is free to set the rates, thresholds and rules as it wishes. Some other receipts (for example public corporation surpluses and interest and dividends) are less amenable to short-term control.

Sub-national governments are generally much more constrained in the Budget judgements they make[42] and this is certainly true of the Executive relative to the UK Government. Key differences between Executive and UK Budget-making include:

- Rather than operating under self-imposed fiscal rules, **the Executive's borrowing powers** are limited in legislation by the UK Parliament. The

[42] National governments usually require sub-national ones to manage their finances more conservatively than they do themselves. This in part reflects the fear that sub-national governments might behave irresponsibly in the belief that they are "too sensitive to fail" (because of the services they provide) and would be bailed out if in serious financial trouble. (Von Hagen et al, 2000, Sub-national government bailouts in OECD countries: four case studies, Inter-American Development Bank)

Executive has some scope to borrow for capital projects – more indeed than the Scottish and Welsh parliaments if measured in pounds per person – and very modest scope for resource borrowing to help manage its cash flow within-year, which not surprisingly it has not needed to draw upon. But, to all intents and purposes, it is required to balance its books. (Hence the request in the New Decade New Approach agreement that a fiscal council should assess its *"revenue streams and spending proposals and how these allow the Executive to balance their budget"*.) Borrowing is certainly not an economic policy tool in its own right, as it is for the UK Government.

- The **Executive's revenue is largely externally determined** and much of it earmarked for particular purposes (in particular the state pension and social security system, but also smaller items like the yearly net cost of 'pay-as-you-go' public service pensions and contributions to 'City Deals'). Based on the presentation of 'money in and money out' that we use in Chapter 5, funding from Westminster covers almost 90 per cent of the Executive's total spending. Explicit charging for services is more limited than in the rest of the UK (and notably excludes domestic water supply, where costs are covered by the Executive in NI rather than largely by users as in the other regions). Regional Rates are the only significant revenue source that the Executive has the power to vary and in 2019-20 they paid for only around 3 per cent of total spending, so the Executive would have had to increase rates revenue by more than 30 per cent just to increase total spending by 1 per cent. Given this gearing, it is hardly surprising that political attention focuses on the scale of UK Government support for public spending in NI as much as the Executive's own policy choices. As David Sterling, former head of the NI Civil Service, said in his evidence to the Renewable Heat Incentive inquiry: *"Executive ministers were criticised on any occasion when we didn't draw down all the moneys available, either from Westminster or the EU"*.[43] Encouraging greater accountability and effectiveness in the use of public spending is one of the arguments made for giving the Executive greater responsibility for revenue-raising, which the NI Fiscal Commission will no doubt explore in its examination of potential further devolution of tax-setting powers. The Executive's reliance on transfers from Westminster to finance most of its spending also means that its finances are relatively little affected by the performance of the NI economy. Of greater significance is the UK Government's assessment of the overall spending levels it can sustain.

- With its borrowing powers constrained, its revenue-raising powers limited and welfare policy historically operated largely in line with the rest of the UK, **the Executive's Budget process focuses primarily on the allocation of funding to departments for public services** (and to a lesser degree capital investment) within an overall financial envelope largely taken as given. The Executive sets its detailed departmental plans only over the period for which UK Government has published its own (as these determine the bulk of its grant income) without even indicative plans thereafter.

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[43] www.rhiinquiry.org/sites/rhi/files/media-files/D44-Transcript-13Mar2018_0.pdf

- The **presentation, reporting and forecasting of the Executive's finances is fragmented, relatively opaque and hard to comprehend.** For example:

    - The ***Executive's flagship Budget document*** does not include a consolidated total of all the spending for which it is formally responsible or present comparisons with previous years on a consistent basis.

    - As noted in Chapter 3, the ***Treasury's UK spending control framework*** treats some flows in ways that may appear counter-intuitive to the casual observer, with Regional Rates, EU funding and borrowing by the Executive treated not as revenue or financing but as 'negative spending' that creates space for additional gross spending within the limit on net spending that the Treasury sets. In Chapter 5 we unpack this to try to show where the Executive's money comes from and goes to.

    - The ***public finance forecasts that the OBR produces*** for the UK incorporate the finances of the Executive, but these are impossible to disentangle and scrutinise in isolation. Most elements also receive relatively little scrutiny in the OBR forecast process, as many of the flows are too small to be material to the UK-wide fiscal position. In addition, even at the UK level, the OBR does not make bottom-up judgements about DEL spending department by department.

The transparency and comprehensibility of the Executive's finances are also hampered by two features that they share with the UK public finances:

- The spending and revenue aggregates used by the Treasury for control purposes do not map straightforwardly onto the equivalent aggregates in the **National Accounts treatment of the public finances** that are used to define the UK fiscal rules and in the 'fiscal balances' analysis in Chapter 3.

- The Executive's **Budget process runs on twin tracks** that can be confused: first, the planning and management process led by the Department of Finance and, second, the legislative process through which spending is authorised in the Assembly. Delays to UK fiscal events and Spending Reviews complicate budget-setting in the devolved administrations, often eating into the time available for legislative scrutiny. At the UK level, the 'Clear Line of Sight' project[44] (launched in 2007) aimed to clarify the presentation of public spending to Parliament and the public by aligning more closely the measures used: i) by the Treasury in taking policy decisions, ii) by Parliament in the Estimates process and iii) reported after the event in the resource accounts signed off by the National Audit Office. The Financial Reporting (Departments and Public Bodies) Bill introduced to the Assembly on 1 June 2021 is designed to do much the same. If passed, all spending and income in the Executive's Budget will be included in the

[44] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/238638/7567.pdf

Estimates voted on by the Assembly - and the Estimates will be presented in a new format to allow them to be reconciled to the Budget more meaningfully. Non-Departmental Public Bodies (NDPBs) will also be brought within the boundaries used for the Budget, Estimates and departmental accounts. (This should simplify the explanation provided for the level of total cash funding for the Executive in the NI Office's accounts.) In preparation for the 2022-25 Executive Budget, the Department of Finance has also suggested that departments might restructure their budgets to better reflect their management structures and that they should aim for meaningfulness and transparency in the detail published with the Budget.

Like the devolved administrations in Scotland and Wales, the Executive is constrained to organise and manage its spending – and the financing of it – within the overarching framework that the UK Government has put in place to manage public spending across the UK as a whole. The mechanics of this are set out in the Treasury's annual *Statement of Funding Policy*, which emphasises that:

> *"Responsibility for UK fiscal policy, macroeconomic policy and funding allocation across the UK remains with HM Treasury. As a result, funding from the UK government, as well as devolved administration self-financing, continues to be determined within this framework."*[45]

As noted in Chapter 2, when managing spending across the UK the Treasury divides it into two categories for control purposes: 'Departmental Expenditure Limits' (DEL) and 'Annual Managed Expenditure' (AME). Spending where departments have a reasonable degree of short-term control and the potential to make meaningful plans over the medium term is covered by DEL, while AME covers programmes that are *"demand-led and volatile in a way that could not adequately be controlled by the devolved administrations; and/or that are so large that the devolved administrations could not be expected to absorb the effects of volatility within DEL"*. It is the Treasury that decides which items of spending fall into which category.

The Executive (like a Whitehall department) has a DEL of its own – set by the Treasury. As we saw in Chapter 3, this is a net limit equal to the Block Grant funding provided by the UK Government. Other funding for spending in these areas scores as negative DEL, giving a larger gross spending envelope that the Executive then allocates between the NI departments through its own Budget process. The Executive (again like a Whitehall department) also has responsibility for some AME spending. DEL and AME together constitute 'Total Managed Expenditure' (TME).

[45] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1028587/Statement_of_Funding_Policy_2021_-_FINAL.pdf

Spending in Departmental Expenditure Limits (DEL)

The components of DEL spending

The Executive's DEL settlement has four separately controlled components, each of which is set by the Treasury consistent with the funding available. The first three are covered by (or equal to or known as) the Block Grant, namely:

- **Non-ringfenced Resource DEL (RDEL)** covers the day-to-day costs of public services and administration and includes wages, purchases of goods and services, and grants and subsidies to local councils, public corporations and the private sector. The final outturn for 2019-20 was £11.361 billion. The NI Department of Finance describes this as *"the focus of the Budget"*.[46]

- **Conventional Capital DEL (CDEL)** covers longer-term physical investment in infrastructure, buildings and machinery (for example in roads and hospitals) and intangible investment (for example in research and development). This totalled £1.390 billion in 2019-20.

- **Financial Transactions Capital (FTC)** is ringfenced within CDEL and recorded a negative net payment of £44 million in outturn in 2019-20. Sometimes referred to as 'policy lending', the FTC Block Grant funding can only be used to make loans to or equity investments in the private sector.[47] When this funding is made on a net basis, the devolved administrations can recycle the repayments they receive into new loans. When made on a gross basis, the Treasury typically requires the administration to pay back 80 per of the funding within 20 to 25 years, irrespective of how much the entity to which the administration lends pays back. Any remaining repayments are split evenly between the lending department and the Department of Finance for reallocation to other capital lending projects. This therefore increases the Executive's FTC spending power. FTC has been available in recent years less at the administrations' behest than because various UK Government schemes to support house purchasers in England have generated an entitlement to similar funding via the Barnett formula. In recent years the Executive has used FTC largely to support affordable housing, universities (for example the relocation of Ulster University) and the NI Investment Fund (which provides finance for commercial property, regeneration and low carbon projects). But it has had difficulty disbursing the funds available and the projects for which FTC has been usable have not necessarily been its highest investment priorities. The fiscal events from the 2011 Autumn Statement to the 2020 Spending Review gave the Executive a cumulative £1.06 billion of FTC by 2021-22 and it expects to have used £0.62 billion.

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[46] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Final%20Budget%202021-22%20document%2021.04.21%20-%20accessible.pdf (paragraph 3.6)

[47] The Office for National Statistics classifies entities into the public or private sector based on who exercises control over them (rather than who owns them). The private sector includes charities and universities

The fourth DEL component – **Ringfenced RDEL –** covers depreciation and impairments and totalled £584 million in 2019-20 (including £163 million for impairment on student loans). Depreciation is an accounting charge reflecting the reduction in the useful life of a fixed asset as it wears out, is consumed or for other reasons. Impairments reflect the writing down of bad loans, loss or damage to fixed assets or the abandonment of specific projects. (These score as DEL if the reason is within the Executive's control and AME if not.) The Treasury ringfences these items because they are 'non-fiscal' and do not contribute to the National Accounts measure of public sector net borrowing, the headline measure of the UK budget deficit. FTC does not contribute to net borrowing either (and is therefore ringfenced), but it does contribute to public sector net debt, the headline balance sheet measure. This is because it exchanges a liquid financial asset (cash) that is netted off the debt stock for an illiquid one (the loan or equity stake) that is not.

The determination of the Block Grant

Looking at the Block Grant or total DEL settlement in aggregate, the biggest component is a core element based on past funding (excluding one-off and time-limited items) that is then revised using the Barnett formula to ensure that net changes in per-person UK Government funding for services delivered only in England[48] are broadly matched in NI and the other regions.

In a process sometimes referred to as 'formula bypass', this core element is then supplemented by one-off and time-limited 'non-Barnett additions', some common to all the devolved administrations and some specific to NI. Then, under the 'Block Grant adjustment' process, the Grant is reduced (very slightly in NI but by much more in Scotland and Wales) to reflect the revenue the Treasury forgoes because of the taxes devolved to each administration (with a smaller adjustment in the opposite direction in Scotland to reflect the devolution of some welfare payments).

Following a recommendation by the House of Commons Procedure Committee in 2017, the Treasury now publishes an annual *Block Grant Transparency* publication providing data on how and why the Block Grants to each devolved administration have evolved since the last Spending Review via the elements described below.[49]

The baseline

The baseline Block Grant (to which the 'Barnett consequentials' are added) starts from the Block Grant set at the previous Spending Review or fiscal event (which therefore includes the cumulative impact of past Barnett consequentials), adjusted by the Treasury for any one-off or time-limited items.

Other potential adjustments include 'budget cover transfers', when responsibilities move between the UK Government and the Executive (for example when funding to support a 'public service obligation' air route to City of Derry airport transferred to the Executive from the UK Department of Transport in 2021) and 'budget switches', which move items between DEL and AME (for example the Financial Assistance Scheme in 2018) or between RDEL and CDEL (leaving total DEL unchanged).

[48] Or in England and Wales, or in England, Wales and Scotland.
[49] https://www.gov.uk/government/publications/block-grant-transparency-june-2021

At the 2020 Spending Review, the Treasury made 37 changes in total to the Executive's RDEL baseline for 2021-22, increasing it by £76.6 million (to £11.18 billion) from the figure at the 2019 Spending Review for 2020-21.

Setting the baseline can be contentious. But the Treasury is ultimately judge and jury and the administrations sometimes complain they have little time to query its decisions (for example over what is or is not a one-off item). At the 2020 Spending Review the Executive was only informed of its final baseline for 2021-22 on the morning of the announcement, as it depended on the final baselines for the UK departments. At the October 2021 Review, it was notified a day earlier.

The Barnett formula

The Barnett formula ensures that when the UK Government increases (or cuts) funding for public services delivered by Whitehall departments only in England,[50] it also increases (or cuts) the funding it gives devolved administrations that deliver those services in their own region by broadly the same amount in pounds per person. This ensures that if the UK Government uses UK-wide tax revenues to finance spending only in one part of the country, other regions do not lose out.

Devised by the Treasury mandarin Sir Leo Pliatsky, the Barnett formula is an administrative convention rather than having any legal status. It was designed as a temporary measure in the late 1970s when the Labour Government was legislating (unsuccessfully) for devolution in Scotland and Wales. It was applied first in Scotland in the 1978 Public Expenditure Survey and then in NI in 1979, and came to be named after Joel (later Lord) Barnett, then Chief Secretary to the Treasury (who would later describe it as *"grossly unfair"* and a *"terrible mistake"*).[51] It drew on the earlier example of the 'Goschen proportions', a formula adopted by Chancellor of the Exchequer George Goschen in 1888 to allocate funding (initially from probate duty) to Scotland and Ireland, based on funding in England and Wales together. The proportions he chose (11:9:80) were still being employed as late as 1958.

When the Barnett formula is used at Spending Reviews, the changes in each Whitehall department's RDEL and CDEL settlements (compared to their baselines) are multiplied by three numbers to determine the corresponding change in the Executive's Block Grant:

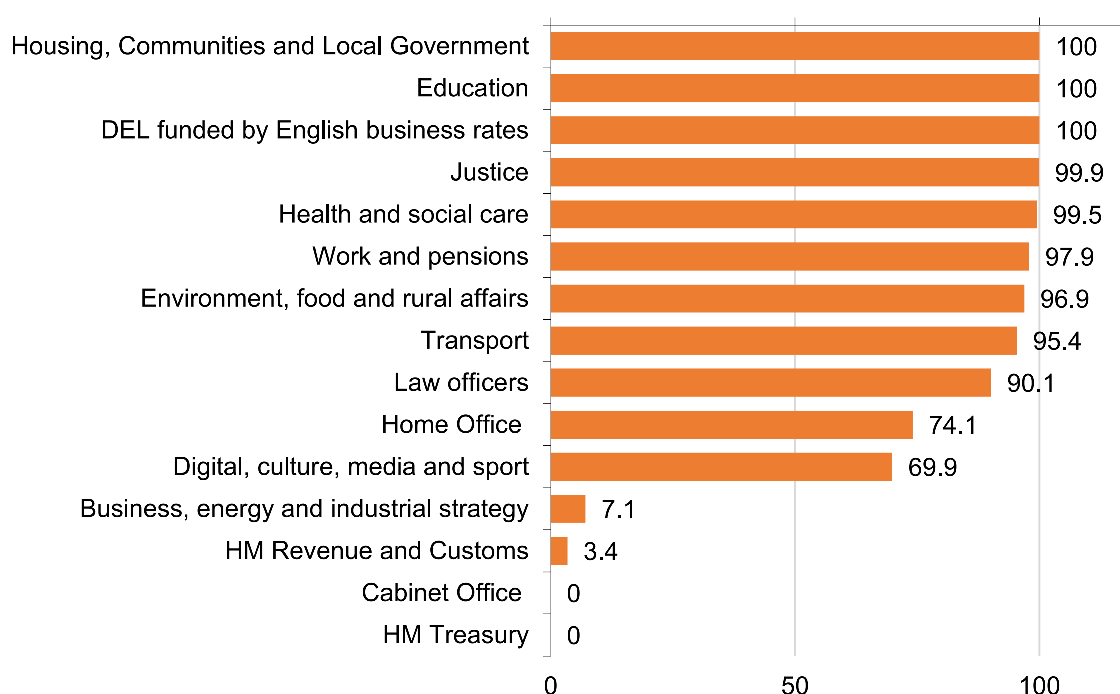
- A **'comparability factor'** – the percentage of the department's services that are delivered by the Executive rather than the UK Government in NI. The figures used in the 2021 Spending Review are shown in Chart 4.2 below. (Treating English business rates as negative spending and applying a 100 per cent comparability factor ensures that the changes in the DEL spending in England that they finance do not lead to changes in the block grant.[52])

[50] Or only in England and Wales, or in England, Wales and Scotland.
[51] https://www.bbc.co.uk/news/uk-29477233
[52] Non-domestic rates are collected by local councils in Great Britain. They retain some of the revenue collected but also pay a 'central share' to the UK Government that part-funds the local government sector in England. Because NI has its own non-domestic rates, expenditure by the UK Government that is funded by the central share is treated as 100 per cent comparable in the Barnett formula. This allows the Treasury to calculate a reverse consequential for the devolved administrations: an increase/decrease in the central share generates negative Barnett consequentials that offset the positive/negative consequentials generated by higher spending funded by the central share.

- A **'population proportion'** – NI's population as a percentage of England's (or England & Wales's or Great Britain's if that is where the department delivers its services). At the 2021 Spending Review, the data used from the Office for National Statistics gave NI a population 3.35 per cent of England's.

- A **'VAT abatement factor'** – increases in the NI block grant are multiplied by 97.5 per cent (a 2.5 per cent reduction) to reflect – imprecisely – the fact that the Executive can reclaim VAT it pays from HM Revenue and Customs, unlike Whitehall departments or the other devolved administrations. This is because the Executive fulfils many of the responsibilities that fall to local councils elsewhere, and councils can reclaim VAT under the VAT Act 1994.[53]

Chart 4.2 – Barnett formula comparability factors at Spending Review 2021



Source: HM Treasury SR 2021

Table 4.1 offers a worked example of the calculation of a Barnett consequential. It shows that if the Department for Digital, Culture, Media and Sport (DCMS) were to have had its DEL increased by £100 million at the 2021 Spending Review, the Executive's Block Grant would have been increased by £2.28 million.

[53] https://www.legislation.gov.uk/ukpga/1994/23/section/99

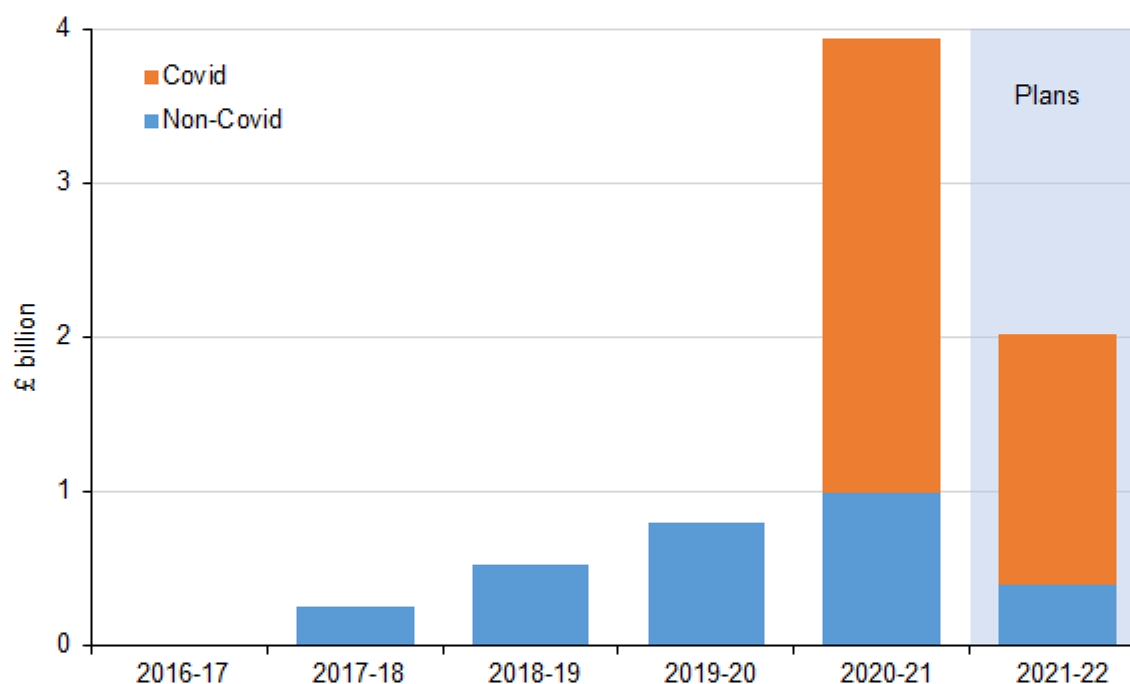
Table 4.1 – A theoretical Barnett consequential at the 2021 Spending Review

Increase in DCMS DEL at a Spending Review	£100 million
x Comparability factor	69.9 per cent
x Population proportion	3.35 per cent
x VAT abatement factor (specific to NI)	97.5 per cent
'Barnett consequential' increase in NI block grant	**£2.28 million**

Source: Statement of Funding Policy: Funding the Scottish Government, Welsh Government and Northern Ireland Executive October 2021

The Barnett formula is applied differently at fiscal events and other Treasury statements between Spending Reviews. Comparability factors are set either at zero or 100 per cent and applied programme-by-programme rather than department-by-department. (The *Statement of Funding Policy* lists comparability factors for no fewer than 30 programmes within the Department of Digital, Culture, Media and Sport.) By the time of the last *Block Grant Transparency* publication in June 2021, increases in UK departmental spending since the 2020 Spending review had increased the Executive's total Barnett consequentials for 2021-22 to £2.0 billion (compared to £5.9 billion for the Scottish and £3.4 billion for the Welsh Governments).[54] Chart 4.3 shows the consequentials as of June 2021 for each year since 2016-17 – much bigger in 2020-21 and 2021-22 than in earlier years thanks to the increases in UK Government spending in response to Covid-19.

Chart 4.3 – Barnett consequentials since the 2015 Spending Review



Source: HM Treasury Block Grant Transparency 2021

[54] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/995939/Block_Grant_Transparency_2021_Explanatory_Note_.pdf (Para 4.6)

The Barnett formula removes much of the need for negotiation between the devolved administrations and the Treasury over the size of their core Block Grants, but there have been arguments over which spending the formula should apply to. These centre around whether the UK Government is responsible for delivering services only in England (in which case it is 'Barnettable') or to the whole of the UK (in which case not). To take two contentious examples, spending on Crossrail and capital spending on the London Olympics were deemed Barnettable because the UK Government is only responsible for local transport and housing in England. But current spending on the Olympics was judged to benefit the whole UK, so was not.

Various commentators have pointed to the contrast between the precision with which Barnett consequentials are calculated and the relatively arbitrary origins of the funding baselines to which they are applied. Lord (James) Callaghan, former UK Prime Minister, told the House of Lords that he thought Barnett added *"something which is fairly rational onto something which was completely irrational"*.[55] But other commentators question if Barnett is even 'fairly' rational as the baseline is arbitrary and the population-based adjustments take no account of differential population growth (as they apply to the increment rather than the baseline).

As we describe in Chapter 6, the scale and frequency of changes in the UK Government's spending plans through 2020-21 – in response to the unfolding of the Covid-19 pandemic – led the Treasury to make a thrice-updated 'Barnett Guarantee' to the devolved administrations, so that they could scale up their spending in response to the pandemic in parallel to the increases in spending in England rather than having to borrow and/or wait until the next formal fiscal event to discover exactly what the Barnett consequentials of those increases would be.

Block grant adjustments

Once the Barnett consequentials have been added to the baseline grant, 'Block Grant adjustments' are implemented to reflect the impact of the devolution of different tax and welfare spending responsibilities to each of the devolved administrations.

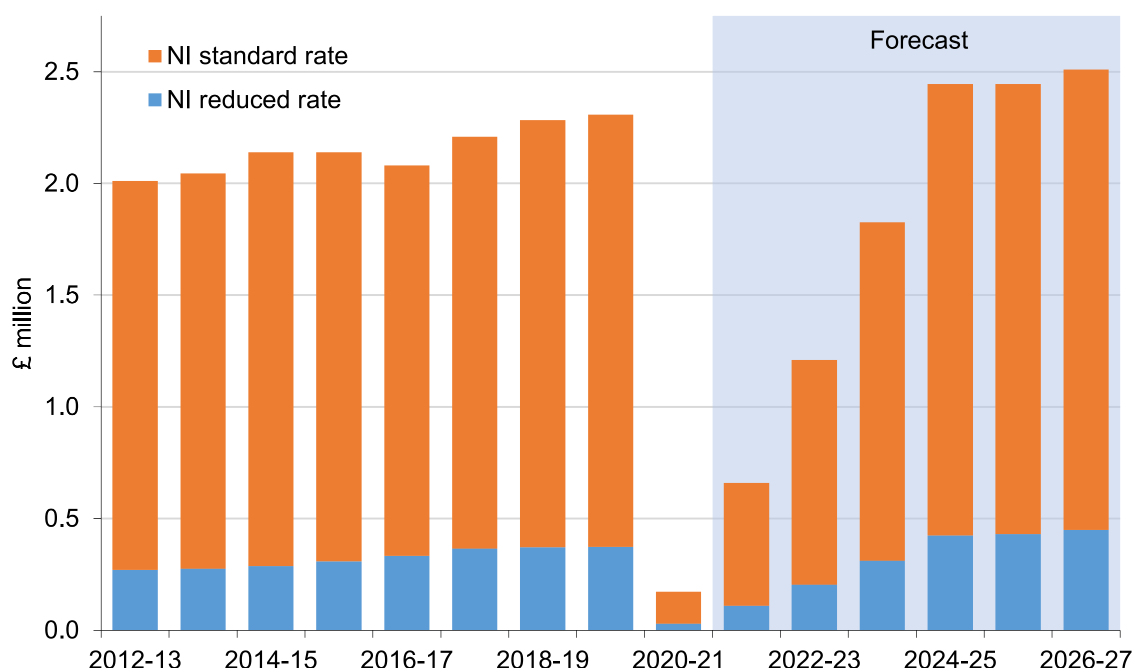
These adjustments are much more significant for the Scottish and Welsh Governments than for the Executive, given the greater devolution of tax and spending powers to those administrations. Broadly speaking, the Block Grants that the Scottish and Welsh Governments receive are reduced by the amount of revenue that the Treasury gave up in the year when the tax was devolved, indexed thereafter in line with how it would have increased had the tax not been devolved. So, for example, if income tax receipts rise more slowly in Scotland than England adjusted for changes in population (either because of changes in Scottish income tax rates or its economy under-performing) the Scottish Government bears the financial cost. The same principle applies in the opposite direction to changes in spending by the Scottish Government on welfare payments that have been devolved to it.

In the case of the Executive, the only adjustment of this sort is for the devolution of air passenger duty on long-haul flights from NI. The Executive's decision then to set the duty rate to zero was taken largely to support regular flights from Belfast to New York, but these ceased when Norwegian Air ended its regular service in October 2018. The NI Block Grant was reduced originally by £2.04 million in 2013-

[55] House of Lords debates, vol 588, col 1055, 21 April 1998

14, based on the revenues foregone by the Treasury due to devolution (as in Scotland and Wales). Instead of indexing the adjustment against corresponding UK Government tax revenues, as in Scotland and Wales, the APD adjustment is indexed against passenger numbers in the rest of the UK, and so has fallen recently due to the impact of Covid-19 (Chart 4.4). With the adjustment falling from £2.31 million in 2019-20 to £0.17 million in 2020-21, then rising again to £2.45 million in 2024-25, even the largest of these adjustments is a tiny reduction relative to the overall Block Grant and it was a risk the Executive knowingly took. But it does look odd when the tax base has in fact disappeared even though the duty rate has been set to zero.

Chart 4.4 - NI Block Grant Adjustment for Long-Haul Air Passenger Duty



Source: HM Treasury

Non-Barnett additions

The Executive also receives various 'non-Barnett additions' to its Block Grant. These are typically one-off or time-limited and earmarked for particular purposes. Some are received by all devolved administrations and some solely by the Executive.

The main Block Grant additions common to all devolved administrations are:

- The UK Government's ringfenced contributions to **City and Growth Deals**. These are agreements between the UK Government, the devolved administrations, local councils and other local partners, designed to boost economic growth through increased funding and greater localised decision-making. As of April 2021, the UK Government had committed £617 million over 15-20 years to four deals in Belfast City Region, Derry City & Strabane, Mid South West NI and Causeway Coast & Glens (out of a total of £2.9 billion committed to 20 deals overall across Scotland, Wales and Northern Ireland). To date the Executive has received £40 million in relation to the deals (as shown in in the June 2021 *Block Grant Transparency* spreadsheet), although £20 million of this was handed back as no deals had advanced sufficiently to draw down funds. Funding to the individual City Deal projects will begin to

flow once the deal documents have been signed and the Belfast Region City Deal is progressing towards this stage.

- Post-Brexit funding to replace EU support for **farming and fisheries.** The UK Government has promised *"to maintain the funding available to farmers and land managers"* and *"to maintain fisheries funding across the UK's nations"* in every year of this Parliament.[56] Spending Review 2020 committed £315.6 million in farm support for the Executive in 2021-22 (excluding £14.4 million in residual EU support from a programme agreed pre-Brexit). The Department of Agriculture, Environment and Rural Affairs argues that it is being penalised for a backloaded drawdown profile and will be £34 million short of what the EU would have provided between 2021-22 and 2023-24.[57] The Review pledged £3.1 million in fisheries support in 2021-22, with prospective support in line with what would have been expected from the EU. The Institute for Government has estimated that CAP support under the 2013 allocation was worth £167 per person per year in NI between 2014 and 2020, compared to £104 in Scotland, £103 in Wales and £40 in England.[58] So the fate of farm support beyond this parliament will be particularly consequential in NI.

The main non-Barnett additions specific to the Executive have accompanied major political agreements within NI and with the UK and Republic of Ireland:

- The **New Decade New Approach (NDNA)** agreement that paved the way for the restoration of the Assembly and Executive in January 2020 was accompanied by what the UK Government referred to as a *"£2 billion injection of financial support to the new NI Executive"* by 2024-25.[59] Half was in effect a guarantee that the Executive would receive at least £1 billion in Barnett consequentials to finance spending over those five years (which it did) or that the Treasury would make up the difference. The NDNA support has been earmarked for various purposes, including a new medical school in Derry/Londonderry, the rollout of ultra-low emission public transport, higher pay for health care workers and public services reform. The Executive was also given permission to carry over more underspends from previous support. It is currently estimated that £508 million was spent under NDNA in 2020-21 and that £162 million will be spent in 2021-22, with more than £150m more due to be spent by the end of 2024-25.

- The **Confidence and Supply Agreement** between the Conservative Party and the DUP in 2017 was accompanied by a financial annex agreed between the UK Government and the Executive promising an extra £1 billion for the Executive over the five-year parliament, including £400 million for

[56] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (5.5 and 5.7)
[57] http://data.niassembly.gov.uk/HansardXml/committee-25103.pdf
[58] https://www.instituteforgovernment.org.uk/publication/devolution-at-20/public-spending-and-taxation
[59] https://www.gov.uk/government/news/uk-government-commits-2bn-to-support-new-northern-ireland-executive

infrastructure, £200 million for health and £150 million for broadband. £72.3 million was confirmed at Main Estimates, mostly for broadband.

- The Executive continues to receive funding under the **Fresh Start Agreement** of 2015, which was designed to sustain the Assembly and Executive by addressing various issues left unresolved by the Belfast and St Andrew's agreements. Funding has totalled £259 million over the past five years and the 2021-22 Budget includes £31 million for security (included in the last Spending Review and so not separately identified in *Block Grant Transparency*) and £28.4 million for shared education and housing.

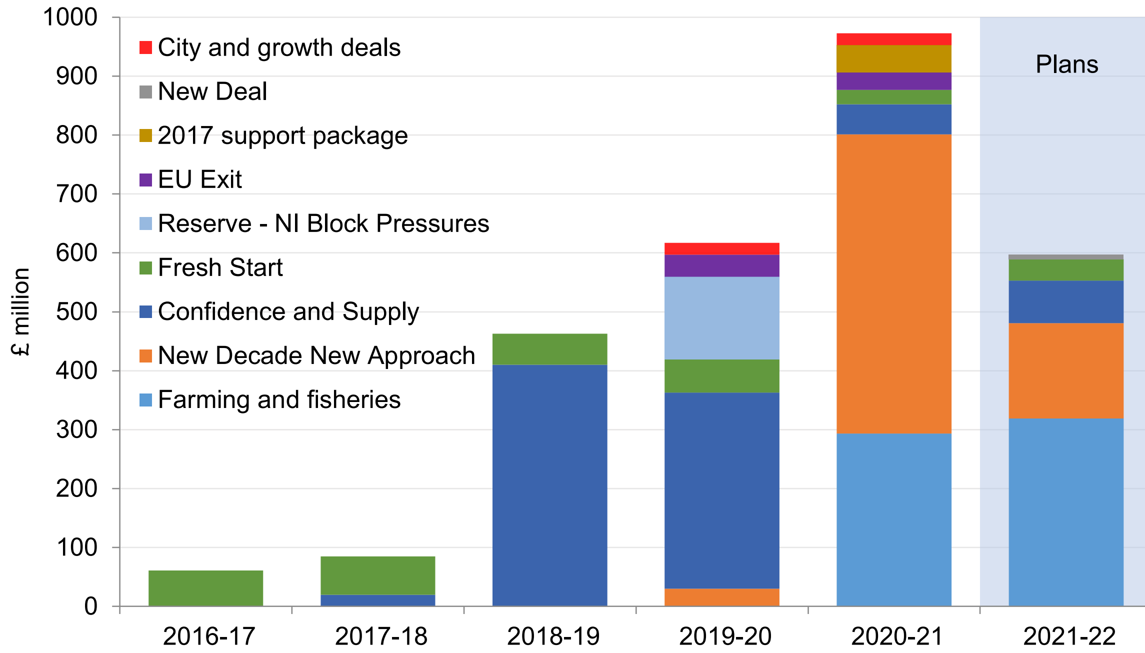
- The UK Government has provided funding for **EU exit**. In addition to funding preparations for departure, it has promised to meet the direct costs of the NI Protocol, for example additional costs related to the inspection of food and other goods entering NI from GB. The Treasury has provided £67.9 million over the past two years and has pledged £35.3 million in 2021-22.

- Under the **New Deal** support package announced towards the end of the Brexit Transition Period, the UK Government has provided the Executive with £15 million over three years for investment in skills, and £8 million over two years to promote trade and investment in overseas markets.

- There are three elements identified as '**2017 support package'** in the *Block Grant Transparency* document: £12 million for shared education; £8.9 million for tackling paramilitary activity; and £25 million for tackling fraud and error. The 2017 support package was another name for the funding attached to the Confidence and Supply agreement, but these three elements date from the earlier Fresh Start and Stormont House political agreements.

Chart 4.5 shows the total of these various non-Barnett additions as of June 2021 each year since 2016-17, broken down by source. By 2020-21 – largely due to NDNA – they were worth almost £1 billion or around 5 per cent of the Block Grant.

Chart 4.5 – Non-Barnett additions since Spending Review 2015



Source: HM Treasury Block Grant Transparency 2021

Box 4.1 – The political economy of financial support packages

Given the number of occasions on which the UK Government has provided financial support packages to help sustain or restore NI's power-sharing institutions, it would hardly be surprising if politicians at Stormont were tempted from time to time to exploit this potential source of finance to loosen the 'budget constraint' they face.

The decisions that the NI political parties take about sustaining or suspending power-sharing at any given time are of course influenced by many factors, of which financial considerations are only one. But, notwithstanding the different interests of the different political parties, economists inevitably look at the bilateral relationship between the Executive and the UK Government in part through the lens of 'game theory', the study of decision-making by competing actors in a strategic setting.

The UK Government and the Executive are involved in repeated negotiations over power-sharing and each must decide how to behave to achieve its objectives. The collapse of power-sharing is costly to both sides, but neither can be certain what price the other would pay to avoid or end it. The relative size of the players is a key factor – NI politicians know that the cost to the UK Government of, say, a £1 billion package is far less significant in the context of the public services that the UK taxpayer will forego by financing it than the direct benefit to the NI taxpayer. And it is also small relative to the cost and disruption of implementing direct rule or the like. Many politicians may have concluded that the UK's Government's threats to walk away when the institutions are threatened lack credibility and that it usually pays up. That said, the balance of perceived costs and benefits can shift. Some observers argue that the NI parties found themselves in an unusually weak position negotiating the New Decade New Approach (NDNA) agreement because the public had become frustrated by the three years of 'non-government' at Stormont, especially during the 2019 nurses' strike. Hence they could not credibly threaten to walk away from the multi-party talks.

At face value, securing additional resources for NI via this route is beneficial to the regional economy and society: more public funding and hence more public services. But a considerable body of economic commentary suggests that 'moral hazard' or the ability to tap a reliable stream of public money from the Treasury may distort public and private sector behaviour in NI with implications that are ultimately undesirable. Decision making under soft budget constraints may not be optimal[1] and high levels of subsidy for the private sector may have contributed to comparatively low productivity and competitiveness.[2] Evidence to the Renewable Heat Incentive inquiry indicates that the mentality of treating funding from London as "free money" was quite widespread.[3]

[1] P. Bew, H. Patterson and P. Teague 1997, *Between War and Peace: The Political Future of Northern Ireland*, Lawrence and Wishart.

[2] N.F.R. Crafts 1995, "The golden age of economic growth in post-war Europe: Why did Northern Ireland miss out?", *Irish Economic and Social History*, vol. XXII, pp. 5-25.

[3] See S. McBride 2019, *Burned: The Inside Story of the "Cash-for-Ash" Scandal and Northern Ireland's Secretive New Elite*, Merrion Press.

The Barnett formula – 'need' and convergence

The *Statement of Funding Policy* notes that *"spending per head in Scotland, Wales and NI is higher than the UK average, broadly reflecting that the costs of providing public services are also higher in these regions than the UK average"* – for example, because of differences in population density, health and employment rates. That said, there is no explicit link between DEL funding and any formal assessment of relative 'need' as some have argued for (although the UK and Welsh Governments have agreed that the Welsh Block Grant should not fall below 115 per cent of the English funding level, based on a needs assessment by the Holtham Commission).[60]

With the Barnett formula only ensuring that changes to per person spending by the UK Government are broadly matched elsewhere, funding levels across the regions would be expected to converge over time as the original percentage differential is eroded (at least when UK spending is rising and the population is growing at a rate not too much slower than England's) – a process referred to as the 'Barnett Squeeze'. This helps explain why the spending levels shown in Chart 3.1 show NI's spending differential over England remaining relatively constant in cash terms over the past 20 years but declining as a percentage of English spending.

[60] https://gov.wales/sites/default/files/publications/2018-10/fairness-and-accountability.pdf

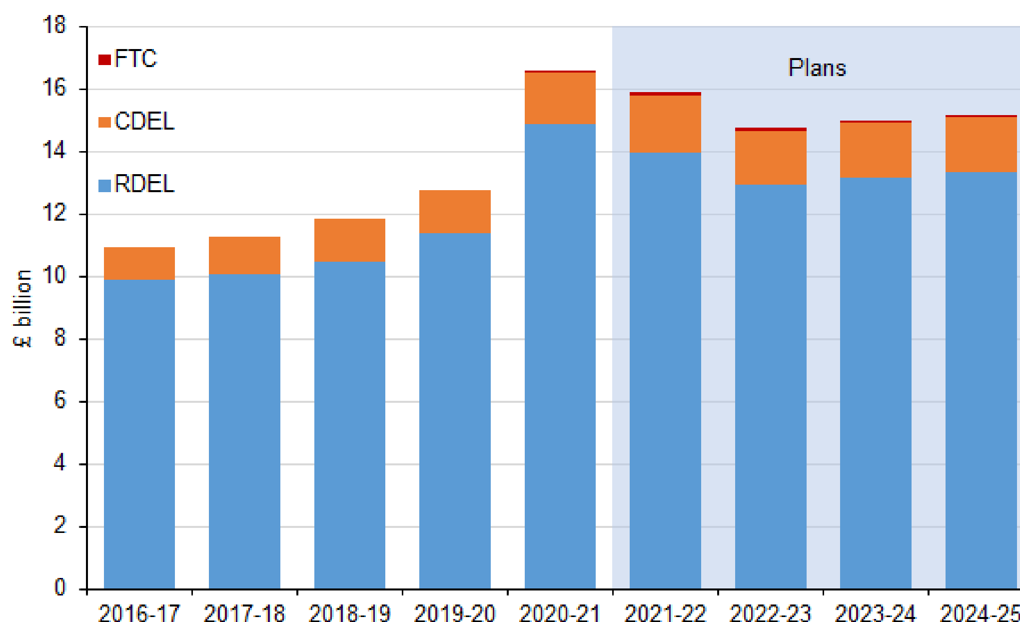
Box 4.2 – The October 2021 Spending Review

The NI Finance Minister said that the Block Grant settlement announced at the UK Spending Review on 27 October 2021 was not as large as he would have liked. But it was larger than most observers would have expected – reflecting the decisions on spending, taxation and borrowing at a UK level.

Once the temporary damage to the public finances of Covid-19 and the immediate policy response to it have passed, the aggregate impact of the Chancellor's decisions and changes to the underlying forecasts produced by the Office for Budget Responsibility will be to make the UK a noticeably higher spending and higher taxing economy coming out of the pandemic than it was going in. The ratio of tax receipts to GDP is forecast to rise to its highest level since the early 1950s and public spending is forecast to settle at around 41.5 per cent of GDP compared to less than 40 per cent prior both to the pandemic and the 2008-09 financial crisis. [1] The decision to increase spending at the UK level is reflected in the Block Grant via Barnett.

Chart 1 shows how the three components of DEL that contribute to the Block Grant have evolved. These are outturn figures from 2016-17 to 2020-21 and plans for 2021-22 and the three subsequent years newly covered by the Spending Review. The Chart shows that non-ringfenced RDEL – which covers the day-to-day cost of public services, administration and grants – is by far the largest component.

Chart 1 –NI Executive DEL spending and plans spending and plans



Source: HM Treasury PESA 2021 (outturn) and SR 2021 (plans)

Table 1 shows the Block Grant / TDEL plans announced for the Executive at the Spending Review, broken down into the Barnett formula baseline, the Barnett 'consequentials' of changes in UK Government spending relative to the baseline and the 'non-Barnett additions' confirmed at the Review. (The baseline for 2021-22 is the one set at the 2020 Spending Review and the Barnett consequentials shown for that year are relative to that baseline.) For comparison the table also shows the Final Budget plans for 2021-22 that were published by the Executive in April this year.

Table 1 – Components of the Executive's Block Grant

	2021-22	2022-23	2023-24	2024-25
Barnett baseline	**12,871**	**13,025**	**13,025**	**13,025**
of which RDEL	*11,180*	*11,365*	*11,365*	*11,365*
CDEL	*1,510*	*1,524*	*1,524*	*1,524*
FTC	*181*	*136*	*136*	*136*
Barnett consequentials	**2,256**	**1,409**	**1,616**	**1,781**
Of which RDEL	*2,126*	*1,220*	*1,425*	*1,619*
CDEL	*218*	*162*	*260*	*235*
FTC	*-88*	*27*	*-69*	*-73*
Non-Barnett Additions	**747**	**351**	**365**	**366**
Of which RDEL	*640*	*351*	*365*	*366*
CDEL	*107*	*0*	*0*	*0*
FTC	*0*	*0*	*0*	*0*
PLANS / BLOCK GRANT	**15,874**	**14,785**	**15,006**	**15,172**
Of which RDEL	*13,946*	*12,936*	*13,155*	*13,351*
CDEL	*1,835*	*1,686*	*1,785*	*1,759*
FTC	*93*	*163*	*66*	*62*
Memo: Executive Budget (April)	***14,169***			
Of which RDEL	*12,485*			
CDEL	*1,611*			
FTC	*74*			

Note: The 2021-22 uses SR20 baseline. 2022-23 onwards used baselines set at SR21.
Source: HM Treasury

The table shows that:

- The Executive's **Block Grant for the current financial year** is now £15,874 million – or around £8,400 per head of the NI population. This is £1,705 million higher than at the time of the Executive's last Budget, which largely reflects the Barnett consequentials of additional UK Government spending in response to Covid-19 announced at Spring Budget 2021 (£408 million) and Main Estimates 2021 (£343m), plus funding carried forward from 2020-21 (£327m) and non-Barnett funding confirmed at Main Estimates 2021 (£379m) largely in relation to various NI-specific agreements. Most of this had already been incorporated at Main Estimates in June, but the Spending Review announced an additional £175 million of RDEL consequentials and £61 million of CDEL consequentials.

- The Treasury has set a **baseline for the calculation for the Barnett formula** of £13,025 for 2021-22. This is significantly lower than the headline DEL for this year, reflecting the exclusion of the Barnett consequentials of temporary Covid-19 support and various smaller one-off or time-limited items including farm and fisheries support and funding from political agreements.

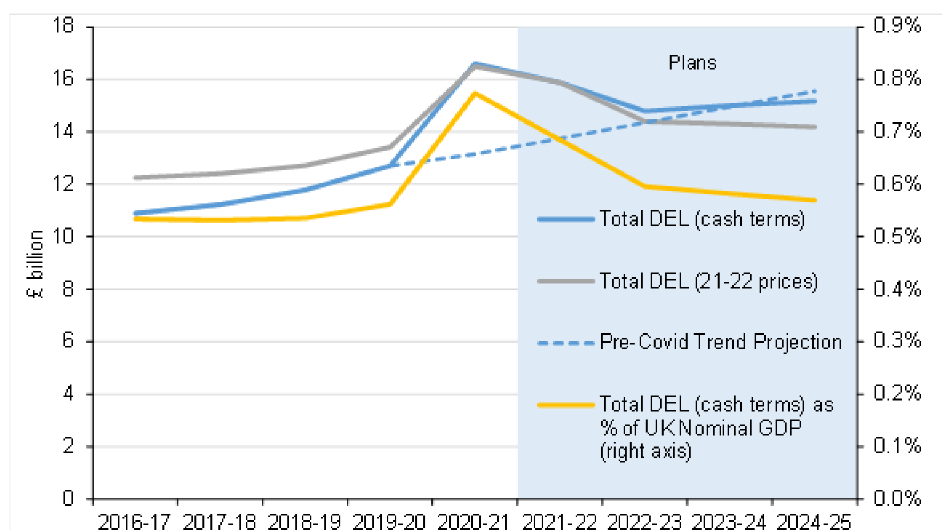
- The **Barnett consequentials** of the increases in UK Government spending outside NI announced at the Spending Review increase the Block Grant (relative to the baseline) by £1,409 million in 2022-23, £1,616 million in 2023-24 and £1,781 million in 2024-25. These consequentials derive mainly from higher planned UK Government spending on health, education and transport, all of which are the responsibility of the Executive in NI. (The Barnett

consequentials shown in the table for 2021-22 will have been calculated on the basis of the Treasury's baselines for the 2020 Spending Review.)

- The Treasury confirmed **non-Barnett additions** within RDEL of £351 million in 2022-23, rising to £365 million in 2023-24 and £366 million in 2024-25. These are dominated by UK Government support for farming and fisheries to replace payments from the European Union's Common Agricultural and Fisheries Policies that are being foregone as a result of Brexit – £316 million in 2022-23, rising to £332 million in 2024-25. The remaining additions are £32 million a year of security funding and £5 million a year for the Tackling Paramilitarism Programme. The Review settlement did not include any additions for City Deals or financial support for political packages, which explains the drop in non-Barnett additions from the 2021-22 plans, where these are included. These items will only be considered at Main Estimates, the Treasury's rationale being that the funding for City Deals is really UK Government funding for local areas that is channelled through the Executive and that the funding for political agreements is subject to conditions. This does not make the interpretation of the Spending Review settlement any easier.

Chart 2 shows the path of TDEL outturns and the latest plans on three bases – in cash terms, real terms and as a share of UK nominal GDP (based on the Office for Budget Responsibility's economic forecasts). In each case, the picture is dominated by the jump in the DEL outturn in 2020-21 as a result of pandemic-response spending (partially reversed in 2021-22). In each case, the Block Grant moves to a higher level coming out of the pandemic than going into it, although the difference is relatively modest by the end of the Review period as a share of GDP. It could be argued that the Review simply returns the cash Block Grant to the rising path it was on prior to the pandemic. But that path reflected unfunded spending increases and the jettisoning of fiscal objectives at the UK level, suggesting that 'more of the same' would not have been sustainable. The latest settlement looks more firmly founded as the UK spending increases underpinning it reflect both tax increases and a better underlying forecast outlook. But future reversals cannot of course be ruled out.

Chart 2 – Executive DEL outturns and plans



Note: We express NI DEL as a share of UK GDP becasue the Block Grant reflects an overall judgement on the level of UK spending as a share of UK GDP
Source: HMT PESA 2021 and Spending Rreview 2021 (DELs) and OBR databank October 2021 (UK Nominal GDP)

Annually Managed Expenditure (AME)

Spending within Annually Managed Expenditure (AME) receives less public and political attention than the public services spending funded through DEL and in some cases is less easy to track from official publications. The Executive's latest plans and forecasts for AME merit just two tables on the final page of the Department of Finance's flagship Budget document (with no run of historical data or explanation of changes from year to year or from previous estimates) and the Treasury publishes no AME equivalent of its *Block Grant Transparency* publication.

Along with the DEL Block Grant, the cash required to support programmes funded within AME is part of the UK Government transfer to the NI Consolidated Fund via the Northern Ireland Office. But, in contrast to spending within DEL:

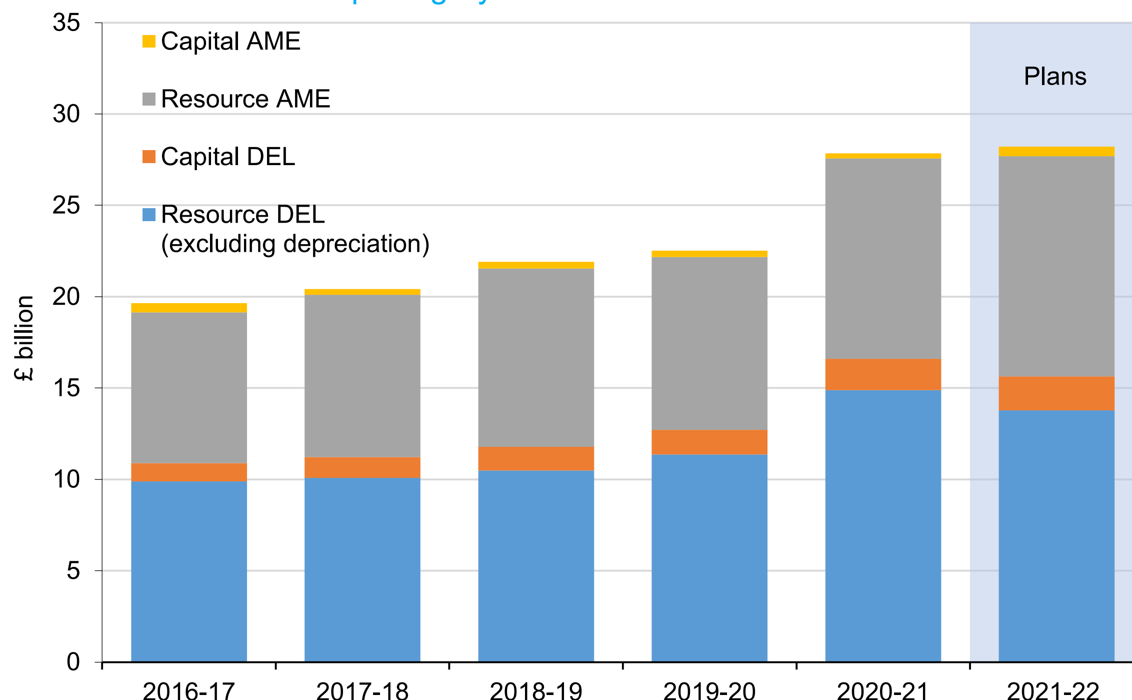
> *"The devolved administrations will not normally need to find offsetting savings from elsewhere within their budgets when forecasts change at planning stage or during the financial year to cover increases in expenditure on these items. Similarly, excess provision cannot normally be carried forward from one year to the next".*[61]

So the financial stakes for the Executive in the way AME is managed are usually lower than for DEL, and the incentives for outside scrutiny and debate are weaker. Nonetheless, as Chart 4.6 illustrates, AME and DEL spending are not that different in magnitude (for NI, if not for Scotland and Wales). According to the Treasury's July 2021 *Public Expenditure Statistical Analysis* (PESA), the Executive's AME spending is expected to come in at £12.6 billion in 2021-22 compared to £15.6 billion for DEL – 45 and 55 per cent of Total Managed Expenditure (TME) respectively.

It is also striking that on the two recent occasions when public finance management has contributed to or threatened to contribute to the collapse of the power sharing institutions – in 2014 and 2017 – the problems were related to AME rather than DEL spending, namely the impact of UK welfare reform decisions and the costs of the Renewable Heat Incentive schemes (described in more detail below). In both cases, the problems were related to the requirement in the *Statement of Funding Policy* that if devolved administrations choose to make an AME programme more generous than in the rest of the UK ('super-parity') then they *"will generally need to fund any costs that are above a population share of the costs of the UK government programme"*[62]. This can happen by one of two mechanisms: either by the Treasury reducing the DEL block grant to reflect the additional spending undertaken within AME or by the Executive meeting the extra costs directly from DEL.

[61] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (para 7.8)
[62] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (para 7.4)

Chart 4.6 – DEL and AME spending by the NI Executive



Source: HM Treasury PESA 2021

The *Statement of Funding Policy* lists the spending programmes that the Treasury has allocated to AME for each devolved administration, including the Executive. In doing so, it distinguishes between departmental AME (mostly that which formally goes through departmental accounts) and non-departmental AME.

For the Executive, departmental AME includes:

- ***state pensions and social security benefits:*** as noted above, the UK Government covers the cost of the NI state pension and social security system as if it were run with the same rates and rules as in England and Wales. These rates and rules can diverge either because the Executive takes a conscious decision to make the system more or less generous or because the UK introduces changes that the Executive does not wish to follow. The latter issue arose in 2014, when the Executive could not reach agreement to implement a money-saving package of welfare reforms put forward by the UK Coalition Government in 2012 – including the creation of Universal Credit, the benefit cap and the 'bedroom tax'. The Treasury calculated the additional spending that it would have to finance as a result of the Executive forgoing the expected savings and said that it would cut the DEL Block Grant by an equivalent amount. As the then Minister for Finance told the Assembly:

> *"The Chancellor has confirmed that the £87 million Welfare Reform adjustment due to foregone AME savings will now be deducted from the NI DEL later this year and that the £114 million deduction planned for next year will also go ahead should there be no progress with Northern Ireland's Welfare Reform legislation."*[63]

[63] Department of Finance (2014) 2014-15 October Monitoring Round – resource allocations (see page 4)

As a result, the political parties in the Executive were unable to agree a Budget, creating a political crisis that threatened its collapse. This was averted after talks between the UK and Irish governments and the NI parties which culminated in the Stormont House and Fresh Start Agreements. The parties agreed to implement the reforms (accompanied by mitigation measures to cushion the impact on some of those most affected) and received financial support for other issues. The legislation to implement the reforms was passed by Order in Council at Westminster on behalf of the Executive parties, at their request and with a Legislative Consent Motion in the Assembly[64]. The Assembly passed secondary legislation to implement the mitigation measures (see Chapter 5 for more details). Provision for these measures was in Regulations approved by the Assembly in three tranches between March 2016 and January 2017. The composition of the Executive's social security spending and the evolution of the (much smaller) mitigation package is described in Chapter 5.

- ***public service pensions:*** the UK Government provides funding to the Executive to cover any shortfall between the contributions made in any given year to the pay-as-you-go public service pension schemes for which it is responsible and payments to retirees. As we explain in more detail in Chapter 5, this shortfall is likely to be smaller in the next five years than over the previous decade thanks to higher expected contributions.

- ***student loans:*** the cash value of loans issued, interest receivable, recalculations of write-offs and repayments all score in AME.

- ***Social Fund:*** This is a managed scheme providing grants and loans to people with needs that cannot be met through their regular income. It is split into two parts: a regulated scheme with well-defined entitlements to particular benefits (e.g. winter fuel payments) and a discretionary scheme to which people in receipt of specified benefits can apply for budgeting loans. Budgeting loans, winter fuel payments and cold weather payments score as AME. Sure Start maternity grants and funeral payments score as DEL.

- ***Renewable Heat Incentive (RHI) schemes:*** Non-domestic RHI schemes were introduced in Great Britain in 2011 and in NI in 2012, offering payments to businesses that generated and used their own renewable energy – often from the burning of wood pellets in biomass boilers. Unlike the Scottish and Welsh Governments, the Executive decided not to join the UK-wide scheme but to operate its own without some of the key cost controls in place in the GB scheme. Recognising that the cost of RHI schemes would be demand-led, the Treasury determined that they should fall within AME. This meant that the UK Government would meet the cost of the NI

[64] Primarily through the Welfare Reform (Northern Ireland) Order 2015 and The Welfare Reform and Work (Northern Ireland) Order 2016, although UKG continued to legislate for Welfare Reform on behalf of Northern Ireland during the period without a functioning Executive.

scheme up to an equivalent population share of the cost in England, but any additional costs would have to be met from DEL – a fiscal risk to the Executive that the subsequent inquiry concluded was neither well communicated by the UK Government, nor well understood by the NI department responsible for the scheme.[65] The NI scheme quickly became much more expensive per head of population in NI than in the rest of the UK and was projected to overspend significantly against its AME budget. Eventually the Executive tiered and capped payments for new applications in 2015[66] and then closed the scheme to new applications in February 2016.[67] But the non-domestic and domestic schemes still cost £45 million in NI in 2016-17, relative to a budget implied by the population share of £18 million. The £27 million excess had to be funded from the Executive's DEL budget and, in order to prevent similar costs recurring, the Executive extended the cost controls to all biomass boilers on the scheme in 2017[68]. This reduced the excess cost over the AME funding to £2.2 million in 2017-18. The Department for the Economy (DfE) later amended payments[69] to boiler owners to reflect the original (and State Aid approved) intention of delivering a 12 per cent internal rate of return on the additional capital costs of a renewable boiler. Since then, there has been an underspend every year against the available AME funding, amounting to £22 million in 2019-20. DfE consulted in 2021 on options for the future of the non-domestic RHI scheme, including potential closure. In addition to tightening and winding down the scheme, other measures have been taken to try to prevent similar problems, including ensuring that the Department of Finance is present for discussions between the UK Treasury and other NI departments, changes to the code of conduct for Ministers and Special Advisers, and strengthening project management within the Civil Service.

- **Capital spending funded by Reinvestment and Reform Initiative (RRI) borrowing:** This is scored within AME because DEL includes both the spending and the receipt of the borrowing that finances it. Because these DEL transactions net to zero, the spending is also recorded within AME in order to record the impact of the borrowing on the UK budget deficit.

'Other' (i.e. non-departmental AME) includes:

- **Executive spending funded by Regional Rates:** This is included in AME for a similar reason to the spending funded by RRI borrowing. DEL includes both this spending and the Regional Rates receipts that finance it, and so the spending is included in AME in order to include this spending in TME.

- **Spending by local councils funded from the District Rates** and **capital spending by NI public corporations financed by borrowing from the**

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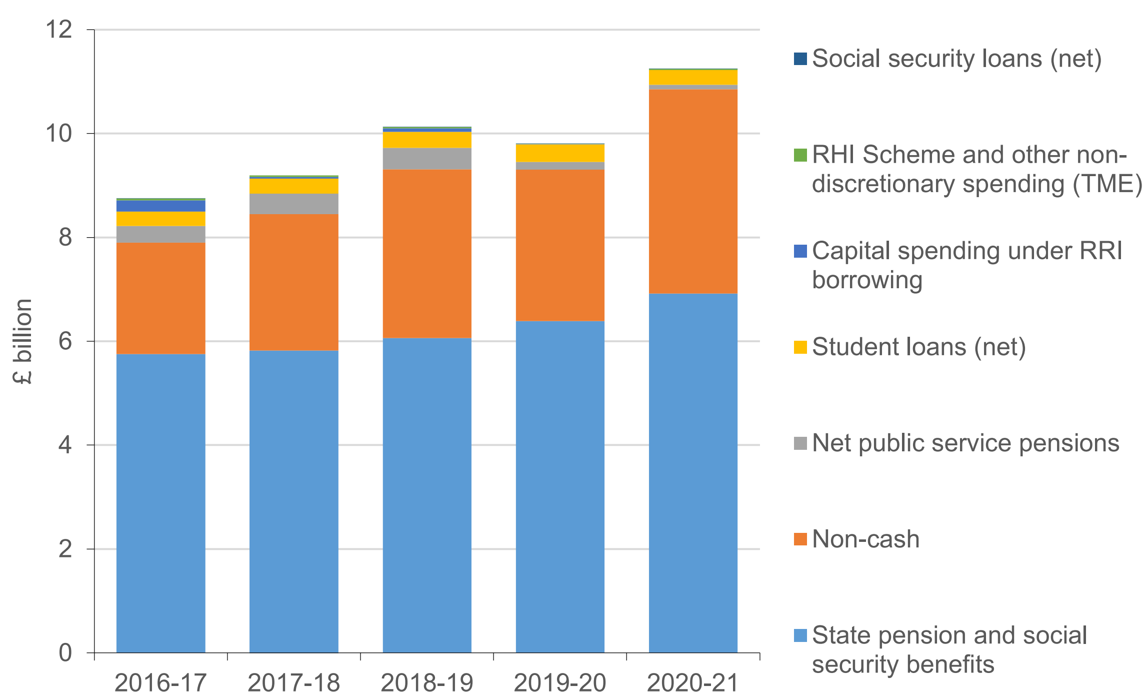
[65] https://cain.ulster.ac.uk/issues/politics/docs/rhi/2020-03-13_RHI-Inquiry_Report-V1.pdf (Findings 11 – 19)
[66] Renewable Heat Incentive Schemes (Amendment) Regulations (Northern Ireland) 2015
[67] Renewable Heat Incentive Schemes (Amendment) Regulations (Northern Ireland) 2016
[68] 2015 Renewable Heat Incentive Scheme (Amendment) Regulations 2017 and Northern Ireland (Regional Rates and Energy) Act 2018
[69] Northern Ireland (Regional Rates and Energy) No.2 Act 2019

market: Local authority spending and capital spending by public corporations financed from grants or net lending from central government is included in DEL. The remaining finance is included in Other AME so that the control aggregates cover all spending by public sector bodies in NI and the Treasury receives regular information to monitor it.

As with DEL, spending within AME can also be divided into cash and non-cash, with only the former reflected in the cash paid into the NI Consolidated Fund. The non-cash elements in departmental AME include provisions for the future costs of public service pensions, other provisions, write-offs of bad debts, exchange rate losses and gains, revaluations of assets below their historic cost and depreciation charges relating to services delivered by the Executive in NI but by local authorities in the other regions. In the case of provisions (payments that are judged likely but not certain), their creation and release scores within AME but any concrete payments that materialise (which would require cash) generally have to come from DEL.

Chart 4.7 shows the composition of AME spending by programme since 2016-17, with state pensions and social security benefits by far the largest component.

Chart 4.7 – Composition of Annually Managed Expenditure by programme



Source: HM Treasury PESA 2021

Borrowing powers

The Executive has a right in UK legislation to borrow both to finance capital investment and to manage its cash flow within-year. But, as the *Statement of*

Funding Policy points out, borrowing by the Executive *"affects the UK fiscal position and is therefore subject to a range of legislative and administrative controls"*.[70]

Borrowing for capital investment

The Executive has the right to borrow for capital investment under the Northern Ireland (Loans) Act 1975. This set a limit on outstanding debt of £2 billion, which was raised to £3 billion in the Northern Ireland (Miscellaneous Provision) Act 2006.

Formally speaking, the Secretary of State for Northern Ireland borrows on the Executive's behalf from the National Loans Fund (NLF), which was set up in 1968 to separate UK Government borrowing and lending from revenue and spending in the UK Consolidated Fund. The Debt Management Office borrows in turn on the NLF's behalf, primarily by issuing gilts, so that the public bodies that borrow from it (including local authorities via the Public Works Loan Board) can benefit from the relatively cheap interest rates at which the UK Government can borrow. The Executive borrows for capital investment under the Reinvestment and Reform Initiative (RRI) monthly in advance of need and typically over 15 to 25 years. The interest rate is fixed over the term and set at the Public Works Loan Board rate on the day of issue. (This has been 0.11 percentage points above the gilt par yield since 1 March 2021, in other words roughly 1.1 per cent in total.[71]) Repayments are made twice yearly from the NI Consolidated Fund.

The RRI was agreed by the Executive and the UK Government in May 2002 to support new infrastructure investment. In addition to new funding, the creation of a strategic investment body and the transfer of military and security sites from the UK Government to the Executive, the RRI agreement meant that borrowing by the Executive under the 1975 Act would no longer be at a cost to its conventional capital budget. An annual limit was also put on the Executive's capital borrowing of £125 million in 2003-04 and £200 million a year thereafter. This limit was lifted by the Treasury for specific purposes between 2015-16 and 2018-19, under the Fresh Start Agreement, but is now back to £200 million again (at least up to 2021-22). The Treasury has on occasion allowed the Executive to borrow in excess of the prevailing annual limit to carry forward undrawn borrowing from previous years.

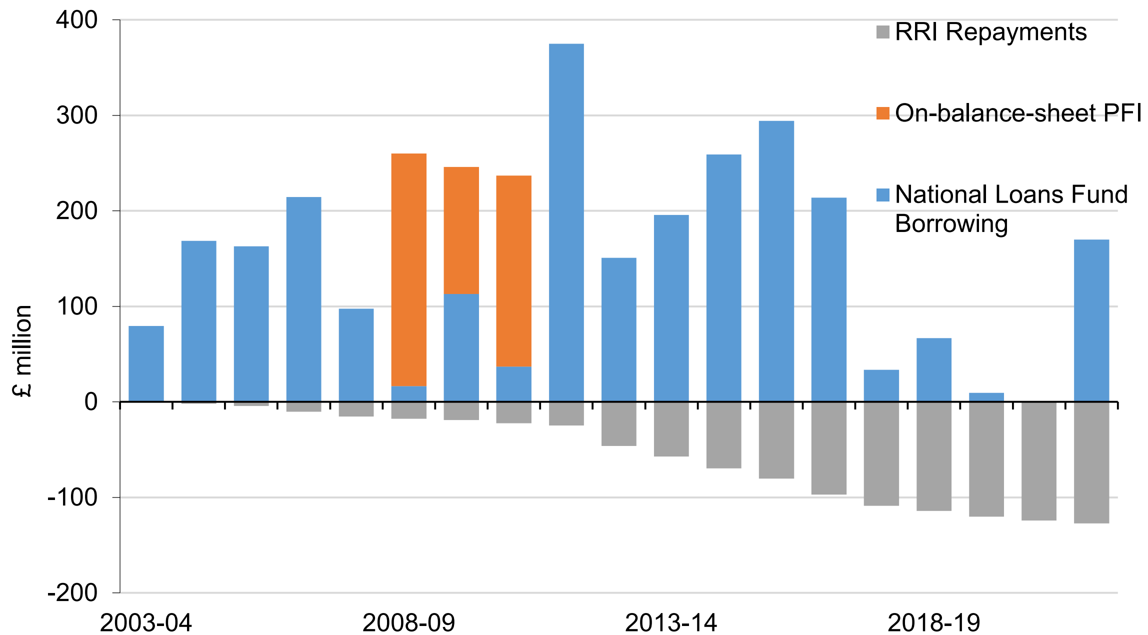
The Treasury agreed in 2007 that the Executive could substitute PFI projects for conventional borrowing within the £200 million annual limit, rather than treat them as a direct charge to capital DEL (although as no borrowing is actually involved they do not count towards the £3 billion aggregate limit). However, a change in guidance in 2009-10 meant that fewer PFI projects were deemed to be on-balance-sheet in subsequent years than was the case previously.

Chart 4.8 shows the fresh RRI borrowing undertaken each year and the past borrowing repaid. No capital borrowing has been undertaken since 2003-04 other than through the RRI. But by 2021-22 there was still £73.9 million in outstanding borrowing from earlier years, primarily undertaken to finance loans to local

[70] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (para 12.10)
[71] https://www.dmo.gov.uk/media/17305/dmo-technical-note-on-lending-rate-methodology-march-2021.pdf

councils and schools. This does not count towards the £3 billion limit. Capital borrowing largely halted in the years during which there was no functioning Executive. The UK Government took the view that it would be inappropriate to incur long-term debt in the absence of the Executive, so borrowing was confined to the funding of voluntary exit schemes that the Executive had already agreed and other small amounts.

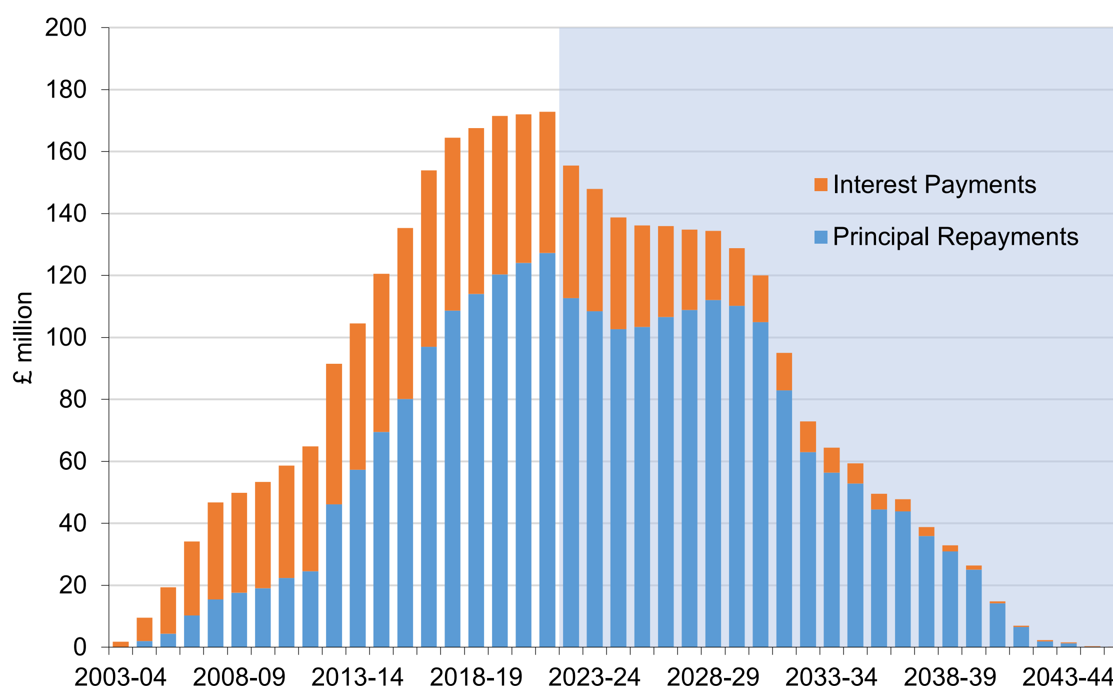
Chart 4.8 – RRI borrowing, repayments and cumulative debt



Note: On-balance sheet PFI lending counts within the £200 million annual borrowing limit but not within the £3 billion cumulative borrowing limit
Source: Department of Finance

Chart 4.9 shows the annual cost of RRI borrowing in principal and interest. Interest payments are a cost to the Executive's Resource DEL and were forecast at £45.5 million in its Budget for 2021-22. Formally speaking, the principal repayments were originally a first call on the Regional Rates, reflecting the fact that when RRI was set up the Treasury linked access to borrowing to the amount per capita that the Executive raised from Regional Rates relative to the amount raised from Council Tax in England. This was dropped around the time of the St Andrews Agreement.

Chart 4.9 – RRI annual repayment costs



Source: Department of Finance

The major projects supported by RRI borrowing to date have included a sports stadium, redevelopment of hospitals, capital investment in schools and colleges (including the Department of Justice's integrated training college for the police and prison service), roads infrastructure and new buses.

The other devolved administrations are also able to borrow to finance capital investment. The Scotland Act 2016 allows the Scottish Government to borrow up to £3 billion for this, with an annual limit of £450 million agreed with the Treasury, while the Wales Act 2017 allows the Welsh Government to borrow up to £1 billion, with an annual limit of £150 million agreed with the Treasury. These cumulative limits are smaller than the Executive's per head of population, reflecting the fact that the Executive has some of the responsibilities that local authorities have in the other regions and that it therefore needs to undertake some of the borrowing that those authorities would undertake. But, in recognition of their greater tax-raising powers, the Treasury agreed that the Scottish and Welsh Governments can borrow from other sources – as local authorities can (see Chapter 2). In addition to drawing on the National Loans Fund, they can borrow *"by way of a commercial loan (directly from a bank or other lender) or through the Government issuing their own bonds"*.[72]

Borrowing for cash management purposes

The Northern Ireland Act 1998 allows the Executive to borrow for purposes other than capital investment up to £250 million. The *Statement of Funding Policy*

[72] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (paras 10.22 and 11.12)

specifies that: *"The sole purpose of these loans is to give the NI Executive the ability to borrow over the short-term for cash management purposes, in circumstances where it is necessary to provide a working balance or meet an in-year excess in expenditure over income within the NI Consolidated Fund"*.[73] This is, in effect, an overdraft facility and, as with capital borrowing, the Secretary of State would borrow from the National Loans Fund on the Executive's behalf if and when required.

This borrowing power was originally agreed in the context of smoothing cash flow within a given financial year. But no devolved administration has needed to borrow for this purpose, unsurprisingly given their ability to draw down agreed funding from the UK Consolidated Fund on a day-by-day basis as needed.

But the devolution of more tax-raising powers to the Scottish and Welsh Government has also created a potential need for them to smooth cash flow across fiscal years to reflect the fact that outturn revenues from the taxes devolved to them may differ from the forecasts on which their Budgets were based. For this reason the Scottish and Welsh Governments have much bigger cumulative non-capital borrowing limits than the Executive, of £1.75 billion and £500 million respectively. The Treasury has agreed separate annual limits for them for cash management, forecast errors and (in Scotland) *"any observed or forecast shortfall in tax revenues or welfare spending pressure where there is or forecast to be a Scotland-specific economic shock"*.[74] The Scottish Government borrowed £207 million for forecast error in 2020-21 and has planned to borrow a further £319 million in 2021-22.[75]

The differences in non-capital borrowing powers between the UK Government, the devolved administrations and local authorities in part reflect the different fiscal risks to which they are exposed. The NI Executive's relatively limited borrowing powers in part reflect the fact it is less exposed to shortfalls in devolved tax receipts than the Scottish and Welsh Government and also that the UK Government in effect borrows on the devolved administrations' behalf and transfers resources via the Barnett formula in the event of major shocks like the Covid-19 pandemic.

Budget Exchange and contingency reserves

Budget Exchange is a mechanism under which Whitehall departments – and the Executive – are allowed to carry forward forecast DEL underspends from one year to the next, within pre-set limits and subject to the approval of Treasury Ministers. It is the latest in a series of Treasury control regimes designed to discourage departments from rushing to spend budget allocations before the end of the year (risking poor value for money) while avoiding the fiscal risk that departments

[73] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (para 12.14)
[74] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (para 10.204
[75] See the Fiscal Framework Outturn Report https://www.gov.scot/binaries/content/documents/govscot/publications/corporate-report/2021/09/fiscal-framework-outturn-report-2021/documents/fiscal-framework-outturn-report-2021/fiscal-framework-outturn-report-2021/govscot%3Adocument/fiscal-framework-outturn-report-2021.pdf

accumulate big underspends by accident or design and then suddenly spend them at a time when the Treasury is trying to tighten the Government's belt.[76]

The Treasury first introduced an 'End Year Flexibility' (EYF) regime in 1983, allowing central government departments to carry forward a limited amount of underspending on capital projects. This was gradually extended, but on taking office in 1997 the Labour Government was still concerned by the incentive departments faced to 'use it or lose it' and as part of a broader set of spending reforms in June 1998 decided to allow all departments to carry forward any underspend into the following year. The consequence was that departments then built up significant accumulated underspends over the next few years, reaching a peak of £22.6 billion in 2006-07 – more than 7 per cent of the total DEL for the year. Departments drew some of this down, but in the 2010 Spending Review the Coalition Government announced that EYF (and the remaining stocks of accumulated underspends) would be abolished and replaced by the Budget Exchange scheme. Crucially, this avoided the accumulation of underspends over time by requiring any sum carried forward from the previous year to be netted off any sum carried forward into the next year.

For NI, Budget Exchange works by allowing the Executive to 'surrender' unspent provision to the Exchequer in one year and have an equivalent amount added to its Block Grant for the following year. This does not have to be done before the year-end – the carry-forward is based on provisional outturn figures published in the June following the end of the financial year and then adjusted for final outturn once departmental accounts have been audited (see Chapter 6). Under the Treasury's 2021-22 *Consolidated Budgeting Guidance*, departments with a total DEL greater than £14 billion – including the Executive – can carry forward 0.75 per cent of Resource DEL and 1.5 per cent of Capital DEL, with any excess forfeited. This limit is calculated separately for each of the components of RDEL and CDEL.

Allowing underspends to be carried forward up to a pre-set limit balances the risk of an inefficient year-end splurge with the desire to maintain control over year-ahead spending. But while there is an incentive for any UK departmental Minister to avoid an underspend that breaches the limit, it is particularly powerful for the NI Finance Minister as the money is not simply redistributed to other colleagues for other priorities but lost to NI altogether and 'handed back to London'.

Chart 4.10 shows Executive underspends[77] against final plans for non-ringfenced RDEL, conventional CDEL and FTC CDEL. These are split between the amount for which Budget Exchange was accessed and the amount lost. It shows that:

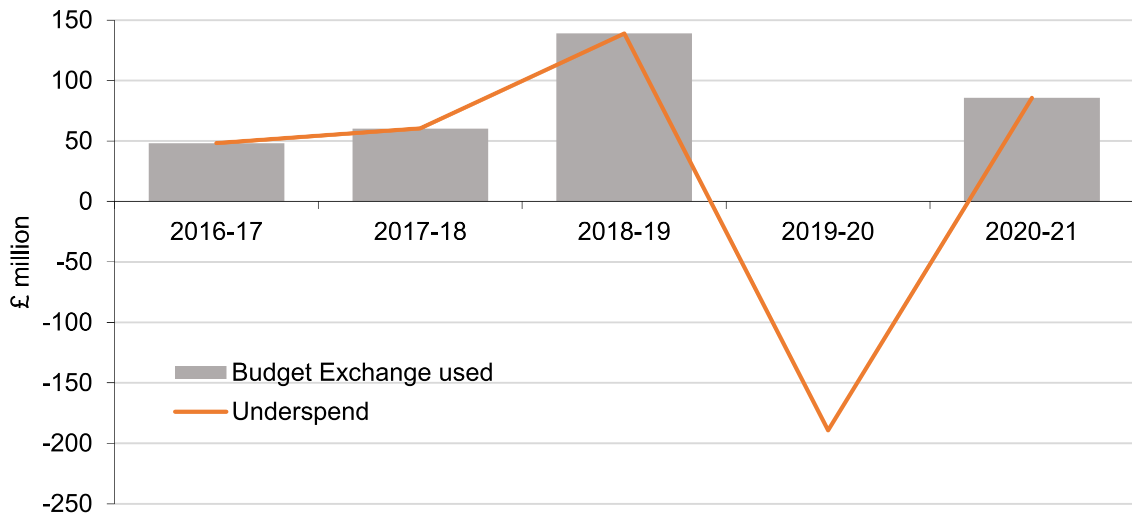
- The Executive has underspent **non-ringfenced RDEL** – day-to-day spending on public services – each year since 2016-17 (bar 2019-20 when, with Treasury approval, the Executive paid emergency Covid-19 business support grants before the budget cover was formally provided in 2020-21). And, by keeping the underspends beneath the Treasury's limits, it has been able to carry them all forward under Budget Exchange.

[76] See *The planning and control of UK public* expenditure *1993–2015*, R Crawford et al, Institute for Fiscal Studies, 2018, for discussion
[77] Adjusted for non-eligible funding

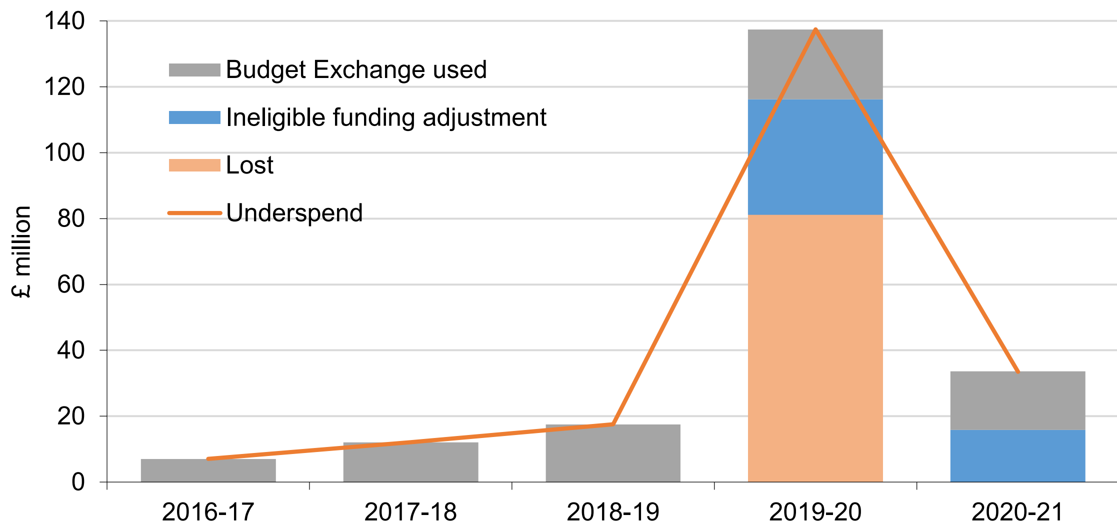
- The Executive has underspent **conventional CDEL** each year (bar 2019-20) and by amounts small enough to carry them forward through Budget Exchange. In 2019-20 it underspent by £137.4 million (£102.3 million after excluding non-eligible funding) because of Covid-19 related delays. But it could only carry forward £21.2 million so £81.1 million was lost.

- As noted above, the Executive has found it very hard to spend its **FTC** allocation (on loans and capital injections into the private sector) and so most of its underspends in each year have been lost, either because the Treasury limit was exceeded or because Budget Exchange was not sought.

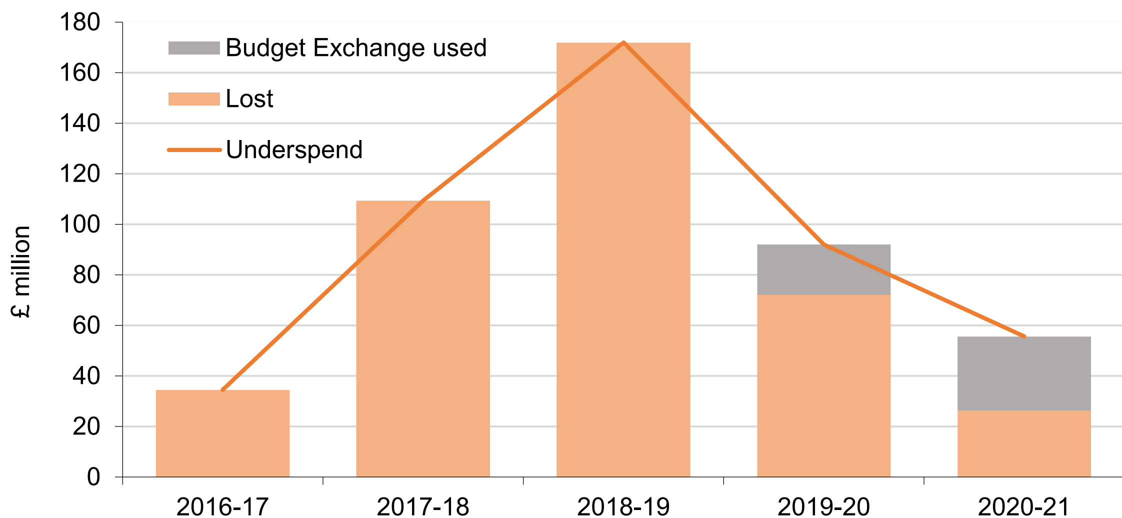
Chart 4.10 – Underspends and use of Budget Exchange



Source: Department of Finance



Source: Department of Finance



Source: Department of Finance

Under the fiscal frameworks they have agreed with the Treasury, the Scottish and Welsh Governments operate contingency reserves rather than having access to Budget Exchange. This gives them greater flexibility to reprofile spending as there is no annual limit on payments into the reserve (up to a cumulative £700 million for the Scottish Government and £350 million for the Welsh Government), although there are separate annual drawdown limits for both RDEL and CDEL. The *Statement of Funding Policy* states that this: *"will help the [Scottish/Welsh] Government manage its devolved tax powers. Specifically, the [Scottish/Welsh] Government will be able to pay surplus tax receipts (after the repayment of any outstanding current borrowing) into the Reserve, which can be accessed in future years"*.[78]

In extremis the devolved administrations can call on the Treasury's DEL contingency reserve. According to the *Statement of Funding Policy*, this would be considered by Treasury Ministers on a case-by-case basis and specifically when *"a devolved administration faces exceptional and unforeseen domestic costs which cannot reasonably be absorbed within existing budgets or managed using the additional tools and powers available to them, without a major dislocation of existing services"*.[79] In the event of a successful reserve claim, the Treasury would likely revisit any multi-year DEL settlement it had been given. A formal breach of a devolved administration's control totals *"would represent serious financial mismanagement"* and likely an equivalent reduction in the Block Grant.[80]

[78] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (paras 10.27 and 11.28)
[79] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (para 8.9)
[80] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (para 8.15)

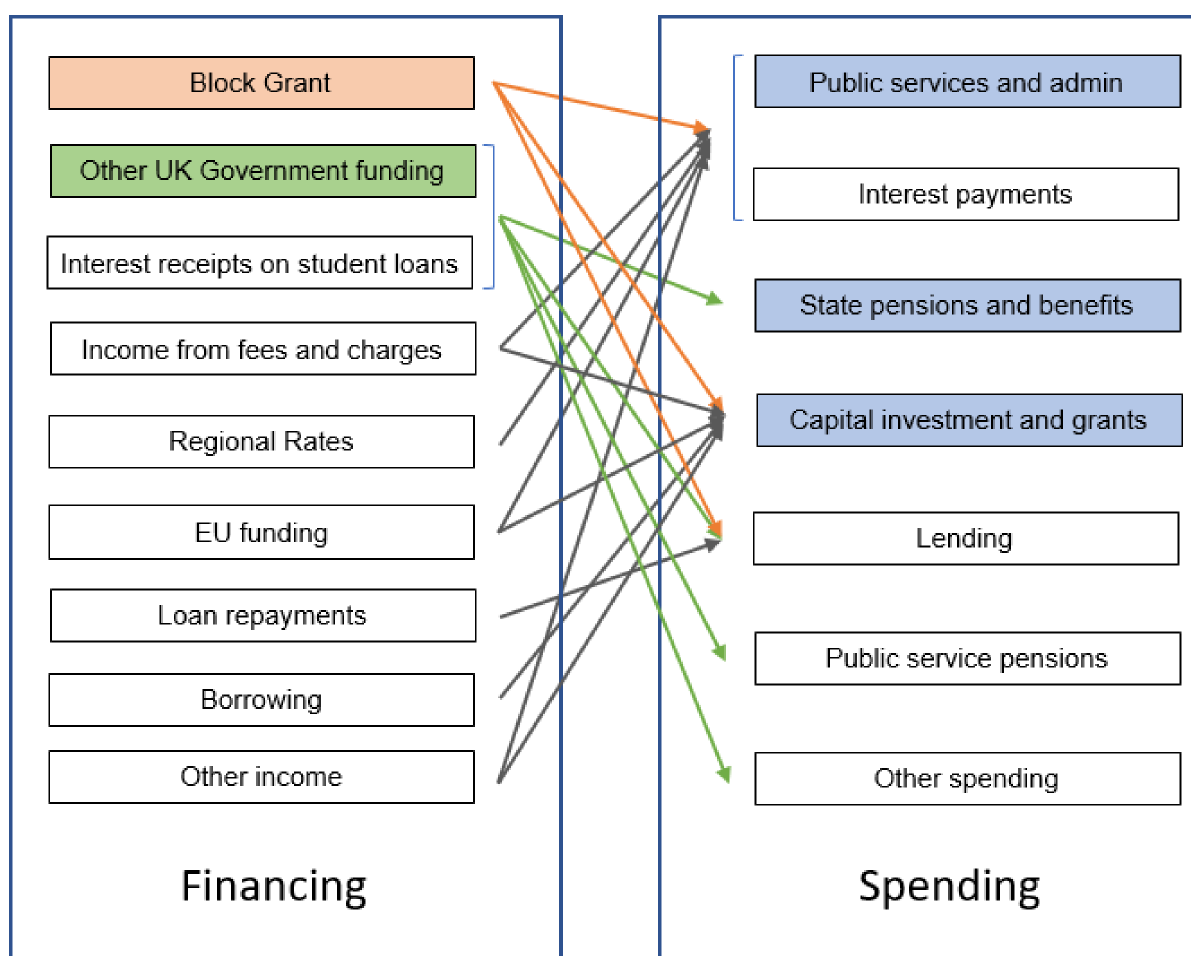
5 The Executive: spending & financing

Leaving to one side (as far as possible) the complexities of how different types of spending and financing are treated in the Treasury's public finance framework, we would like to paint as comprehensive and consistent a picture as we can of where the Executive's money comes from and goes to. This chapter tries to do that.

In summary, the money the Executive spends comes largely from the Block Grant and other UK Government funding, with smaller contributions from income from fees and charges, the Regional Rates, European Union funding, loan repayments and interest, borrowing, and other income. And it is spent largely on public services and state pensions and social security benefits, with smaller amounts spent on capital investment and grants, loans and debt interest.

Figure 5.1 summarises which sources of financing flow to which types of spending, with the larger items – in excess of £1 billion a year –highlighted in colour. There are restrictions on the types of spending for which some sources of financing can be used. For example, the Regional Rates score as negative resource DEL (RDEL) and therefore cannot normally be used to fund capital investment or loans (CDEL). AME funding, similarly, cannot be used to fund DEL spending. The Treasury also ringfences some items, including spending on student loans and funding for political agreements, while EU funding is also normally earmarked for specific purposes. As Figure 5.1 illustrates, these restrictions contribute to a complex mapping from the Executive's sources of financing to its expenditure. As we have seen, in aggregate it is the volume of available financing that determines the volume of spending (rather than the other way around) because of the Executive's modest tax-raising and borrowing powers and its reliance on funding from the UK Government.

Figure 5.1 – The main categories of NI Executive spending and financing



Source: Northern Ireland Fiscal Council

In the sections that follow we try to put numbers on these flows, both at an aggregate and disaggregated levels. This is less simple than it sounds. There is no single set of data that reconciles spending, financing and flows of cash between the UK Government and the Executive in a straightforward way – for one year let alone consistently for a run of years. We do the best we can by drawing on the different data sources and hope to reconcile the numbers more closely in future.

In the rest of the chapter, we:

- Present a **big picture decomposition** of the spending for which the Executive is responsible and the means by which it is financed, both in aggregate and divided into current and capital spending.

- Present an alternative high-level view of the money flowing into and out of the Executive, via the 'bank statement' of the **NI Consolidated Fund**.

- Describe the distribution of total spending by **NI department** and the main items of spending within each department. We also look separately at spending on state pensions and social security benefits (by the Department for Communities) and net spending on public service pensions.

- Look at an alternative breakdown of spending based on the internationally comparable **'Classification of the Functions of Government'** (COFOG).

- Describe the **key sources of financing** beyond the Block Grant and other UK Government funding described in Chapter 4 – namely income from fees and charges, the Regional Rates and EU funding.

- Summarise the Executive's **'super- and sub-parity'** policies, where it chooses to make provision more or less generous than in the rest of the UK.

The big picture

Data sources and judgements

When summarising the Executive's spending and its financing, you have several conceptual and presentational choices to make – for example how widely or narrowly to define 'the Executive' and what flows to include and exclude.

In what follows:

- We take our **data on spending** largely from the data underlying the July 2021 *Public Expenditure Statistical Analysis* (PESA) publication, which reports five years of historically consistent figures running from 2016-17 to 2020-21 (although the numbers for 2020-21 are distorted by the financing of the Covid-19 response). PESA data is derived from the UK Treasury's Online System for Central Accounting and Reporting (OSCAR), which collects final outturn data from the NI departments via the Department of Finance (and from their Whitehall, Scottish and Welsh counterparts).

- In addition to the spending on public services and capital investment covered by Departmental Expenditure Limits (DELs) – and on which the Executive Budget process focuses – we **include spending on pensions and social security benefits and other departmental Annually Managed Expenditure (AME)** for which the Executive is responsible.

- Starting from the broadest definition of Executive spending covered in PESA, we **exclude public corporations and non-departmental AME**. As noted in Chapter 4, most components of non-departmental AME are there because the Treasury wishes to gather regular information for monitoring purposes. But they are not actually spending by the Executive.

- We present **gross** spending on public services and investment, rather the headline DELs set by the Treasury. This is because most financing other than the Block Grant (e.g. EU funding and Regional Rates receipts) is treated as negative spending in the Treasury's control framework, so that it creates room for more spending within the DEL envelope, which is effectively a net limit. If you are interested in what the Executive is actually spending, you need to add the amounts financed from these sources to the net DEL limit.

- Rather than including pension contributions for current public sector workers in NI as income, and payments to retired workers as spending, we include the **net cost of public service pensions** – payments minus contributions – as spending. This is covered by the UK Government as part of its funding for AME. The gross flows of payments and contributions are described further below, both in aggregate and scheme by scheme.

- We include almost all **capital transactions**. So, when the Executive makes a loan (for example to students) or pays interest, we treat this as spending. And when it receives interest or loan repayments, we treat this as income.

- Data on the **financing of the Executive's DEL spending** comes from the June 2021 *Block Grant Transparency* (BGT) publication and from the 'negative spending' reported in PESA (as noted above). PESA also identifies capital spending financed from borrowing under the Reinvestment and Reform Initiative, giving us a figure for the borrowing itself.

- Where possible, we exclude **non-cash spending and the non-cash financing that provides the budget cover for it** – most significantly the accounting charge for depreciation of capital assets, which scores as 'ringfenced DEL' in the Treasury framework. For the Executive's spending in Departmental AME (as described above), we have only included the spending that is included as current or capital spending in the National Accounts, plus student loans and some loans made as social security payments. This approach excludes most of the non-cash spending, although there are smaller items that remain in the control total for Resource DEL excluding depreciation. (For this initial analysis we have kept that non-cash spending intact, along with the Block Grant that covers it.)

- Data for the net **financing of the Executive's spending within Departmental AME** are not available in a readily transparent format, and so we have imputed these as 'Implied UK Government funding', assuming that they fully finance the 'near-cash' AME spending (as described above).

- Income from **fees and charges** includes some receipts from within the public sector, where one part of government is paying another for specific goods and services delivered at market rates. This is true where payments "are related to specific volumes or values of output under arms-length contracts and are not paid if that output is not delivered".[81] We have not yet been able to identify these payments systematically, and exclude them, so to the extent that they are included for the time being we will have overstated total 'money in' and 'money out' of the Executive. However these flows

[81] HM Treasury 'Class (2013) 2: Receipts' August 2013 Para 2.21

offset in our estimates of gross spending and receipts of fees and charges, with no effect on the implied residual funding by the UK Government.

- The **PESA and BGT datasets are not entirely consistent** for DEL spending and DEL financing, especially for the most recent year's outturn (even though they are published only a month apart). This is because they use data gathered at different times of the year. Specifically, the PESA data are more up to date and show provisional outturns, whereas the BGT data show final plans. To ensure 'money in equals money out' in our presentation, we have therefore included net timing adjustments in Block Grant outturns to match the updated data for DEL spending in PESA.

- The figures presented below reconcile the information in PESA and BGT as described above, but they imply more **UK Government funding** for the Executive than the cash transfer into the NI Consolidated Fund reported in the Public Income and Expenditure Accounts and in the Northern Ireland Office's annual report and accounts. This suggests that we may still be including some significant item(s) of non-cash spending and associated income in our presentation, possibly related to the accounting treatment of arms-length bodies. We may also be excluding some components of cash financing. We hope to resolve this in future editions of this guide.

Annex B contains further information on how to reconcile the presentation shown below to figures reported under the Treasury's accounting framework.

The numbers

Based on the data sources and judgements set out above, Table 5.1 and Charts 5.1 and 5.2 present a high-level summary of the Executive's spending and how it is financed.

Table 5.1 – Gross spending and financing by the NI Executive

	2016-17	2017-18	2018-19	2019-20	£ million 2020-21
'Money out':[1]					
Public services and administration	11,555	11,794	12,289	13,211	15,970
State pensions and social security benefits	5,756	5,823	6,058	6,389	6,921
Public service pensions	322	391	411	151	88
Other current spending	96	84	77	54	67
Capital spending on assets and grants	1,457	1,378	1,589	1,602	1,807
Student loans	361	381	404	443	403
Other loans	112	124	89	120	220
Total gross spending [1]	**19,660**	**19,976**	**20,916**	**21,971**	**25,475**
Financed by 'money in':					
UK Government Block Grants	-10,890	-11,226	-11,778	-12,707	-16,602
Other UK Government funding [2]	-6,369	-6,495	-6,757	-6,795	-7,270
Income from fees and charges	-747	-753	-776	-770	-701
Regional rates	-585	-595	-625	-656	-312
Reinvestment and Reform Initiative borrowing	-214	-34	-67	-10	0
EU funding	-339	-389	-440	-444	-88
Income from repayments of loans	-230	-235	-243	-262	-244
Grants, interest receipts, asset sales, and other income	-286	-249	-231	-328	-259
Total income	**-19,660**	**-19,976**	**-20,916**	**-21,971**	**-25,475**

Notes:
1 Gross spending in current and capital budgets (DEL and Departmental AME), excluding depreciation in RDEL, and excluding all non-cash items in Departmental AME, w here 'non-cash' is defined as not included in TME.
2 Implied UK Government funding for spending from Departmental AME, excluding non-cash items, as defined above.
Source: Block Grant Transparency (BGT) 2021 and data underlying PESA 2021.

The table shows that:

- The vast bulk of the Executive's spending is financed from the **Block Grant and other UK Government transfers**. The proportion was reasonably stable at around 89 per cent in the four years prior to the pandemic, but jumped to almost 94 per cent in 2020-21, largely reflecting the Barnett consequentials of higher UK Government spending in response to it.

- Income from the **Regional Rates and EU funding** has dropped sharply in 2020-21. The former reflects the Executive's decision to give businesses in the sectors most affected by Covid-19 a one-year business rates holiday (which has been extended into 2021-22). The latter reflects the UK's departure from the EU, but the drop in EU funding is offset by higher UK Government funding reflecting its commitment to provide equivalent funding over the rest of the current Parliament.

- The largest single **category of spending** is the day-to-day cost of public services and administration, which is very largely financed from the Block Grant. This accounted for around 60 per cent of total gross spending pre-pandemic, compared to 30 per cent for state pensions and social security

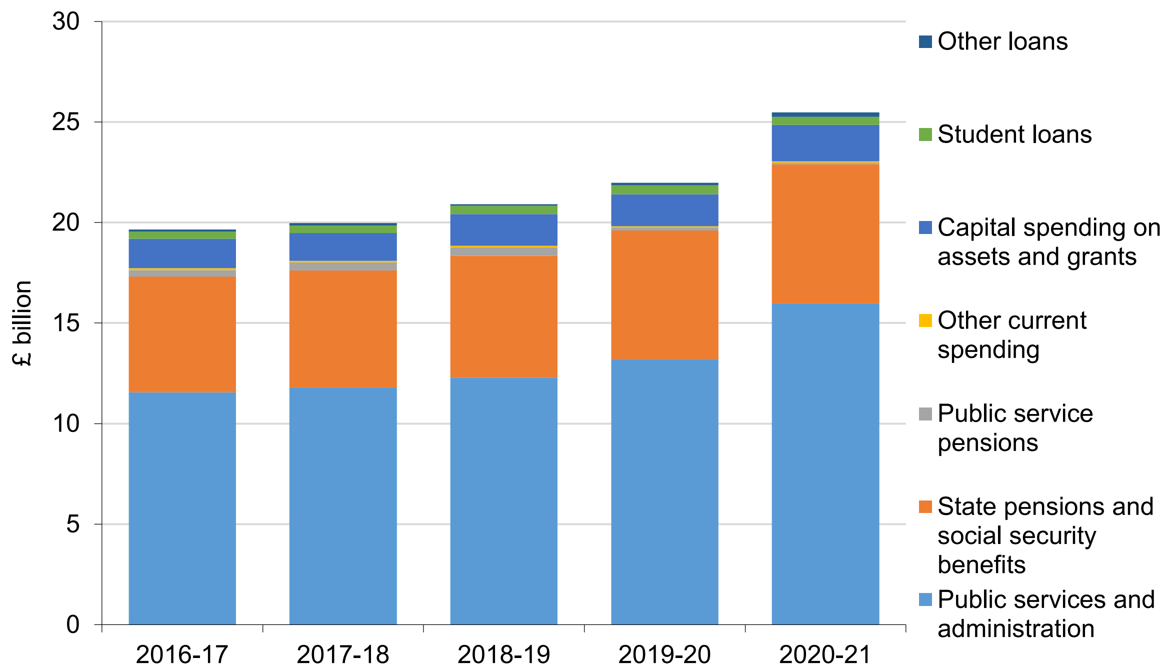
benefits and around 7 per cent for capital spending. The share for public services has risen in 2020-21 reflecting Covid-19 Barnett consequentials.

Tables 5.2 and 5.3 present the same figures as in Table 5.1 but separating current (day-to-day) and capital (investment) spending. They show that:

- **Mainstream capital spending** (on purchases and additions to assets) has been shrinking relative to current spending. In 2016-17 the Executive was spending £1 on capital for every £11 spent on day-to-day public services; by 2020-21 this it was £13 – albeit partly as a result of the Covid-19 response. This not only increased the need for current spending (e.g. on health), but also made capital spending logistically harder to undertake (which also meant that the Executive's Budget plans in 2020-21 were underspent).

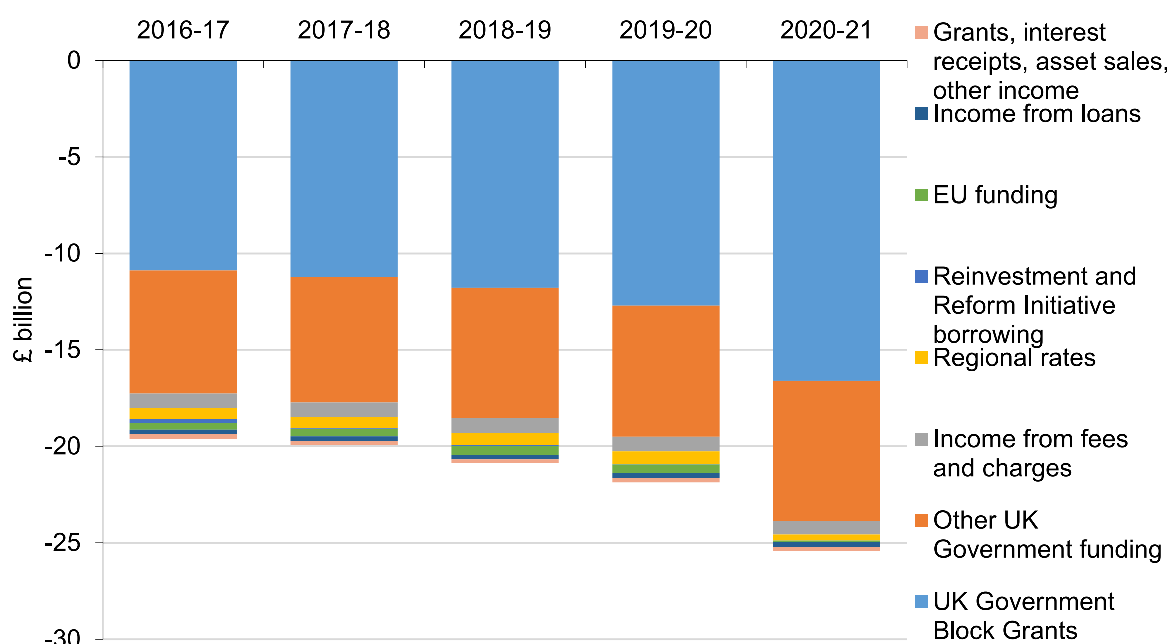
- **Borrowing for capital spending** under the Reinvestment and Reform Initiative (RRI) fell sharply between 2016-17 and 2017-18, reflecting a conscious decision by the UK Government not to incur debt for new projects while the Executive was not sitting. The Executive decided not to include any RRI borrowing in the Budget for 2020-21, but did again in 2021-22.

Chart 5.1 Gross spending by the Executive



Source: HM Treasury PESA 2021

Chart 5.2 Financing for the Executive's spending



Source: HM Treasury PESA 2021

Table 5.2 – Current spending and financing by the NI Executive

	2016-17	2017-18	2018-19	2019-20	£ million 2020-21
Money out':[1]					
Public services and administration	11,555	11,794	12,289	13,211	15,970
Debt interest on RRI borrowing	57	56	54	51	48
State pension and social security benefits	5,756	5,823	6,058	6,389	6,921
Public service pensions	322	391	411	151	88
Other non-discretionary spending	39	29	23	3	19
Total gross current spending [1]	**17,729**	**18,092**	**18,834**	**19,806**	**23,046**
Financed by 'money in':					
UK Government Block Grant	-9,885	-10,078	-10,481	-11,361	-14,884
Other UK Government funding [2]	-6,087	-6,207	-6,442	-6,450	-6,983
Income from fees and charges	-731	-734	-757	-763	-690
Regional rates	-585	-595	-625	-656	-312
EU funding	-323	-354	-392	-401	-53
Interest receipts on student loans	-30	-35	-50	-93	-45
Other income	-89	-88	-88	-82	-79
Total current income	**-17,729**	**-18,092**	**-18,834**	**-19,806**	**-23,046**

Notes:

1 Gross spending in current budgets (RDEL and Departmental RAME), excluding depreciation in RDEL, and excluding all non-cash items in RAME, w here 'non-cash' is defined as not included in TME.

2 Implied UK Government funding for spending from Departmental RAME as described above.

Source: Block Grant Transparency (BGT) 2021 and data underlying PESA 2021.

Table 5.3 – Capital spending and financing by the NI Executive

	2016-17	2017-18	2018-19	2019-20	2020-21
					£ million
'Money out':					
Capital grants	406	399	473	497	577
Spending on capital assets (purchases and additions)	1,051	979	1,116	1,105	1,230
Loans to the private sector	49	66	21	54	174
Loans to public sector bodies	6	4	6	0	10
Student loans	361	381	404	443	403
Social security loans	56	54	62	66	35
Total gross capital spending [1]	**1,931**	**1,884**	**2,082**	**2,165**	**2,429**
Financed by 'money in':					
UK Government Block Grants	-1,005	-1,148	-1,297	-1,346	-1,718
Other UK Government funding [2]	-281	-289	-315	-344	-287
Reinvestment and Reform Initiative borrowing	-214	-34	-67	-10	0
EU funding	-17	-35	-48	-43	-35
Capital grants from the private sector	-115	-89	-53	-100	-88
Income from fees and charges (R&D)	-17	-19	-19	-7	-11
Other capital income, including from sales of assets	-52	-36	-40	-53	-46
Repayments of loans from the private sector	-24	-22	-33	-41	-51
Repayments of loans and equity from public sector bodies	-69	-66	-59	-57	-42
Repayments of student loans	-81	-90	-93	-107	-119
Repayments of socal security loans	-56	-57	-59	-58	-32
Total capital income	**-1,931**	**-1,884**	**-2,082**	**-2,165**	**-2,429**

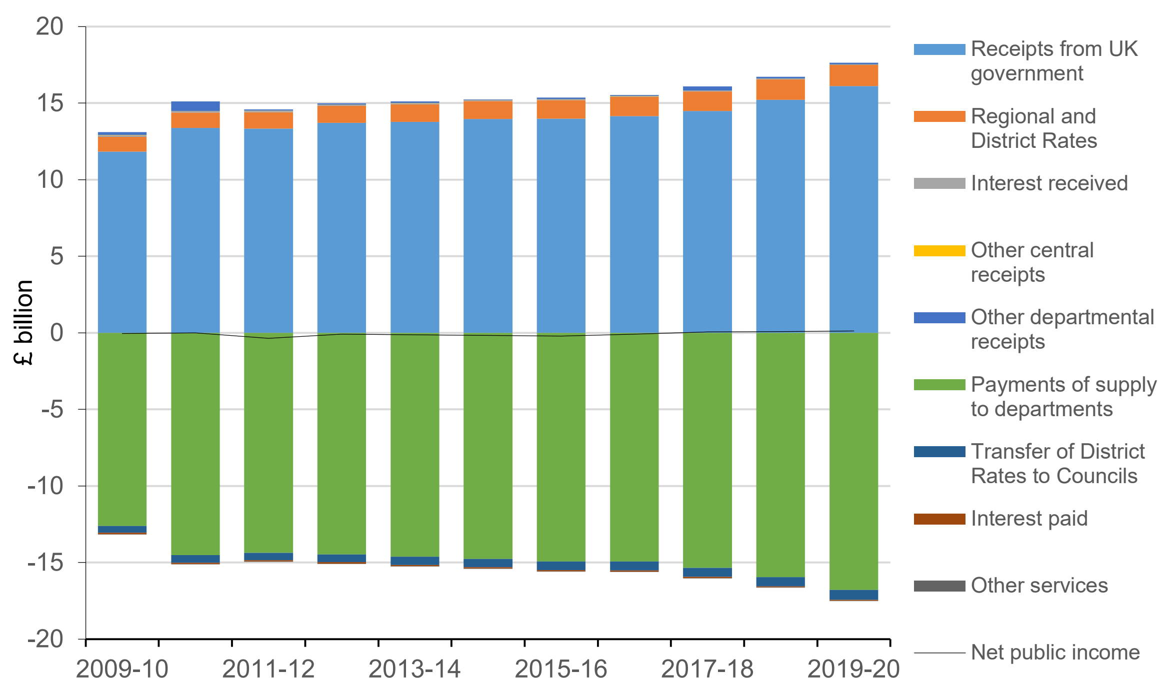
Notes:
1 Gross spending in capital budgets (CDEL and Departmental CAME). Departmental CAME excludes spending financed by RRI borrow ing (included in gross spending in CDEL) and also excludes non-cash spending in CAME, w here non-cash is defined as not in TME.
2 Implied UK Government funding for spending from Departmental CAME as described above.
Source: Block Grant Transparency (BGT) 2021 and data underlying PESA 2021.

The NI Consolidated Fund

Another way to get a big-picture overview of the flows of money into and out of the Executive is to look at its annual bank statement. The NI Consolidated Fund, which is held at Danske Bank and managed by the Department of Finance, serves as the Executive's current account. Each September the Department of Finance produces an audited *Public Income and Expenditure Account* that summarises the deposits into and withdrawals from this account over the previous fiscal year.

Chart 5.3 shows these 'public income' and 'public expenditure' flows through the Fund each year since 2009-10 and Table 5.4 shows the full breakdown for 2019-20 (the latest audited year). Not surprisingly, public income is dominated by the Block Grant and other funding the Executive receives from the UK Government and public expenditure by payments of 'supply' to departments to finance their spending. Most supply is voted on by the Assembly in Budget Acts, but some is charged directly by statute to take it out of the political arena (e.g. judges' salaries). District and Regional Rates are collected by Land & Property Services (part of the Department of Finance) and paid into the Fund, before the former are transferred back to the councils and the latter become part of the supply to NI departments.

Chart 5.3 – Public income and expenditure flows since 2009-10



Source: Department of Finance

Table 5.4 – Public income and expenditure flows in 2019-20

	£ million
Public income	
Receipts from the United Kingdom Government	16,117
Regional and District Rates Received	1,373
Interest Received	40
Other Central Receipts	5
Other Departmental Receipts	95
Total	**17,631**
Public expenditure	
Payment of Supply to Departments	16,790
Transfer of District Rates to Local Councils	647
Interest Paid on Public Debt	59
Other Services	9
Total	**17,505**
Excess of public income over public expenditure	**125**

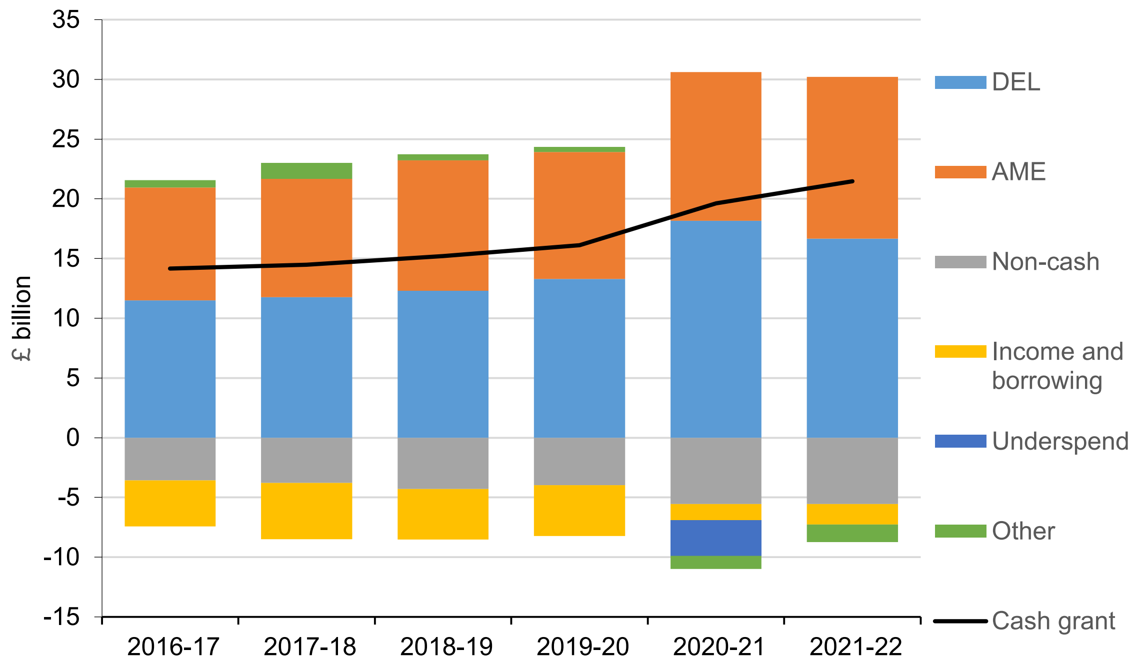
Source: Department of Finance, Public Income and Expenditure Account for the year ended 31 March 2020

As noted above, the figure reported for 'receipts from the UK Government' is smaller than the figure we derive from PESA and BGT for 'UK Government funding' - £16.1 billion versus £19.5 billion for 2019-20. This suggests that the latter may still include some non-cash flows that we have been unable to identify so far – perhaps related to the depreciation charge for the assets of arms-length bodies. We may also be omitting some components of cash financing.

An alternative presentation of the UK Government funding flowing into the NI Consolidated Fund can be found in successive Northern Ireland Office Annual Reports and Accounts. (The latest, published in June 2021, contains final outturns

up to 2019-20, an estimated outturn for 2020-21 and plans for 2021-22.[82] However the estimated outturn for 2020-21 still contains some elements that are final plans.)

Chart 5.4 - Calculation of the cash grant to the NI Consolidated Fund



Source: NIO Annual Reports and Accounts

Taking 2020-21 by way of illustration, this account of the funds flowing into the NI Consolidated Fund shows that the final plans for the Executive's DEL was £18.2 billion and for AME was £12.5 billion (which includes Other AME and is gross of regional rates), giving Total Managed Expenditure (including depreciation) just in excess of £30 billion. But the total cash grant was around a third smaller than this at £19.6 billion. This reflects the fact that the grant does not have to cover the non-cash elements of TME (£5.6 billion) and that some income flows into the Consolidated Fund from elsewhere (including the District and Regional rates), and that there was an underspend of £3 billion that has not yet been attributed.

Where does the Executive spend its money?

Having summarised the Executive's spending in broad terms, we can show in greater detail where the money is spent by department and according to the international 'Classification of the Functions of Government' (COFOG). But, again, it is not straightforward to reconcile the Executive's published plans with outturns.

We begin by looking at the distribution of spending across departments and then at the main items of spending within each department.

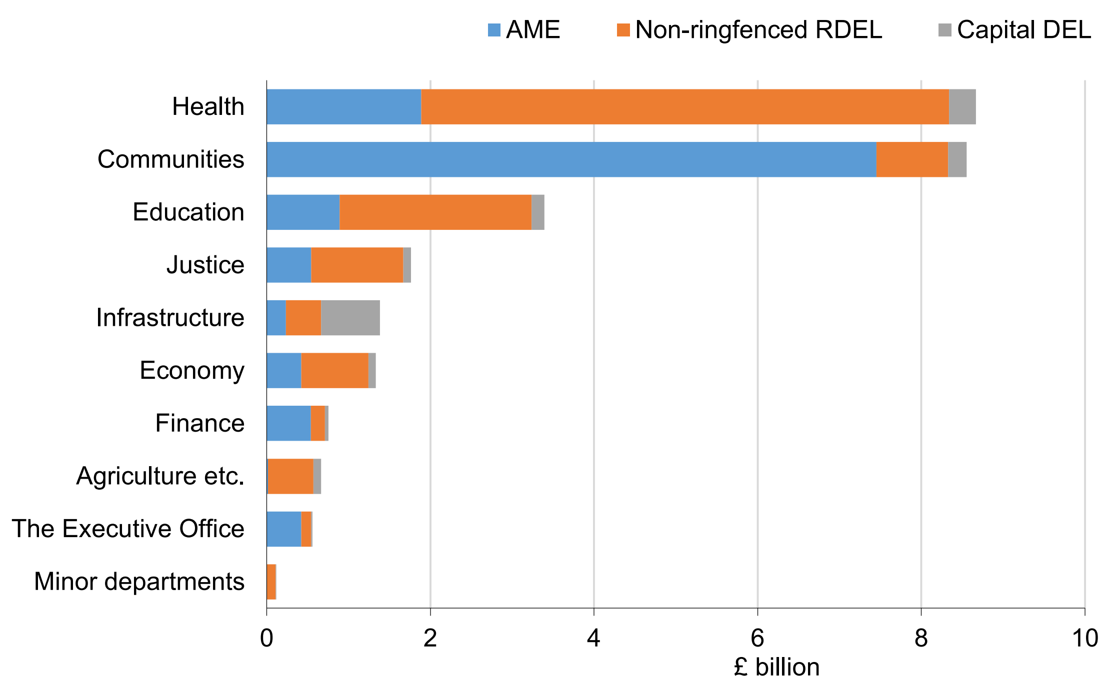
[82] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998028/Northern_Ireland_Office_Annual_Report_and_Accounts.pdf

The distribution of spending by department

When the Executive presents its spending plans in the Final Budget, the Department of Finance shows allocations by department for both resource/current and capital spending covered by Departmental Expenditure Limits, as well as forecasts for each department's Annually Managed Expenditure.

Chart 5.5 shows the figures for 2021-22 published in April 2021.[83] They show that the Departments of Health and Communities are by far the Executive's biggest spenders. In the case of Communities, most of its expected spending is on state pensions and social security benefits (which scores as AME). In the case of Health, most of its spending is on pay and other day-to-day running costs (within DEL), although it also has £1.9 billion of expected AME spending, which is primarily related to the cost of the pension schemes managed by the department.

Chart 5.5 - Final Budget allocations and AME forecasts for 2021-22



Source: Department of Finance Final Budget 2021-22

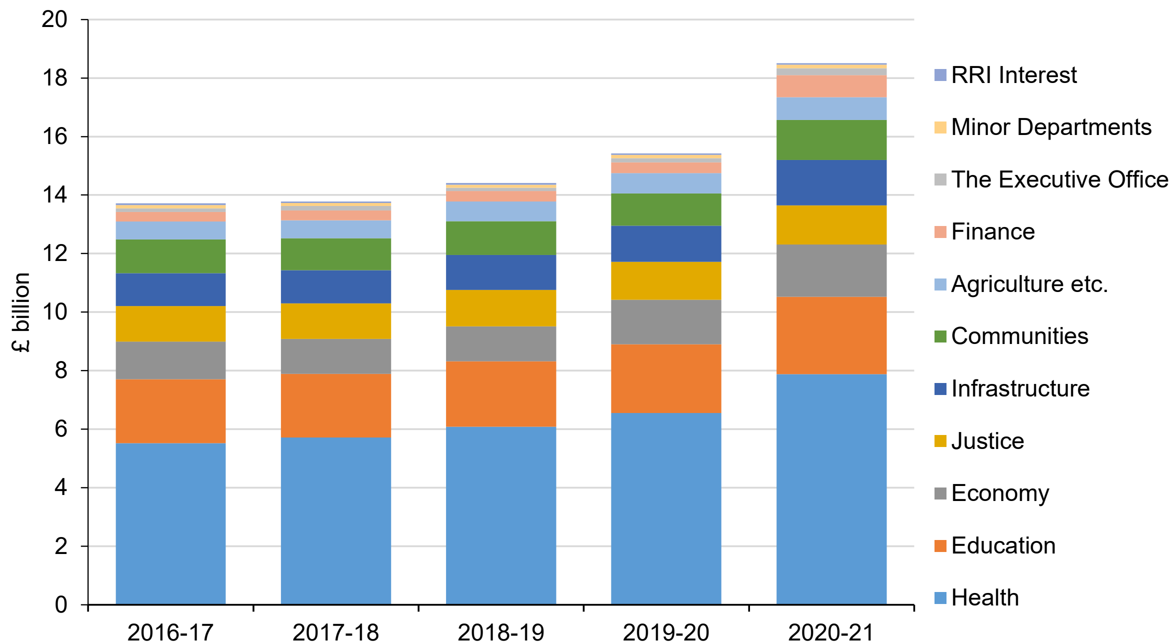
Unfortunately, the Final Budget does not present these figures alongside comparable outturn data for past years. The only comparison made is for the resource allocations, which are compared to a baseline calculated by the Department of Finance by removing what it regards as one-off items from the opening budget decision from the previous year. This is broadly similar to the process used by Treasury at Spending Reviews, described in Chapter 4.

[83] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Final%20Budget%202021-22%20document%2021.04.21%20-%20accessible.pdf

The descriptions of departmental priorities and challenges in the Final Budget document are written by the departments themselves (rather than by the Department of Finance, as would be the case in an equivalent Treasury publication) so it is not unusual to find them complaining that their allocations are too small.

Chart 5.6 shows gross spending by department, as reported in PESA. This – and the department-by-department charts that follow – only show spending classified by the Treasury as DEL, because in most departments AME spending is largely non-cash and dominated in some cases by expenditure in relation to the pension schemes they are responsible for. The main and obvious exception is the Department of Communities, which has a large AME budget for state pensions and social security payments. So, following the department-by-department breakdowns, we show this spending separately and also describe the flows of public service pension scheme payments and contributions separately.

Chart 5.6 – Gross DEL spending by NI department



Source: HM Treasury PESA 2021

This chart shows that:

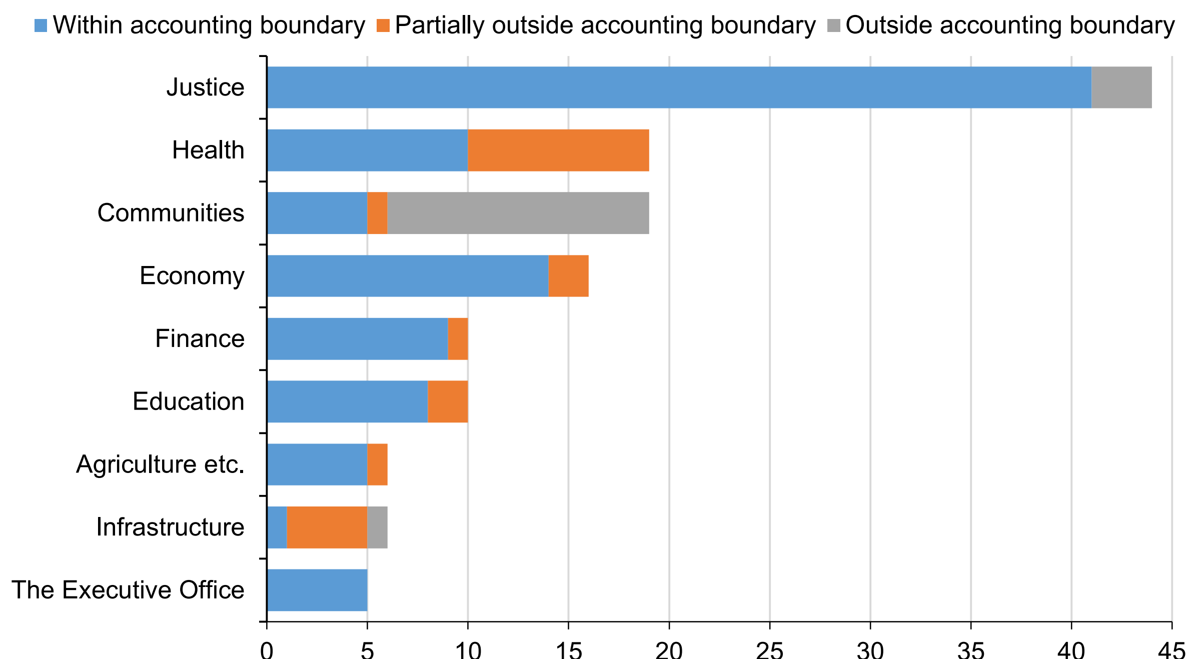
- Spending by the Department of **Health** has been rising both as a share of the total and relative to Communities. In 2016-17 Communities accounted for 33 per cent of this measure of gross spending and Health for 26 per cent; by 2020-21 the proportions had moved to 29 and 28 per cent respectively.

- The Department of **Justice** recorded the smallest increase in spending over these five years, rising by 12 per cent compared to 35 per cent for total spending. This may reflect the relatively small amount of Covid-19 funding received by DoJ, compared with other departments.

NI departments operate in part through arm's length bodies (Chart 5.7). (According to the Department of Finance, there are 140-170 of these depending on exactly how

you define them.) Under the New Decade New Approach (NDNA) agreement, the Executive agreed to review the functioning of these bodies. The Executive agreed terms of reference on 18 June 2020 and with an initial information-gathering stage now complete, the second stage of the review involves assessing each body against six tests to determine whether it should remain as an independent body or whether the functions that it carries out could be delivered in a Department or otherwise consolidated. That work is almost complete and the Finance Minister has indicated that it will be brought to the Executive when it is finalised.

Chart 5.7 – Number of arm's-length bodies by department



Source: Departmental returns to NIFC

Department of Health

The Department of Health (DoH) has three main responsibilities:

- **Health and Social Care**, including policy and legislation for hospitals, family practitioners and community health and personal social services.
- **Public Health**, which covers policy, legislation and administrative action to promote and protect the health and well-being of the population, and
- **Public Safety**, which covers policy and legislation for fire and rescue.

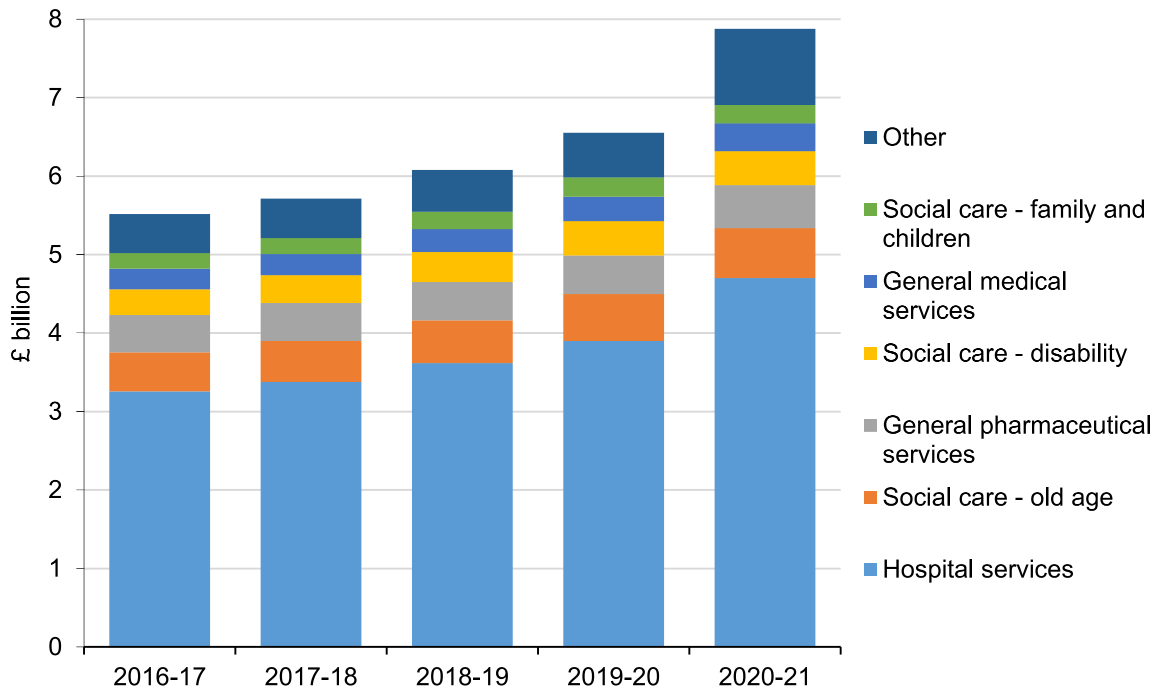
Under the Health and Social Care (Reform) Act (Northern Ireland) 2009, DoH is responsible for health and social care funding and policy while the Health and Social Care Board and Public Health Agency are responsible for the provision of services through six area trusts. In England and Wales (but not in Scotland), social care is a separate responsibility of local authorities.

Chart 5.8 shows that DoH spending has increased by 5 per cent a year on average over the period 2016-17 to 2019-20 as recorded in PESA, but jumped by 21 per cent

during the pandemic in 2020-21. Hospital services consume more than half the DoH budget, with social care and pharmacies the next largest items.

The Department said in the Final Budget document that health costs are estimated to be rising by 6.5 per cent a year, thanks to *"an increasing ageing population with greater and more complex needs, increasing costs for goods/service and growing expertise and innovation which means an increased range of services."* With waiting lists longer than elsewhere in the UK, it added that *"it has been acknowledged through several strategic reviews that there is a need for service transformation".* We will be looking at health spending in more detail in our first *Sustainability Report.*

Chart 5.8 – Gross DEL spending by the Department of Health



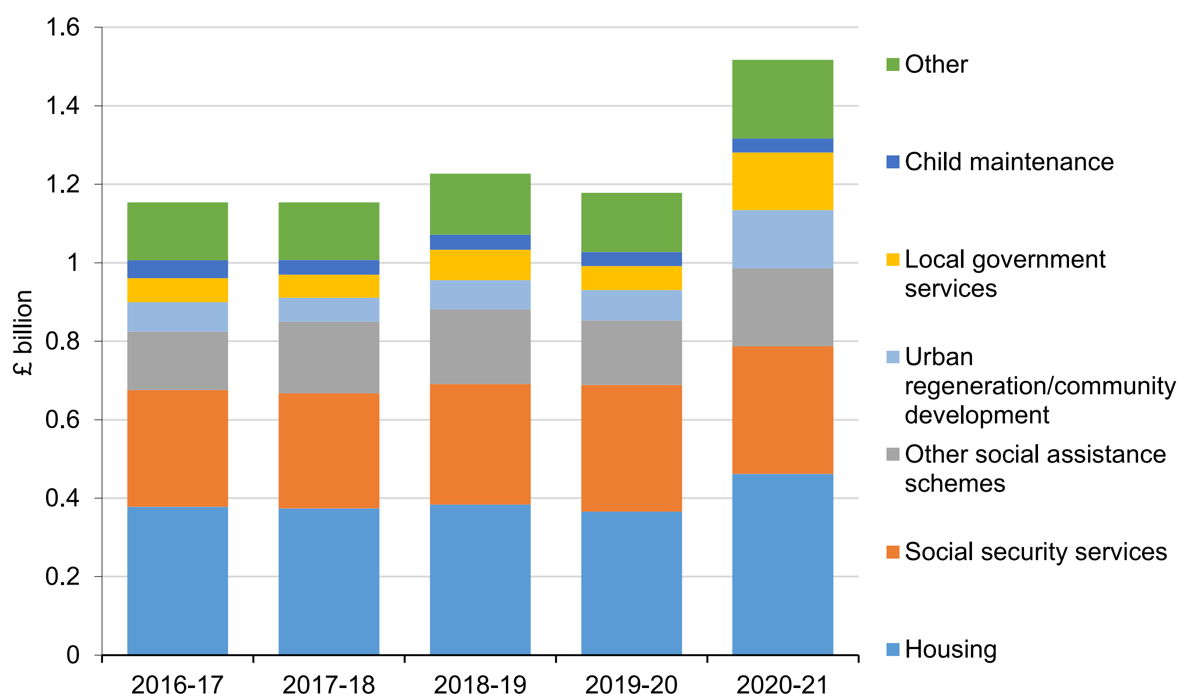
Source: HM Treasury PESA 2021

Department for Communities

As shown in Charts 4.8 and 5.5 above, the vast bulk of the spending for which the Department for Communities (DfC) is responsible is AME spending on state pensions and social security payments. The composition of this cash transfer spending is described in greater detail below, but the department has a wide range of responsibilities reflected in the non-benefit spending areas shown in Chart 5.9.

As the chart illustrates, the biggest areas of non-benefit spending by DfC are on housing (social housing and housing services), the administration of the social security system and other social assistance. Smaller areas include support for local government, art, libraries and sport. Total non-benefit spending by DfC was on a flat or slightly falling trend pre-pandemic, but has jumped in 2020-21, primarily thanks to extra support for housing, sports, the arts and local government during Covid-19.

Chart 5.9 – Gross DEL spending by the Department for Communities



Source: HM Treasury PESA 2021

Department of Education

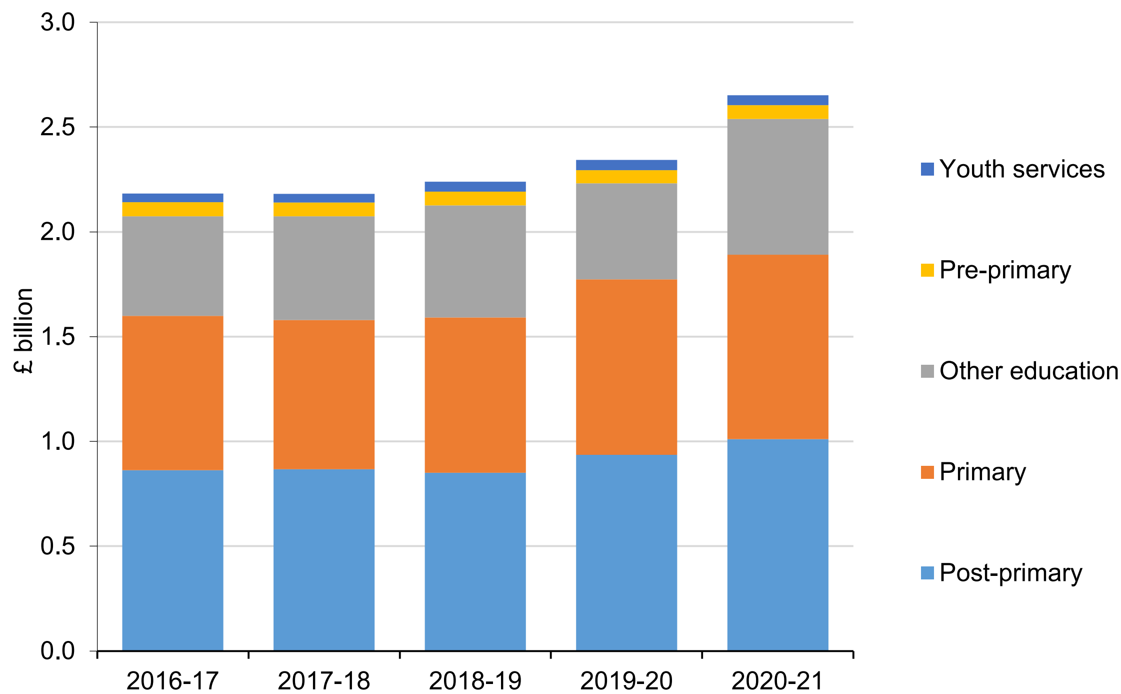
The Department of Education's (DE) primary statutory duty is *"to promote the education of children and young people in NI and to ensure the effective implementation of education policy"*. It is responsible for education up to post-primary / secondary schools, with further and higher education the responsibility of the Department for the Economy. The department has eight arms-length bodies.

As Chart 5.10 shows, around 70 per cent of the department's budget is spent (in roughly equal proportions) on primary and post-primary education, with much smaller sums spent on pre-primary provision and the Youth Service.

The Department argued in the Final Budget document that:

> *"Education is facing extensive unavoidable cost pressures and rising service demands associated with delivering statutory and policy obligations, including increasing SEN [special educational needs] requirements and the funding of the new SEN Framework. Strong and accurate financial management will therefore be required and difficult funding decisions may have to be taken in order to live within budget in 2021-22."*

Chart 5.10 – Gross DEL spending by the Department of Education

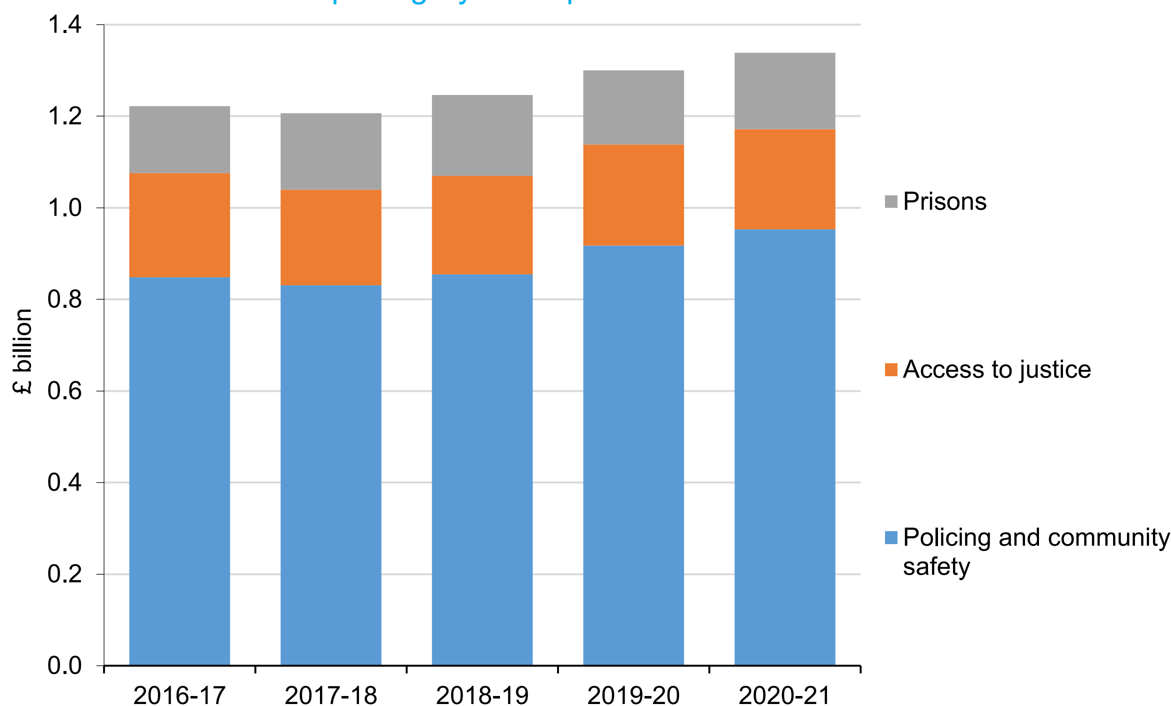


Source: HM Treasury PESA 2021

Department of Justice

Since the devolution of policing and justice in 2010,), the Department of Justice has been responsible for the delivery of most policing and justice in NI (with some exceptions in relation to counter-terrorism and national security) as set out in the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010. This includes functions transferred from the NIO and the former NI Court Service. In addition to its statutory functions, the Department provides resources and a legislative framework for its five Executive Agencies – the Prison Service, Courts and Tribunals Service, Legal Services Agency, Youth Justice Agency and Forensic Science Agency – and eight Non-Departmental Public Bodies (NDPBs). As Chart 5.11 shows, more than 70 per cent of the department's spending goes on policing and community safety, with the remainder split evenly between access to justice (mostly the Legal Services Agency and the Northern Ireland Courts and Tribunals Service) and the NI Prison Service and Youth Justice Agency.

Chart 5.11 – Gross DEL spending by the Department of Justice



Source: HM Treasury PESA 2021

Department for the Economy

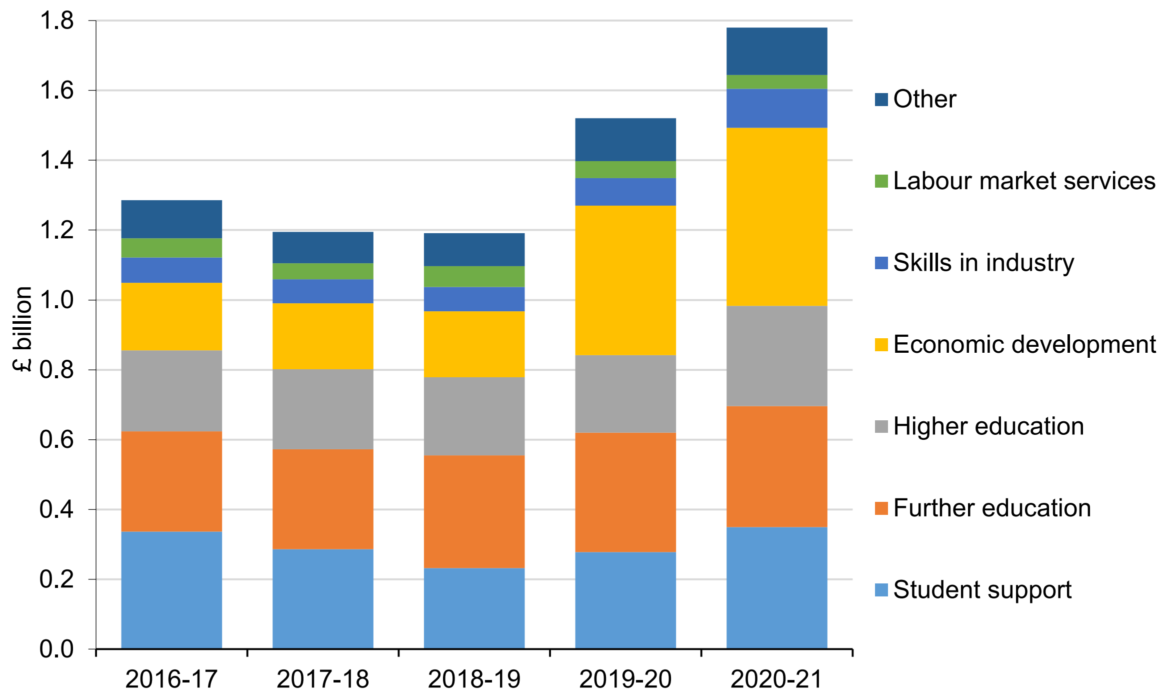
The Department for the Economy (DfE) was established in May 2016. Its responsibilities include:

- economic policy, including sectoral policy in energy, tourism and telecoms
- employment and skills programmes
- oversight and funding of the further and higher education sectors
- various aspects of employment law
- the management and operation of various EU funding programmes.

DfE works through a wide range of organisations, including Invest NI, Tourism NI, Consumer Council and universities and colleges of Further Education.

As Chart 5.12 shows, its biggest spending areas are student support, further and higher education, and economic development. Economic development spending has grown particularly strongly over the last couple of years, because the Department of the Economy's role in delivering the Executive's response to Covid-19.

Chart 5.12 – Gross DEL spending by the Department for the Economy



Source: HM Treasury PESA 2021

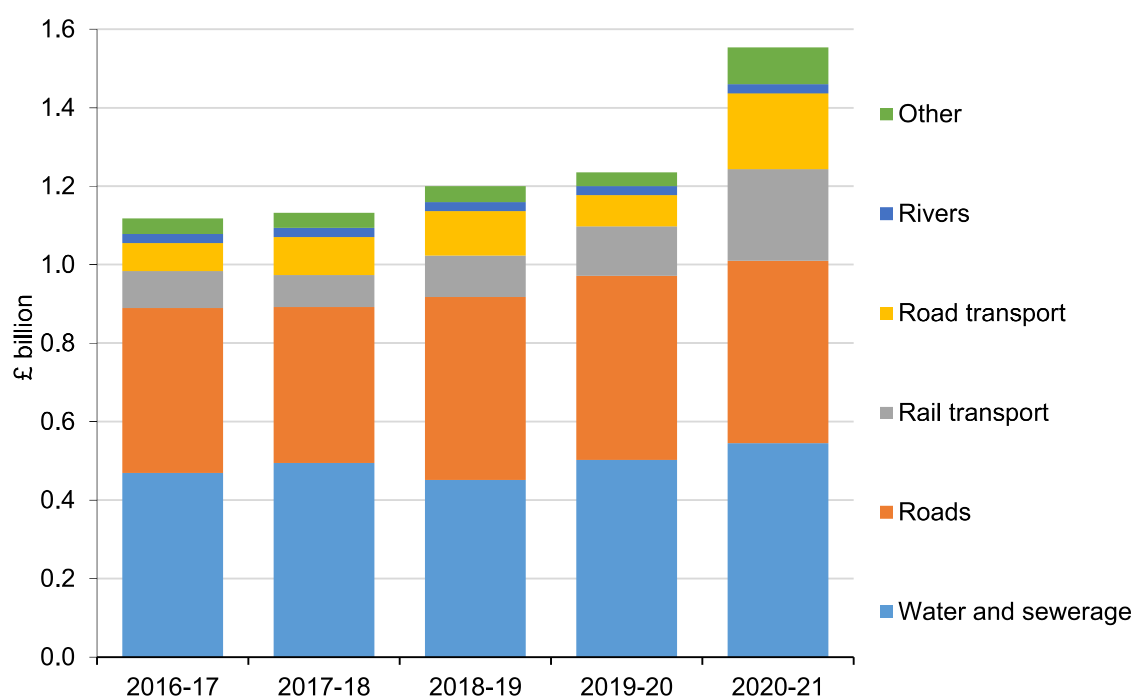
Department for Infrastructure

The Department for Infrastructure (DfI) has a wide range of responsibilities:

- Planning policy, legislation and delivery as the planning authority for regionally significant projects;
- Oversight of water and sewerage including as Shareholder for NI Water;
- rivers, drainage and flood risk management;
- public transport, roads and road safety, including through licensing, testing and enforcement activities by the Driver and Vehicle Agency (DVA)
- Oversight of the NI Transport Holding Company (Translink)
- Some additional responsibilities for airports and oversight of Trust ports.

As Chart 5.13 shows, its major spending items are water, sewerage, public transport and roads. The Executive's response to the Covid pandemic contributed to the increased departmental spending in 2020-21.

Chart 5.13 – Gross DEL spending by the Department for Infrastructure



Source: HM Treasury PESA 2021

Department of Finance

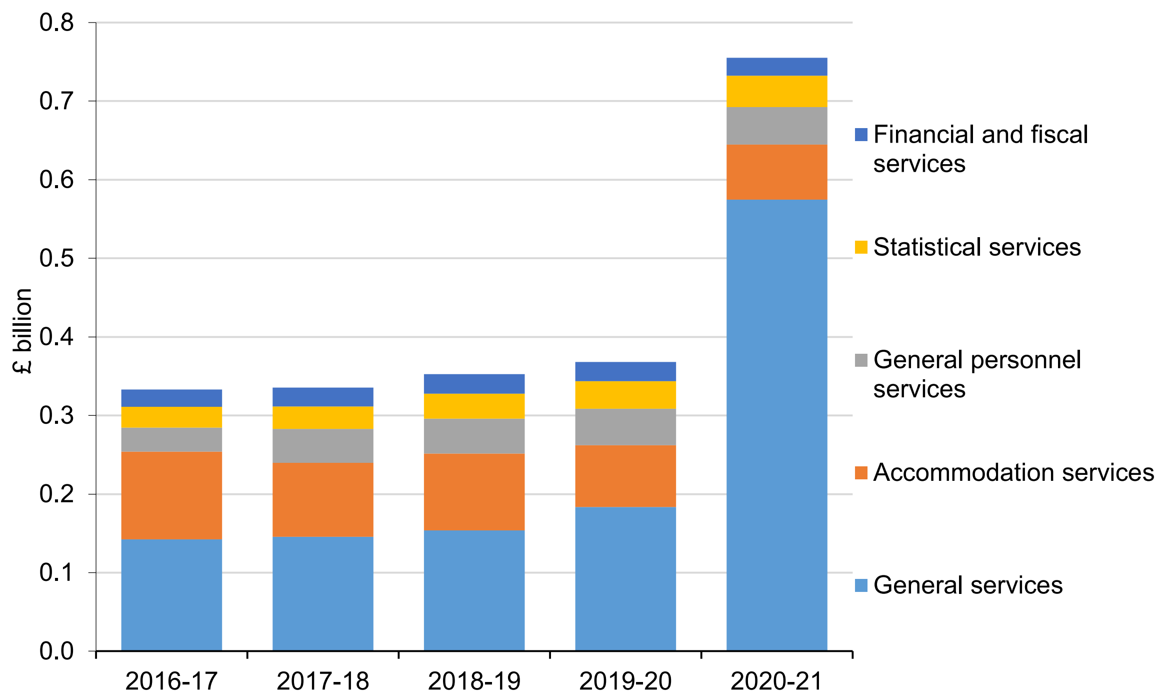
The overall purpose of the Department of Finance (DoF) is to provide government departments and other public bodies with money, staff, professional services and business support systems to help them to deliver public services. It does this by:

- Managing public expenditure and allocating resources to where they are most needed to support the delivery of public services;
- Collecting rates revenue (through Land & Property Services, which also undertakes valuation, mapping services and land registration)
- Recruiting, developing and supporting the people for the NI Civil Service (NICS)
- Providing shared and professional services to the NICS and other bodies, including including Information Technology (IT), Accommodation, Finance, HR, Procurement, Pensions and Legal Services;
- Providing statistical services through the NI Statistics and Research Agency.

Chart 5.14 shows that its biggest spending areas are accommodation and general services which includes Shared Services, HR and Land and Property Services.

As part of the response to Covid-19, DoF made grant payments to support business of over £385m, which caused the significant spike in funding in 2020-21.

Chart 5.14 – Gross DEL spending by the Department of Finance



Source: HM Treasury PESA 2021

Department of Agriculture, Environment and Rural Affairs

The Department of Agriculture, Environment and Rural Affairs (DAERA) has responsibility for food, farming, environment, fisheries, forestry, sustainability policy and development of the rural sector in NI. Its spending is dominated by support to farmers for maintaining land in good agricultural and environmental condition, including water, soil and air quality, most of which was until recently been funded by the European Union but now mostly by the UK Government. As the Treasury confirmed in December 2019, the UK Government has guaranteed to maintain the current annual budget to farmers in every year of the Parliament.[84]

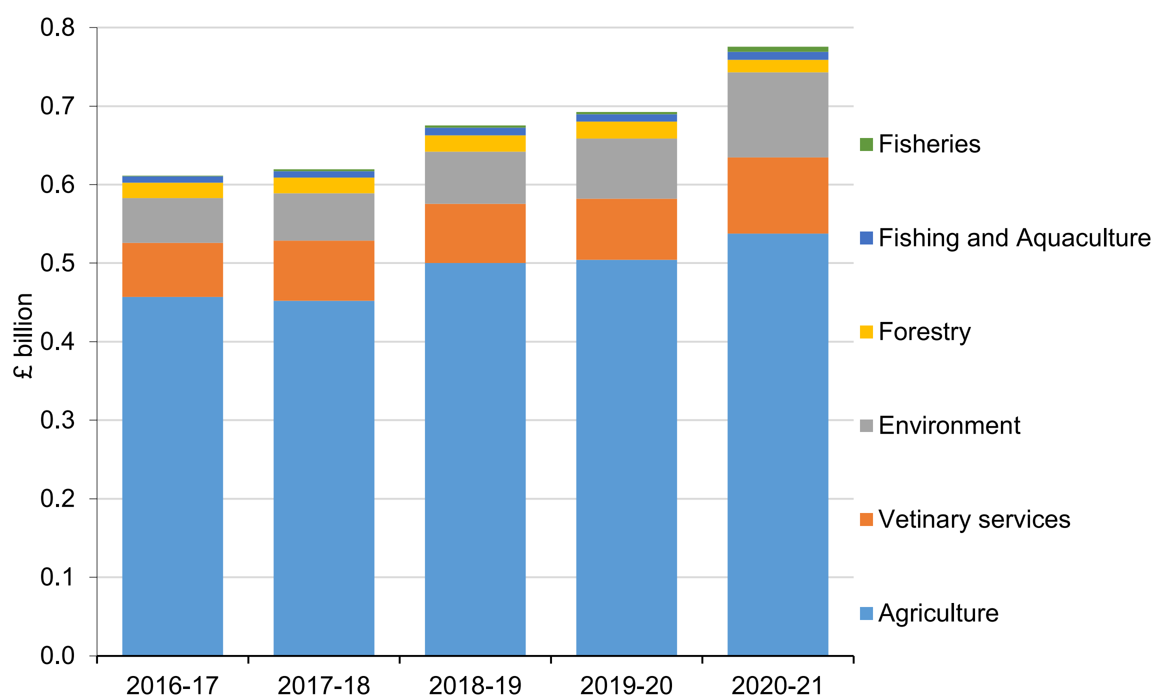
The Final Budget document noted that:

> *"Following the UK's exit from the EU, DAERA is required to undertake a range of responsibilities and functions that are being repatriated from Brussels as agriculture, the environment, fisheries, forestry and rural development are all devolved matters."*

DAERA provides a business development service for farmers and growers and a veterinary service. The Department's College of Agriculture, Food and Rural Enterprise (CAFRE) delivers training and further and higher education courses in the agri-food sector. DAERA has two Executive agencies – the Northern Ireland Environment Agency and the Forest Service – and also sponsors a number of NDPBs, including the Agri-food and Biosciences Institute (AFBI).

[84] https://www.gov.uk/government/news/farmers-3-billion-support-confirmed-in-time-for-2020

Chart 5.15 – Gross DEL spending by the Department of Agriculture, Environment and Rural Affairs

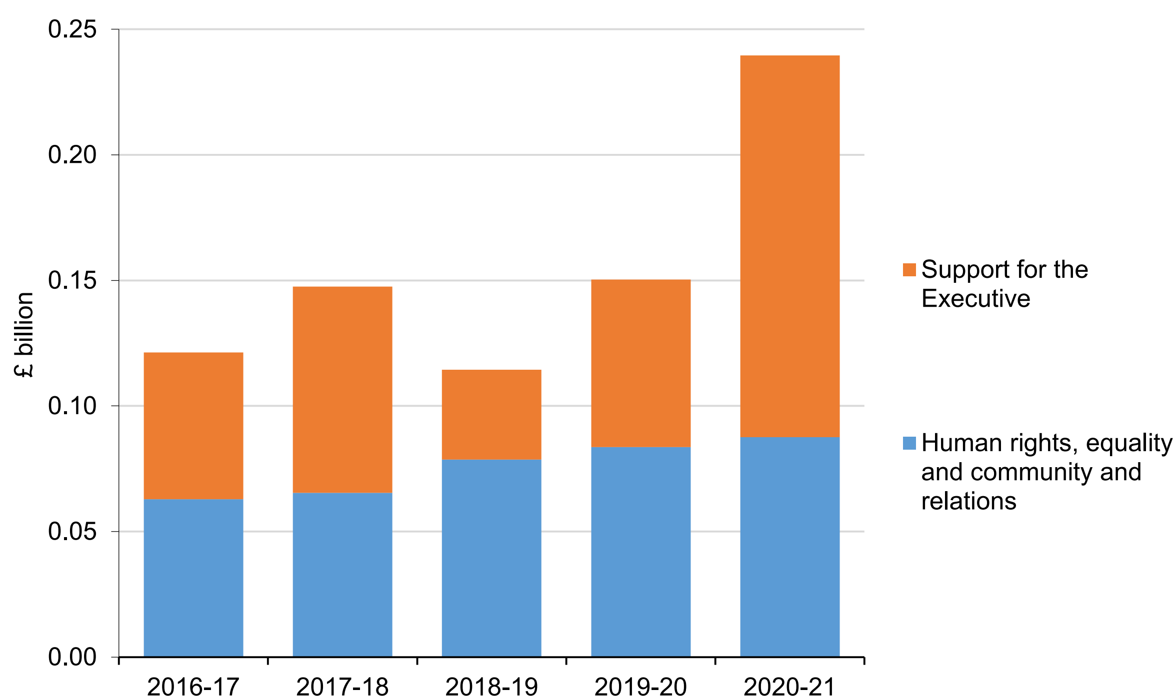


Source: HM Treasury PESA 2021

The Executive Office

In addition to supporting the First and deputy First Minister, The Executive Office's (TEO) key functions include leading the Executive's response to EU Exit and Covid-19, as well as Programme for Government, Good relations, tackling disadvantage and promoting equality of opportunity, and leading on the implementation of recommendations of the Historical Institutional Abuse Inquiry, the Victims' Strategy and the Troubles Permanent Disablement Payment Scheme.

Chart 5.16 – Gross DEL spending by the Executive Office



Source: HM Treasury PESA 2021

Minor departments

In addition to the nine Ministerial departments, the Executive also has six non-Ministerial (or 'minor') departments:

- The **Food Standards Agency** is responsible for protecting public health from risks which may arise in connection with the consumption of food (including risks caused by the way food is produced or supplied), and to protect the interests of consumers in relation to food.

- The **NI Assembly Commission** is the body corporate for the NI Assembly (NIA) which ensures that the Assembly is provided with the property, staff and services required for the Assembly to carry out its work.

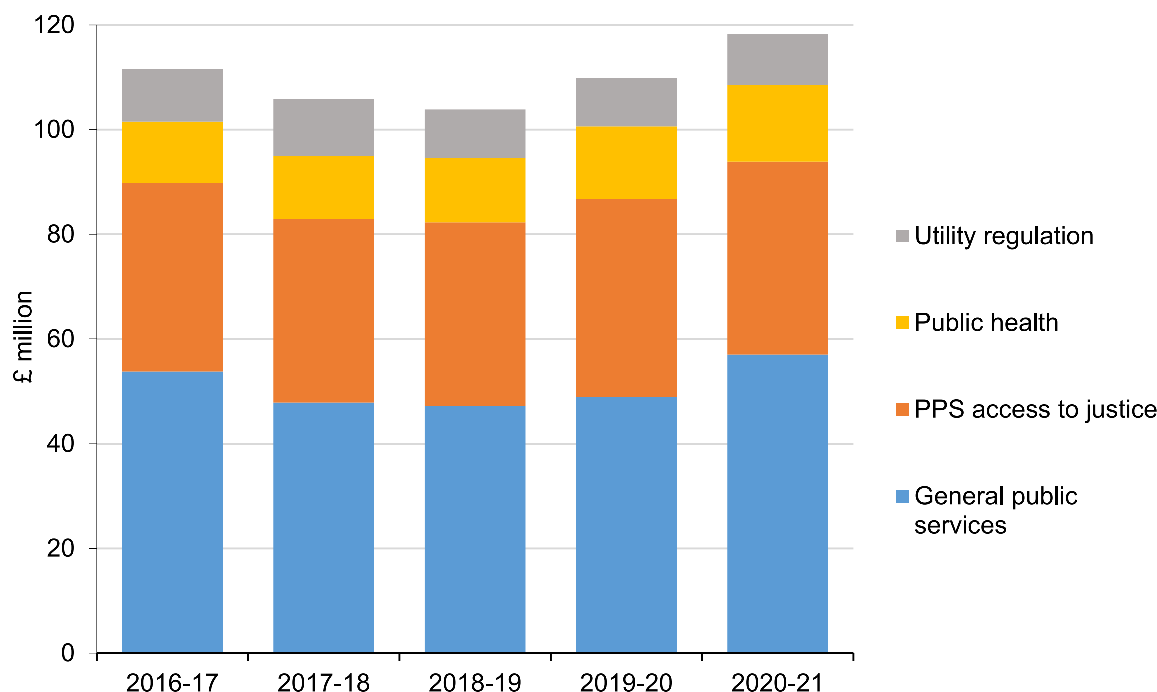
- The **NI Audit Office** provides the Assembly with independent assurance about the performance and accountability of the public sector and encourages best standards in financial management, good governance and propriety in the conduct of public business.

- The **NI Authority for Utility Regulation** is responsible for regulating NI's electricity, gas, water and sewerage industries, in the short and long-term interests of consumers.

- The **NI Public Services Ombudsman** independently investigates complaints of maladministration in respect of almost all public service providers in NI. This includes the power to publish investigation reports where it is in the public interest to do so.

- The **Public Prosecution Service** is the principal prosecuting authority in Northern Ireland, with responsibility for taking decisions as to prosecution in all cases investigated by the police, and also cases initiated or investigated by other statutory bodies.

Chart 5.17 – Gross DEL spending by the Minor departments



Source: HM Treasury PESA 2021

Pensions and welfare benefits

As we have noted, in contrast to the other devolved administrations the Executive has formal responsibility for the state pension and social security benefits. These are administered by the Department of Communities in NI and the Department for Work and Pensions in the rest of the UK. (The relatively limited range of benefits devolved to the Scottish Government will be in due course administered by a new Executive agency created in 2018 and called Social Security Scotland.[85])

Table 5.5 shows pension and benefit spending in NI compared to 2016-17. In addition to the nominal percentage rise shown in the table, spending on pensions and benefits also accounted for a rising proportion of GDP. Pension and benefit spending of £5.8billion in 2016-17 represented around 12.9% of NI GDP in 2016. Pension and benefit spending in 2019-20 of £6.4 billion was around 13.2% of NI GDP in 2019.

[85] https://www.socialsecurity.gov.scot/about

Table 5.5 – NI state pension and social security spending

	Outturn 2016-17	2021-22	£ million Forecast 2026-27	Average % change to 2021-22	Average % change to 2026-27
State Pension	2,171	2,044	1,972	-1.2	-0.7
Personal Independence Payment	17	1,016	1,290	-	4.9
Universal Credit	-	1,039	1,968	-	13.6
Employment and Support Allowance (IR)	503	494	0	-0.4	-
Housing Benefit	578	434	93	-5.6	-26.5
Disability Living Allowance	1,019	406	410	-16.8	0.2
New State Pension	39	556	1,704	70.3	25.1
Employment and Support Allowance (C)	339	351	400	0.7	2.7
Pension Credit	261	235	227	-2.1	-0.7
Attendance Allowance	199	200	271	0.1	6.2
Carers Allowance	157	188	258	3.7	6.6
Income Support	154	76	0	-13.2	-
Statutory Payments	61	85	91	6.9	1.2
Winter Fuel Payments	53	52	57	-0.5	1.9
Other	214	148	116	-7.0	-4.8
Total	**5,765**	**7,323**	**8,856**	**4.9**	**3.9**

Source: Department of Communities

State Pensions are the largest element, accounting for 35.6 per cent of the total in 2020-21, down a bit from 38.4 per cent in 2016-17. But the main compositional change is the growth in Universal Credit (UC), which is gradually replacing other working age benefits – albeit with a delayed start compared to the rest of the UK. As we saw in Chapter 4, the Executive did not agree initially to implement the welfare reforms announced by the UK Government in 2012 that included the creation of UC. It did so following the Fresh Start Agreement, putting in place a DEL-funded package of mitigations to limit the impact on some of those most affected. This package is discussed later in this chapter under 'Super- and sub-parity policies'.

Table 5.6 shows how the implementation of the UK reforms has lagged the rest of the UK, with implications for the size and make-up of welfare spending.

Table 5.6 - Key welfare reform implementation dates

Benefit	Change	GB	NI
Contribution-based Employment and Support Allowance	Limited to one year for certain people in the 'work-related activity group'	April 2012	October 2016
Housing Benefit	Social Sector Size Criteria ("bedroom tax") introduced	April 2013	February 2017
The Benefit Cap	Cap on total benefits income for a household introduced	April /Sept 2013	May/Nov 2016
Personal Independence Payment (PIP)	Disability Living Allowance (DLA) for working-age claimants replaced by Personal Independence Payment	April 2013	June 2016
Universal Credit	Replaces working-age benefits and tax credits	April 2013	September 2017

Source: Northern Ireland Audit Office

DWP began to roll out 'live service' UC in Great Britain in 2013 and then the replacement digital or 'full service' from 2016. NI only began its roll out in 2017 and it was complete across the UK in 2018, allowing a full range of new claims. Following completion of the rollout of Universal Credit, the Department of Communities had planned (subject to Ministerial approval) to commence 'Move to UC' in 2021. (This is when people are transferred to UC without a triggering change in their circumstances, previously referred to as 'managed migration'.) However, given the redirection of resources into responding to the pandemic, that timeline is now uncertain. No detailed planning has commenced.

Public service pensions

The Executive and its agencies and arm's-length bodies provide their employees with access to occupational pension schemes. As of 31 March 2021[86], there were 303,825 members of the five largest public service pension schemes in NI (health, teachers, civil service, police and fire), of which 98,421 were retired and receiving pension benefits (13,878 pensions are also in payment to dependents) and 191,526 were either current or former employees (Table 5.7).

[86] Teachers Scheme figures as at 31 March 2020. The 2021 figures are expected to be published later in November 2021.

Table 5.7– Membership of NI public service pension schemes at 31 March 2021

Pension Scheme	Active members	Deferred members	Pensions in payment	Total pensions in payment
Health	89,200	12,772	Members 36,551 Dependents 4,165	40,716
Teachers	25,177	16,345	Members 22,200 Dependents 2,323	24,523
Civil Service	29,209	8,524	Members 27,260 Dependents 5,317	32,577
Police	6,818	1,484	Members 11,075 Dependents 2,065	13,140
Fire	1,662	335	Members 1,335 Dependents 8	1,343
Total	**152,066**	**39,460**	**Members 98,421** **Dependents 13,878**	**112,299**

Note: Teachers pensions as at 31 March 2020
Source: Department of Finance

Most public service pension schemes operate on an 'unfunded' pay-as-you-go basis. Employees and employers make monthly contributions based on a set contribution rate and the employee's pay. Any shortfall between these contributions and the pensions paid out in any given year is covered by the Executive as part of AME and thus funded by the UK Government along with the other components of its departmental AME. (If there were to be a surplus of contributions over payments, the Executive's AME funding would be reduced.) This means that the Executive does not have to use its own resources from within DEL to smooth changes in the balance of contributions and payments or bear the risk of forecast errors.

Funded schemes (including the NI Local Government Pension Scheme), by contrast, use employer and employee contributions to create investment assets in a pension fund, with those assets and associated returns used to pay for future pensions.

Table 5.8 shows the outturn for payments, contributions and the net AME top-up grant for the five main NI Executive pension schemes for 2020-21 and forecasts through to 2026-27 from the Office for Budget Responsibility's October 2021 *Economic and Fiscal Outlook*. It shows – not surprisingly – that health is the largest of the five schemes and the fire service scheme the smallest, and that the aggregate shortfall between contributions and payments is expected to be relatively stable.

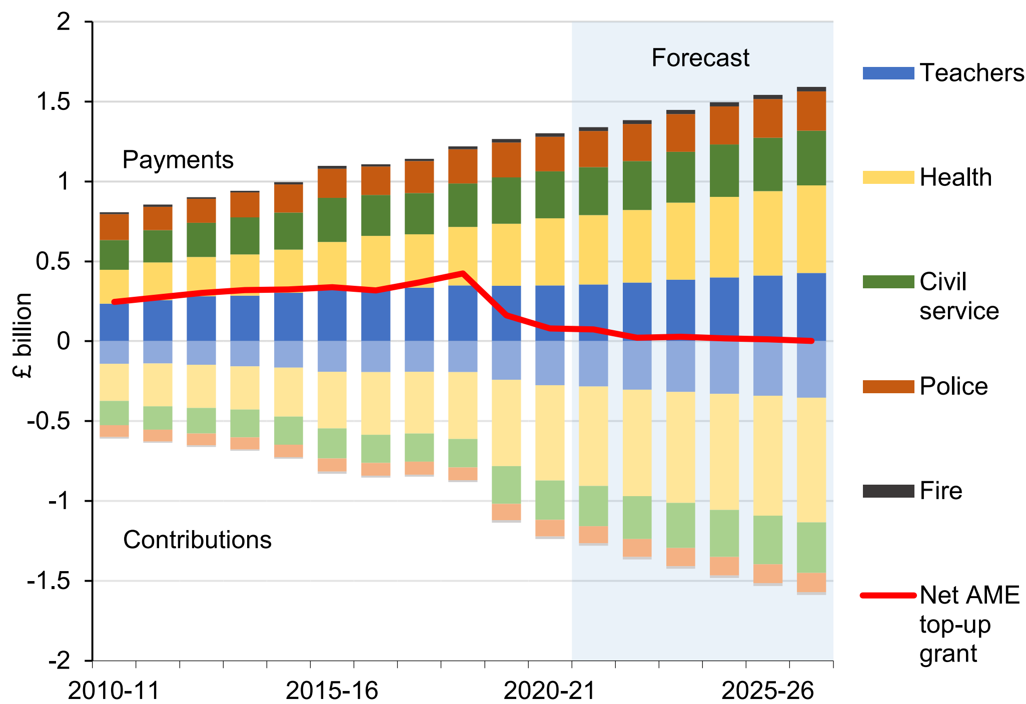
Table 5.8 – NI public service pension scheme payments and contributions

	Outturn 2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	£ million Forecast 2026-27
Total							
Payments	1,627	1,675	1,731	1,809	1,870	1,928	1,989
Contributions	-1,548	-1,600	-1,708	-1,782	-1,853	-1,915	-1,987
of which: Employer	*-1,135*	*-1,166*	*-1,244*	*-1,299*	*-1,352*	*-1,398*	*-1,450*
Employee	*-398*	*-409*	*-437*	*-456*	*-475*	*-491*	*-510*
Other	*-15*	*-25*	*-27*	*-26*	*-26*	*-26*	*-27*
Top-up grant	80	75	23	28	17	12	2
Teachers							
Payments	437	445	460	481	498	515	533
Contributions	-344	-356	-380	-397	-412	-426	-442
Top-up grant	92	89	79	84	85	89	91
Health							
Payments	525	542	567	604	632	659	686
Contributions	-746	-777	-832	-870	-907	-939	-976
Top-up grant	-222	-235	-264	-266	-275	-281	-290
Civil service							
Payments	368	375	384	399	409	419	429
Contributions	-306	-315	-337	-353	-368	-381	-396
Top-up grant	62	60	47	46	41	38	33
Police							
Payments	270	284	290	295	299	303	308
Contributions	-132	-134	-139	-142	-145	-147	-150
Top-up grant	138	149	151	154	155	156	158
Fire							
Payments	28	29	30	31	32	33	34
Contributions	-19	-19	-20	-21	-22	-22	-23
Top-up grant	9	10	10	10	10	11	11

Source: Office for Budget Responsibility

Chart 5.18 puts these figures in a longer historical context. It shows that the Executive is expected to require less UK Government funding to meet the total gap between payments and contributions over the next 5 years than over the previous decade. This is primarily because higher spending on wages (through a combination of increased recruitment and higher pay settlements) in health and (to a lesser extent) education and the civil service is increasing prospective employer and employee contributions. Higher contributions in the near term will of course imply higher payments in the longer term, although not necessarily one-for-one.

Chart 5.18 – NI public service pension scheme contributions and payments



Source: Office for Budget Responsibility

Classification of the Functions of Government

Developed by the OECD, the Classification of the Functions of Government (COFOG) breaks down government expenditure data from the United Nations' System of National Accounts by the purpose for which the funds are used. It is used mostly to facilitate comparisons between national governments, whose scope of activity is broadly similar. This is less helpful for sub-national entities like the Executive with unique responsibilities (even among the UK devolved administrations), but it remains a useful alternative lens through which to view spending allocations.

Table 5.9 shows the total gross spending measure that we constructed for 'money out' in Table 5.1, based on PESA data, but here we show it divided by COFOG category (and selected sub-categories) for 2016-17 to 2020-21. The table also shows the average growth in spending between 2016-17 and 2019-20 – we haven't included 2020-21 in looking at the average increase because special factors around the Covid pandemic affected spending in that year.

Notable features include:

- The dominance of spending on social protection, and of spending on older people within it.
- The contrast between above-average growth rates in areas such as health, transport, enterprise and economic development, environmental protection and science, and below-average growth in social protection, education, agriculture and fisheries, public order, housing, recreation and sport, and employment.

- The switch in support for agriculture from the EU Common Agriculture Policy payments to UK Government funding in 2020-21.
- The relative importance of spending on different tiers of education, which is obscured in a departmental breakdown by the sharing of responsibilities between the Departments of Education and the Economy.

Table 5.9 – Gross spending by the NI Executive (COFOG) in cash terms

	2016-17	2017-18	2018-19	2019-20	2020-21 (£ million)	Average % change to 2019-20
Social protection	7,643	7,853	8,216	8,406	8,907	3.2
of which:						
Old age pensions and social services	*3,723*	*3,889*	*4,015*	*3,844*	*3,924*	*1.1*
Sickness and disability	*2,905*	*2,978*	*3,138*	*3,255*	*3,271*	*3.9*
Family benefits and social services	*315*	*331*	*461*	*784*	*1,207*	*35.6*
Housing	*581*	*552*	*529*	*479*	*462*	*-6.2*
Health	4,289	4,415	4,698	5,048	6,340	5.6
of which:						
Medical services	*4,111*	*4,248*	*4,509*	*4,828*	*5,763*	*5.5*
Education	3,207	3,220	3,312	3,467	3,874	2.6
of which:						
Primary	*735*	*712*	*741*	*837*	*880*	*4.4*
Secondary	*1,137*	*1,137*	*1,158*	*1,253*	*1,332*	*3.3*
Tertiary	*720*	*735*	*743*	*778*	*836*	*2.6*
Public order and safety	1,280	1,275	1,311	1,365	1,394	2.2
of which:						
Police	*808*	*794*	*814*	*874*	*902*	*2.7*
Law courts	*255*	*235*	*241*	*249*	*245*	*-0.8*
Prisons	*134*	*154*	*163*	*148*	*151*	*3.5*
Public and common services	595	613	608	644	1,212	2.7
Housing and community amenities	887	874	856	893	1,122	0.2
of which:						
Water supply	*395*	*420*	*374*	*424*	*463*	*2.3*
Social housing	*396*	*370*	*380*	*362*	*472*	*-3.0*
Transport	573	563	666	652	913	4.4
of which:						
Roads	*397*	*378*	*435*	*439*	*463*	*3.4*
Railways	*94*	*82*	*105*	*125*	*233*	*10.1*
Local public transport	*72*	*96*	*113*	*80*	*193*	*3.6*
Agriculture, fisheries and forestry	546	549	591	596	651	3.0
of which:						
Market support under CAP	*294*	*303*	*311*	*309*	*13*	*1.7*
Other	*252*	*246*	*280*	*287*	*638*	*4.4*
Enterprise and economic development	291	273	270	518	609	21.2
Recreation, culture and religion	169	173	192	186	236	3.3
of which:						
Culture	*109*	*118*	*130*	*126*	*154*	*4.8*
Recreation and sport	*18*	*13*	*13*	*12*	*36*	*-13.2*
Religious and other community	*42*	*42*	*49*	*49*	*46*	*5.5*
Environmental protection	55	57	63	73	104	9.6
Employment policies	108	91	109	99	87	-2.9
Science and technology	18	21	25	25	27	11.0
Total	**19,660**	**19,976**	**20,916**	**21,971**	**25,475**	**3.8**

Source: data underlying PESA 2021

How does the Executive top up UK Government financing?

As we noted in previous chapters and at the beginning of this one, the vast bulk of spending by the Executive is financed by UK Government in the DEL Block Grant and the additional funding provided to cover AME. In this section we look the most significant ways in which this financing is topped up – namely through income from fees and charges, the Regional Rates and funding from the European Union (some of which is still ongoing even after Brexit).

Income from fees and charges

Income from fees and charges (which encompasses all income classified as 'sales of goods and service' in the National Accounts) is the Executive's largest source of non-grant income. It includes a large number of very different items (as shown in Table 5.10) and receives relatively little attention in Budgets and public debate. The largest items are non-domestic water charges and Health Trust receipts.

Income from fees and charges includes some receipts from within the public sector, where one part of government is paying another for specific goods and services delivered at market rates. This is true where payments "are related to specific volumes or values of output under arms-length contracts and are not paid if that output is not delivered".[87] We have not yet been able to identify these payments systematically, and exclude them, so to the extent that they are included for the time being we will have overstated total 'money in' and 'money out' of the Executive. However these flows offset in our estimates of gross spending and receipts of fees and charges, with no effect on the implied residual funding by the UK Government.

[87] HM Treasury 'Class (2013) 2: Receipts' August 2013

Table 5.10 – Income from fees and charges in 2020-21

Department	Description	£million 2020-21	% of total
Infrastructure	Non domestic water charges and roads drainage	91.6	13.3
Health	Health Trusts receipts	73.1	10.6
	of which: hospital services receipts	*54.1*	7.8
	social care receipts	*19.0*	2.8
Education	Further Education tuition fees and charges, contracts and other	55.0	8.0
Health	Medical and Dental training course fees	36.8	5.3
Finance	Land and Property Services including land registers, registry of	31.0	4.5
Health	Health and Social Care Board receipts	29.5	4.3
	of which: hospital services receipts	*21.8*	3.2
	social care receipts	*7.7*	1.1
Justice	NI Courts and Tribunals fees and charges and recovery of costs from other departments	26.1	3.8
Communities	Recharge income for Child Maintenance services delivered by the Department for GB DWP	25.9	3.8
Communities	Recharge income for benefit delivery services delivered by the Department for GB DWP	19.8	2.9
Finance	NI Statistics & Research Agency income for General Registry Office services including the provision of life certificates and recovery of out-posted staff costs.	17.8	2.6
Health	NI Blood Transfusion Service receipts (generated from Trusts)	17.6	2.6
Finance	ITAssist income for provision of IT equipment, server hosting and IPT tariff provided to NICS and other public sector organisations.	16.1	2.3
Finance	Central Procurement Directorate income in relation to professional procurement services to the NICS and other public sector bodies.	14.9	2.2
Communities	Income from HMRC for recovery of costs associated with administration of National Insurance fund benefits	13.9	2.0
Communities	Recharge income for benefit delivery services delivered by the Department for GB DWP	13.7	2.0
Finance	HR Connect income for the receipt of HR Connect services	11.1	1.6
Justice	Forensic Science NI recovery of costs for forensic science services	10.3	1.5
Justice	PSNI fees and charges	10.1	1.5
NIAUR	Utility Regulator licence fees	9.6	1.4

Source: Department of Finance Provisional Outturn

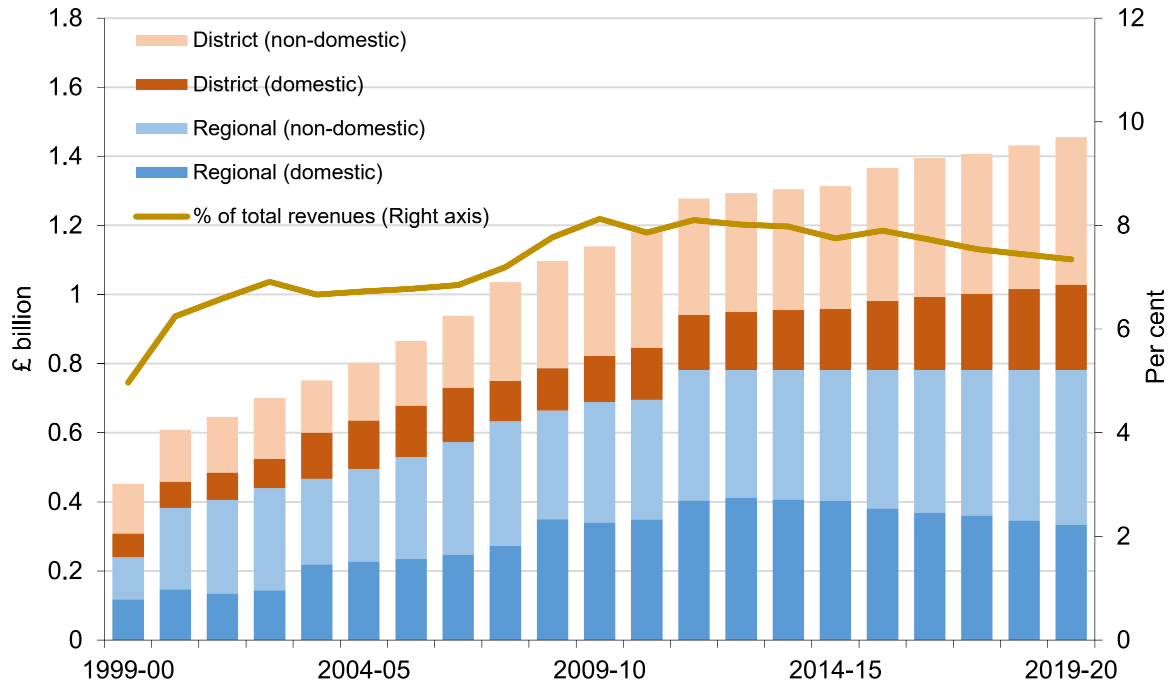
Regional Rates

Uniquely among the regions of the UK, rates are levied on both domestic and non-domestic properties in NI – the Community Charge (or Poll Tax) and Council Tax never having been implemented as they were in the rest of the UK. In each case the rates bill comprises a Regional Rate set uniformly by the Executive with the approval of the Assembly and the District Rate set individually by each local council.

Regional Rates pay for about 3 per cent of the Executive's spending, based on the measures shown in Table 5.1. The District Rate has provided a relatively stable proportion of local councils' income, around two thirds between 2015-16 and 2019-20, with the rest coming largely from grants, charges and borrowing as shown in Table 2.4. Receipts in recent years are shown in Chart 5.19, split between domestic and non-domestic components and between the Regional and District Rate. They rose as a share of total NI receipts between 2000 and 2010 and have trended

slightly lower since then, while continuing to rise in cash terms (pre-pandemic). (It should be noted that different sources give different numbers for rates receipts, probably in part reflecting the inclusion or exclusion of the impact of reliefs.)

Chart 5.19 – Revenue from property rates in NI



Source: Office for National Statistics

The rates system in NI works broadly as follows:

- The rates payable on a **non-domestic property** are calculated by adding the Regional and District 'poundages' set by the Executive and the local council and then multiplying the total by the 'Net Annual Value' (NAV) of the property. The NAV is an assessment of the annual rent that the property could reasonably be expected to be let for on the open market. The current valuation list for non-domestic properties came into operation on 1 April 2020 and is based on rental values estimated at 1 April 2018. Partial reliefs are available for some small businesses or those facing temporary difficulties, while business in sectors particularly affected by Covid-19 restrictions have been granted a business rates holiday for the full financial year from 1 April 2021 until 31 March 2022.

- The rates payable on a **domestic property** are calculated by adding the Regional and District 'poundages' set by the Executive and the local council and then multiplying the total by the 'Rateable Capital Value' of the property. This is an assessment of the potential sale price of the property (or similar properties) on the open market on 1 January 2005, up to a maximum of £400,000. Some empty properties receive 100 per cent relief and there are partial rebates for lone pensioners, disabled people and Universal Credit recipients. (Prior to 2007, domestic rates had been levied on rental values estimated for 1976 – based on data back to the late 1960s.)

Figure 5.2 summarises the calculations for the rating system as they currently operate. There have been various reviews of the system, most recently in 2016 and 2019, which have considered the possibility of changing the various reliefs, exemptions and allowances for both domestic and non-domestic Regional Rates.

Figure 5.2 – The calculation of rates bills in NI

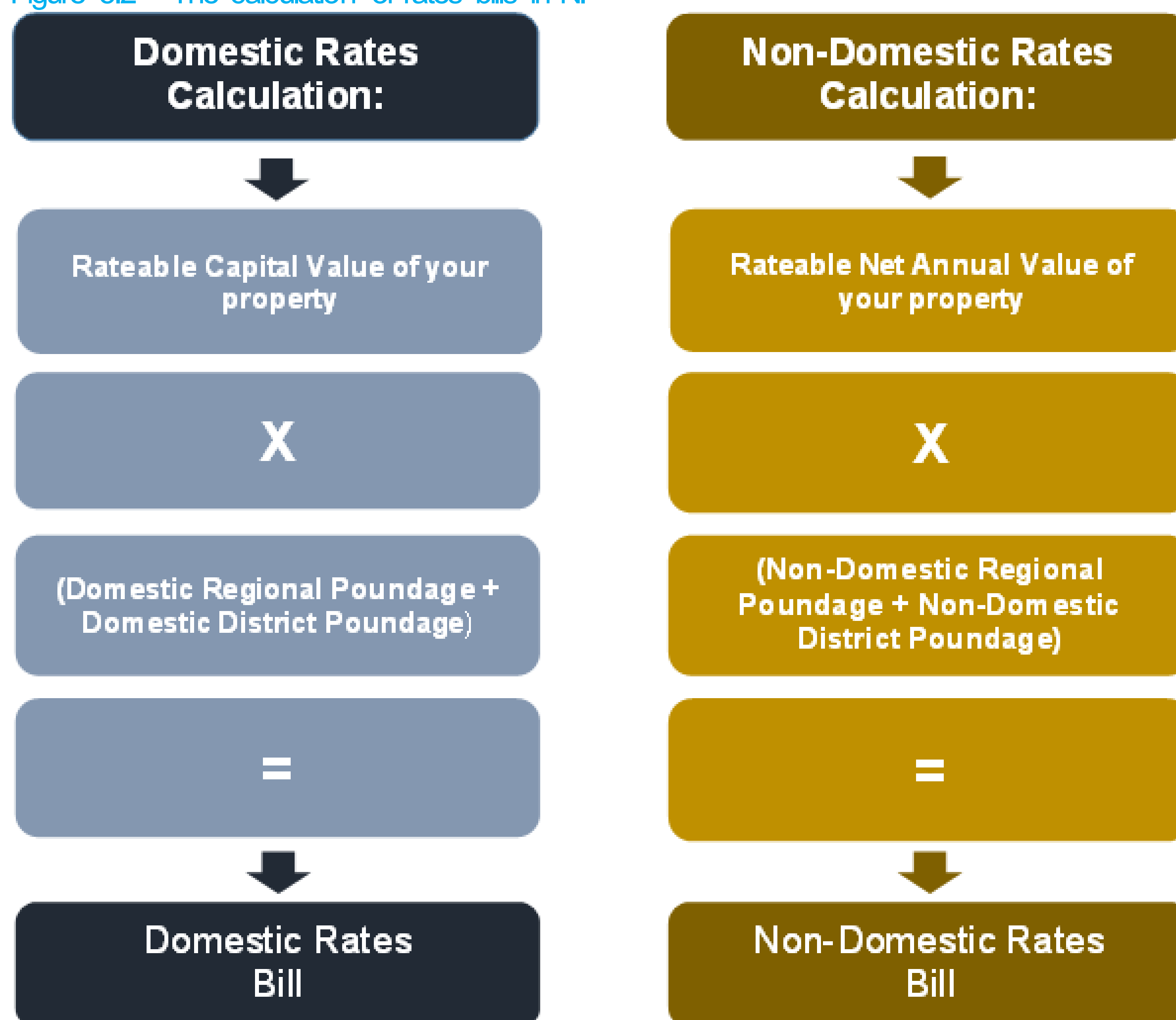
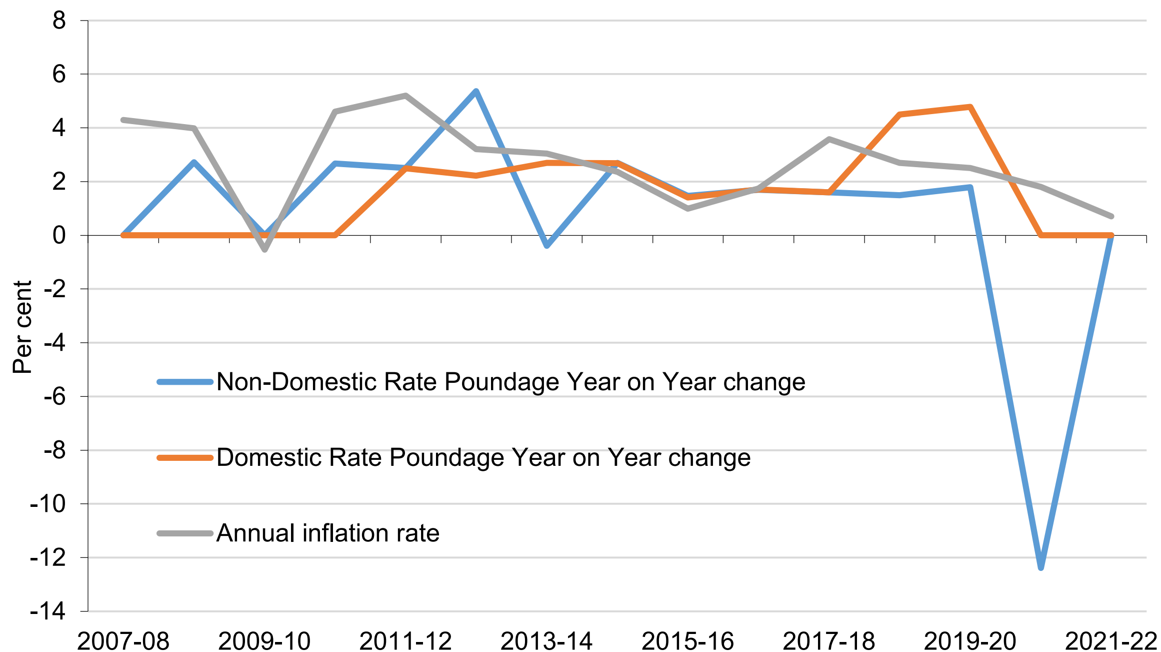


Chart 5.20 shows the annual changes in the domestic and non-domestic Regional Rate poundages. The Executive froze the domestic poundage or increased it only modestly between 2007 and 2017, while increasing the non-domestic poundage more sharply. But during the three years in which the Executive was not sitting, the UK Government increased the non-domestic poundage with inflation and the domestic poundage more sharply. During the pandemic, the domestic poundage has been frozen and the non-domestic poundage reduced by 12.5 per cent. In addition, businesses in sectors most affected by Covid-19 have been granted rates holidays in 2020-21 and 2021-22. Domestic rates bills tend to be lower per household on average than the equivalent taxes elsewhere in the UK, but non-domestic rates are among the highest in the UK and Ireland even after the reduction in 2020.

Chart 5.20 – Annual change in Regional Rate poundages



Note: Non-domestic rate poundage adjusted for effect of revaluations in 2015 and 2020
Source: Department of Finance

Once the Regional Rate poundage is agreed by the NI Assembly for any given year, Land and Property Services (LPS) uses the agreed figure to prepare an initial forecast relating to the gross income raised through the rating system. LPS determines the uplift from the previous year and bases the revenue forecast on that uplift and the previous year's income. It also adjusts the income for expected buoyancy/contraction in the domestic and non-domestic property tax base. These adjustments take the form of a percentage amendment based on property trends and any significant known property transactions (for example a large new office block coming into the list or coming out of the list for a time for refurbishment). Finally, LPS uses figures and trends from previous years to forecast the various rate reliefs, discounts and write-offs to net off against the gross income.

Regional Rate income forecasts have been fairly robust and as such have not proved a significant risk in managing the overall Executive Budget. LPS shares its forecasts with the Department of Finance Public Spending Directorate to inform the Budget process and to feed into the OBR's UK public finances forecasts. Updated forecasts through the course of the year inform the Executive's in-year monitoring process.

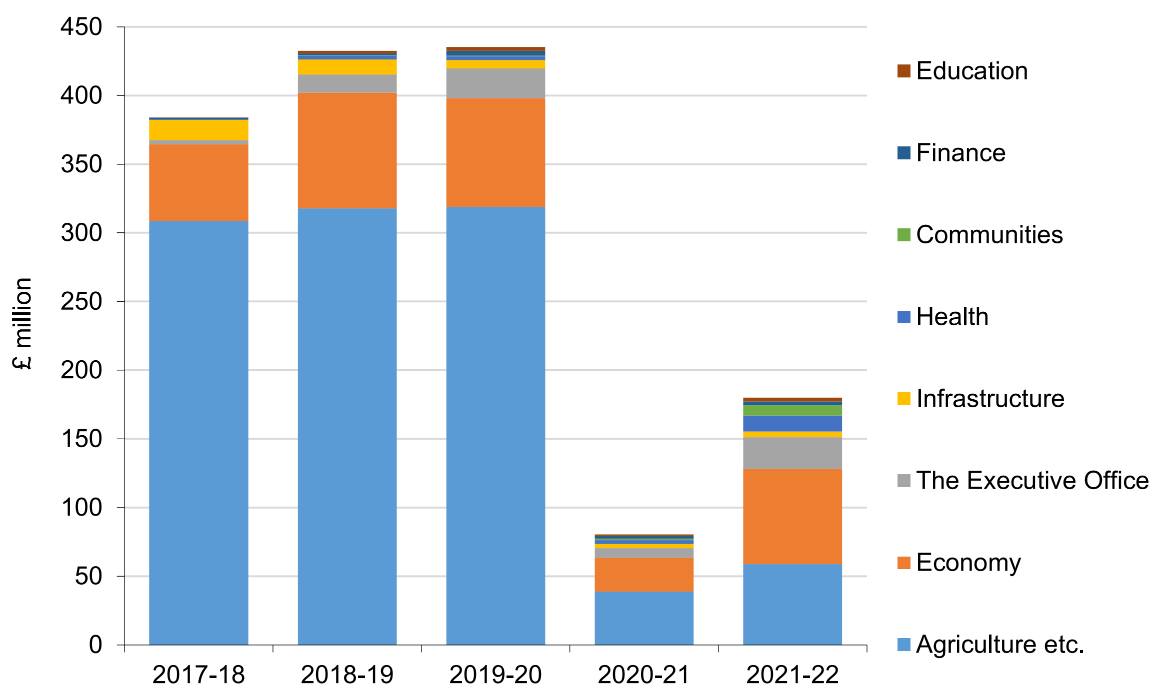
EU funding

The Executive received funding from various European Union programmes while the UK was a member and continues to receive smaller amounts after Brexit – in some cases because previously-agreed funding streams have yet to run their course and in others because financial support for peace in NI remains ongoing.

Chart 5.21 shows that EU funding to the Executive was running at around £400 million a year prior to Brexit. It is expected to be less than £200 million this year, having been even lower in 2020-21 principally as a result of the reduction generally in activities due to Covid-19, which hampered the drawdown of funding for EU programmes and capital spending. As the Chart shows, the main recipients of EU

funding have been the Department for Agriculture, Environment and Rural Affairs (DAERA) and the Department for the Economy (DfE).

Chart 5.21 – EU funding by NI department



Source: Department of Finance

Chart 5.22 shows the programmes from which the funding derives. Among them:

- Historically the largest source of EU funding has been payments for farmers through the **Common Agricultural Policy (CAP)**, with smaller sums available to fishermen through the Common Fisheries Policy. In both cases, the funding is provided to DAERA, which then distributes it to eligible recipients. The basic CAP payment is based on the number of hectares farmed, supplemented for example by 'greening' payments that reward farming practices that contribute to environmental goals and extra support for younger farmers. As noted in the *Statement of Funding Policy*: *"The UK government has committed to maintain the funding available to farmers and land managers in every year of this Parliament."*

- Payments from the **Rural Development Programme (RDP)** are aimed at *"improving competitiveness in the agriculture and forestry sector, safeguarding and enhancing the rural environment and fostering competitive and sustainable rural businesses and thriving rural communities"*.[88] The Executive is receiving more in RDP payments this year than in the last three years of the UK's EU membership but payments will cease in December 2023 at the latest and the UK will not participate in the 2021-27 programming round.

[88] https://www.finance-ni.gov.uk/articles/european-structural-and-investment-fund-programmes-northern-ireland

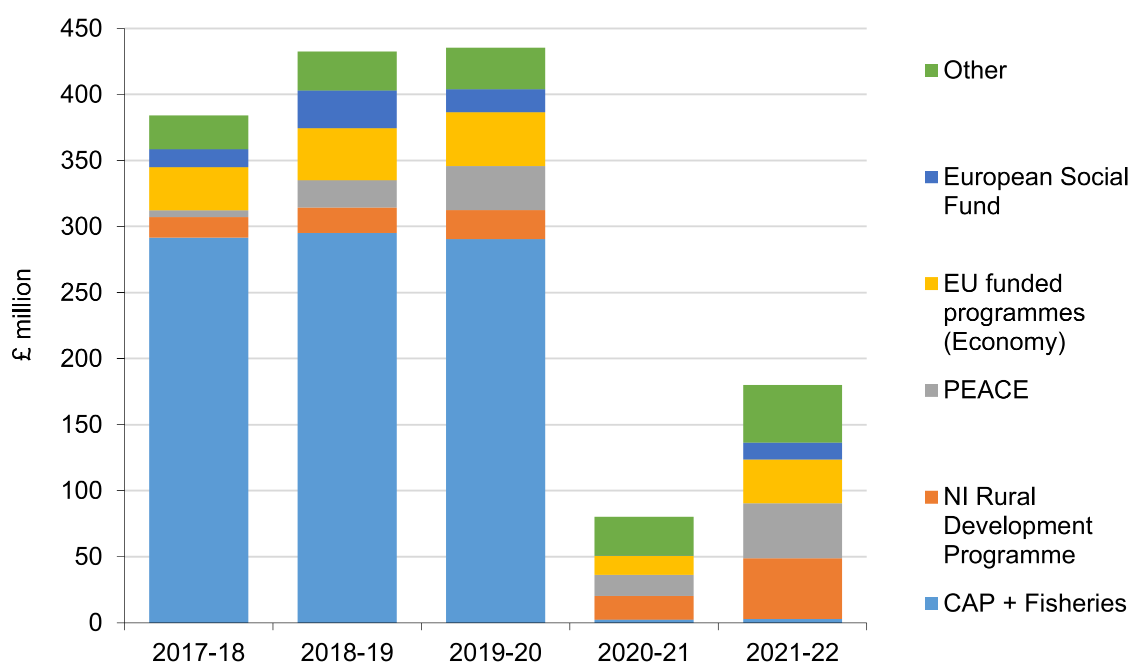
- The **PEACE Programme** (85 per cent financed from the European Regional Development Fund, with the remainder from the Irish Government and the Executive) was agreed in 1995 *"to support peace and reconciliation in NI and the border region of Ireland* [i.e. Cavan, Donegal, Leitrim, Louth, Monahan and Sligo]*"*.[89] The PEACE IV Programme (2014-20) focused on support for: shared education; children and young people; shared space and services; and building positive relations at a local level. A fifth programme – PEACE PLUS – will run to 2027, in line with the Withdrawal Agreement between the UK and the EU. The UK Government confirmed in September 2021 a contribution of around £730 million for PEACE PLUS up to 2027, this represents around 75 per cent of the total programme funding. The remainder will be provided by the EU, the Irish Government and the Executive.
- The objective of NI's **European Regional Development Fund (ERDF) Programme** for 2014-20 was to support economic development, with a focus on research and innovation, small and medium-sized enterprises (SMEs) and the low carbon economy. This involved grants for R&D, funding support for SMEs and funding for an electricity infrastructure project.

- The goal of the **European Social Fund (ESF) Programme** for NI (2014-20) was *"to combat poverty and enhance social inclusion by reducing economic inactivity, and increase the skills base of those currently in work and future potential participants in the workforce"*.[90] It supports a range of local projects for unemployed people, offering a range of services, courses and activities, including advice, guidance, support, practical training and qualifications.

The Institute for Government (IfG) estimates that the EU structural funds programmes (ERDF and ESF) were worth 280 euros per person in NI the 2014-20 round, compared to 130 in England, 180 in Scotland and 780 in Wales.[91] The UK Government plans to replace these with a UK Shared Prosperity Fund in April 2022, targeting *"places most at need"* and *"specific cohorts of people who face labour market barriers"*. Under the UK Internal Market Act 2020, this would be operated UK-wide. So *"devolved governments are expected to play a marginal role in allocation decisions within their own territories, even though the fund will spend money on matters that lie primarily within the responsibility of the devolved governments, such as transport, skills and economic development"*, according to the Institute.

[89] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/PEACE_IV_draft_1_Feb.sflb_.ashx_.pdf
[90] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/operational-programme-esf.pdf
[91] https://www.instituteforgovernment.org.uk/explainers/structural-funds

Chart 5.22 – EU funding by programme



Source: Department of Finance

Super- and sub-parity policies

As we have described in Chapters 2 and 4, when the NI Executive chooses to make an AME programme more generous than in the rest of the UK then the *"excess over that implied by adopting broadly similar terms for that programme (and therefore broadly comparable costs) must be met by the [Executive]."*.[92] This has been dubbed 'super-parity', and this term is also used to describe any policy which is more generous in NI than its equivalent in England.

Under the Treasury's *Statement of Funding Policy*, the Executive must also meet any 'repercussive' costs that its decisions impose on the UK Government or the other devolved administrations (either via direct payments or a lower Block Grant.)

There are many policy choices by the Executive that could be described as involving super-parity. Below we look briefly at some of the largest: lack of domestic water charges, rates reliefs, welfare mitigations, student fees, concessionary fares, prescription charges, and domiciliary care costs. As shown in Table 5.11, Departments estimate that these could be costing the Executive more than £600 million in 2021 (although they note that there is considerable uncertainty around some of the estimates). There are relatively few examples of 'sub-parity' policies less generous in NI than in England, but three we note below are childcare, apprenticeships and support for children's funerals.

[92] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf (para 7.4)

Table 5.11 – Estimated costs of selected super-parity measures in 2021

Measure	£ million
Domestic Water Charges	344.5
Rates relief (industrial derating only)	56.9
Welfare Reform mitigations	42.8
University Fees*	90.0
Concessionary Travel	29.2
Prescription Charges	20.0
Domiciliary care*	32.5
Total	**615.9**

Note: * = Upper estimate
Source: NICS departmental estimates

We intend to come back to these in our *Sustainability Reports*, to which they are very relevant. But it is important to emphasize it is for the Executive and Assembly to judge the merits of these policy choices against the cost to the public purse and alternative uses of the money. There is nothing wrong with divergence *per se*.

Domestic water charges

Water supply and sewerage is in the public sector in NI, delivered through the government-owned company NI Water. The company does not charge domestic customers for its services, unlike the private sector water suppliers in England, the not-for-profit supplier in Wales and the publicly-owned supplier in Scotland.

In lieu of charges, the Department for Infrastructure provides a budget to NI Water, of around £215 million for capital and £130 million for resource spending in 2021-22. This comes from the DEL spending envelope and might roughly approximate the cost to the Executive of choosing not to impose domestic water charges.

It is sometimes argued that water is charged for implicitly in NI through domestic rates, although formal hypothecation ended in the 1990s. This might lead one to expect that domestic rates bills would be higher in NI than elsewhere in the UK, reflecting the roughly £400 per household paid on average in water charges in the other regions. But figures from the Ulster University Economic Policy Centre suggest that domestic rates bills are actually lower in NI (Table 5.12).

Table 5.12 – NI domestic rates and GB Council Tax bills (2021-22)

	Average Council tax or Rates Bill	Water and sewage	Total household bill
NI	£1,036	£0	£1,036
England	£1,428	408.0	£1,836
Wales	£1,544	408.0	£1,952
Scotland	£1,198	383.0	£1,581

Source: UUEPC

We plan to explore the relative costs and models of charging for water in Northern Ireland and the rest of the UK in more detail in our *Sustainability Reports*.

Council Rates Support Grant and non-domestic reliefs

In its *2018-20 Budgetary Outlook*, the Department of Finance identified three 'super-parity' features of the rating system that might generate savings or extra revenue:

- The **Council Rates Support Grant** provides support to less well-off councils in providing key services. This is estimated to cost £22.3 million in 2021-22.

- A 70 per cent **Industrial De-rating** relief against business rates is available for over 4,000 manufacturing properties, at a cost of £56.9m in 2021-22. (Under EU state aid rules, which still apply in NI in this instance, this relief is permitted as it was introduced pre-accession. A reduced relief would also be permitted, but if removed entirely it could not be replaced.)

- **Small Business Rate Relief** provides rate relief to over 26,000 business with a Net Annual Value up to £15,000. It was introduced in 2010 as a temporary measure and cost £18.3 million in 2021-22. Small businesses elsewhere in the UK may qualify for similar (but typically less generous) forms of relief.

Welfare reform mitigations

When the UK Government began to implement a package of welfare reforms elsewhere in the UK in 2012 – including Universal Credit, the benefit cap and the 'bedroom tax' – lack of political consensus delayed implementation in NI.

Under the Fresh Start Agreement, the Executive agreed to proceed with the reforms, but with mitigation measures in place to ameliorate the impact of some of the measures on those most affected (on the basis, for example, that the bedroom tax would be more punitive in NI given the characteristics of its social housing stock). Following the Agreement and a consent motion in the Assembly, the UK Parliament legislated for the reforms, which were duly rolled out (albeit later than elsewhere).

Under the Fresh Start Agreement, the Executive agreed to spend £585 million from its DEL on these 'super-parity' mitigations over four years (Table 5.13). It also set up a working group to recommend how the money be spent. Its recommendations implied a different time profile and a lower cost of £501 million.

Table 5.13 – Expected and actual cost of welfare mitigations

									£ million
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Fresh Start Agreement	135	150	150	150					
Working Group	64	149	149	140					
Forecast					40.3	40.8	39.5	41	42
Outturns	**20**	**58**	**75**	**60**	**36.3**				

*Discretionary Support is excluded from this spend from 2020/21 onwards.
Source: Northern Ireland Audit Office and Department for Communities

The mitigation package mainly comprised Welfare Supplementary Payments, paid automatically to all eligible claimants. These came in two main types:

- Payments for **up to one year**, or while an appeal is ongoing, to offset loss of benefits from a move from Disability Living Allowance (DLA) to Personal Independence Payment (PIP) with tougher testing for capability to work.

- Payments for **up to four years** to ensure that claimants receive payments equivalent to what they would have received had the bedroom tax (the Social Sector Size Criteria) and the benefit cap not applied to them.

The package also included access to grants and loans through a Discretionary Support Scheme to help people on low incomes deal with a crisis situation, and a Universal Credit Contingency Fund. A further £8 million was set aside for advice services up to 31 March 2020. This increased the financial envelope to £509m.

The welfare mitigation schemes came to a statutory end on 31 March 2020 in accordance with the relevant legislation. But under the New Decade New Approach agreement they were extended, and payments are made under the sole authority of the relevant Budget Act pending the approval of new legislation by the Assembly. The Communities Minister currently intends to introduce statutory changes to the Social Sector Size Criteria and Benefit Cap elements in order to address issues with eligibility, but this will require new primary and subordinate legislation.

As shown in Table 5.13, the Department for Communities estimates that the cost of continuing the mitigations at around £41 million a year from 2021-22, with a further £2 million a year required for independent advice.

University tuition fees

As in other devolved administrations, university tuition fees in NI are capped significantly below their level in England. Specifically, NI students are charged £4,530 per annum for full-time, undergraduate degrees, compared to up to £9,000 per annum in England. The NI Department for Economy provides funding directly to NI universities from the DEL Block Grant to meet part of the cost, with the universities making up the rest. This means that the funding available to NI universities is lower than in England and the other devolved administrations (where the Governments make up more or all of the difference) with the potential to lower the quality and range of courses on offer. The Department for the Economy estimates that, relative to England, using 2019-20 figures, NI universities are underfunded, in aggregate, by approximately £16 million per annum.

Increasing tuition fees to a level similar to England's could raise £14 to £90 million per year, based on figures published by the Department of Finance in 2019. Getting students to pay more would allow the Executive to increase funding for universities and/or to reduce the subsidy it pays them from the DEL Block Grant. The range estimated here is clearly very wide, reflecting the large increase in loan write offs expected and lack of certainty as to whether this would be met by the UK Treasury or require the Executive to meet this from its own DEL.

Concessionary fares

Since 2008 the NI Concessionary Fares Scheme (NICFS) has offered free bus and rail travel to all NI residents aged 60 and above. In England, by contrast, the English National Concessionary Travel Scheme (ENCTS) offers free bus travel only to those who have attained the State Pension age (currently 66), although some English local authorities (notably London and Liverpool) have set a qualifying age of 60. In Scotland and Wales, the qualification age for concessionary travel is also 60 years old. (By way of contrast, NI only gives a half fare concession to people with a disability rather than full fare as is the case elsewhere.)

Ceasing new applications for the 60-64 SmartPass and linking the age of eligibility for the currently 65+ Senior SmartPass to the State Pension Age would bring the scheme into line with ENCTS and proposals for changes in Scotland and Wales. The Department for Infrastructure estimates that ending free transport on buses for

those aged between 60 and 65 would over time save approximately £9.5 million per annum. This would rise to approximately £13 million per annum if entitlement were linked to the state pension age, currently 67. Most areas in Great Britain only provide free transport on buses, whereas under the NI Scheme a concessionary fare can also be obtained on trains, which costs approximately £16 million per annum. The savings from changes to entitlement to concessionary fares are hard to estimate with precision as they depend on the behavioural response of those affected.

Prescription charges

Health Service prescriptions have been available to all NI patients at no charge since 2010. Charges have also been abolished in Scotland (since 2011) and Wales (since 2007), but they remain in place in England. In 2016, over 41 million prescription items were dispensed in community pharmacies in Northern Ireland with an ingredient cost of approximately £440 million before discount. The *2018-20 Budgetary Outlook* noted that the number of free prescriptions was rising by around 1 million a year and that the sustainability of the current policy would therefore need to be reconsidered.

The revenue raised from restoring prescription charges would depend on the final charging model, the amount charged per prescription, administration costs, and the number of people exempted (as is the case in England or subject to similar medical charges in the Republic of Ireland). Given these considerations, the Department of Health estimates that charges could raise up to £20 million a year[93]. Before they were dropped, prescription charges generated around £13 million in 2007[94].

Domiciliary care

Care for individuals at home is provided free of charge in NI and the total cost is around £300 million a year. Day care and the associated transport to and from the venue is also provided free of charge to users. By contrast, support for residential and nursing care is only available on a means-tested basis.

Charging for services is an accepted part of community care provision in England and Wales, including for domiciliary care. But there is significant variation in the charging regimes. People in Scotland aged over 65 can get free personal care if they have been assessed by their local authority as needing it. The Scottish Government is also considering removing charges for non-residential social care support.

Charging for a proportion of the costs of domiciliary care and day care (and the associated transport costs) could be introduced in NI, as could an increase in the charge levied by Trusts for community meals, as both are currently heavily subsidised. The potential revenue that could be raised by introducing a charge for domiciliary care on a means tested basis is estimated by the Department of Health to be between £17.8m and £32.5m annually depending on the amount charged.

Turning to sub-parity policies:

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[93] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Briefing%20on%20Northern%20Ireland%20Budgetary%20Outlook%202018-20v2.pdf

[94] http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2014/general/6114.pdf

Childcare

In England, 30 hours per week of free childcare is available for eligible working parents of three- and four-year-olds. Places can be provided by childminders, day nurseries, preschools or playgroups, schools and children's centres. The policy is designed in part to increase labour market participation and employment.

There is no equivalent provision in NI, even though the University of Ulster found that childcare costs in NI were the second highest amongst 24 European countries they reviewed[95]. Rather than subsidised childcare, parents of three- and four-year-olds in NI can apply for 12½ hours per week of free preschool education. This is only available over 2½ hours per day, 5 days a week, during term time. Preschool education can be provided by nursery schools, primary schools with nursery units, and some voluntary and private providers, but not by childminders.

The limited availability of this provision, and the inflexibility of the hours provided, means that it does less than the English scheme to enable parents to work. The New Decade New Approach agreement said that extending early education and care for children aged three to four should be a priority.

Apprenticeships

The UK-wide Apprenticeship Levy was announced by the UK Government in summer 2015. It applies to all employers in Northern Ireland as it does across the UK. Those with a pay bill of over £3 million (including government departments), contribute to the Levy. Northern Ireland then receives a Barnett consequential of apprenticeship expenditure in England, funded by the Apprenticeship Levy.

However, in Northern Ireland there is no scheme for businesses to bid back into Levy funds in the same way as in other regions. Although NI businesses pay into the scheme on the same basis as elsewhere, the sector is unable to access apprentices through government vouchers. Businesses in NI that pay the Levy, as well as business representative organisations, have described this lack of provision as inhibiting growth plans and diminishing productivity levels.

Child Funeral Fund

There are schemes in place in England, Scotland and Wales to reimburse local authorities who waive burial and cremation fees in the event of the death of a child. NI does not currently have similar provision in place, although some Councils have already voted to waive all or part of burial fees for under 18s. A Child Funeral Fund was part of the New Decade New Approach agreement, but it has not yet been implemented. The cost is anticipated to be around £800,000 annually.

[95] https://www.ulster.ac.uk/__data/assets/pdf_file/0011/797285/Competitiveness-Scorecard-for-NI.pdf

6 The Northern Ireland Budget process

The publication of the UK Government Spending Review on 27 October 2021 holds out the prospect of a return to multi-year budgeting by the NI Executive following seven successive years in which spending plans have been set year by year – either by the Executive or by the UK Government when the former was not meeting. If the power-sharing institutions continue to function, and the Assembly elections due in 2022 produce an Executive with broadly similar priorities, this should provide a relatively stable platform for longer-term planning and public service reform.

In this chapter we look at how the Budget process(es) in NI have operated in recent years and how they might be expected to operate in this new context.

Budget-making in recent years

There have been nine Budgets in NI since the Executive was restored in 2007 (Table 6.1). The first two spanned the same multi-year periods as UK Spending Reviews – the 2007 Review under Labour and the 2010 Review under the Coalition – with the Executive publishing both a Draft and Final Budget in each case.

Table 6.1 – Northern Ireland Budgets since 2007

	Set by	Draft Budget?	Consultation period (working days)	Programme for Government?
2008-09 2009-10 2010-11	Executive	Yes	48	Yes
2011-12 2012-13 2013-14 2014-15	Executive	Yes	43	Yes*
2015-16	Executive	Yes	38	
2016-17	Executive	No	-	No
2017-18	Secretary of State	No	-	No
2018-19	Secretary of State	No	-	No
2019-20	Secretary of State	No	-	No
2020-21	Executive	No	-	No
2021-22	Executive	Yes	28	Still in draft as of November 2021
2022-23 *2023-24* *2023-25*	*Executive*		*To be confirmed*	

Notes: Extended to 2015-16*
Source: Northern Ireland Audit Office plus Northern Ireland Fiscal Council

A single year Budget followed in 2015-16, mirroring the Coalition Government's decision to agree a single year Spending Review in the UK for the year of the 2015 general election. In the wake of the crisis around welfare reform implementation in

2014, the Executive agreed under the Fresh Start Agreement to present a single-year (balanced) budget for 2016-17, but did not attempt to agree a multi-year Budget to 2019-20 that would match the period covered by the Conservatives' 2015 Spending Review. (It also had no time to present a Draft Budget.)

With the collapse of the Assembly and the Executive in January 2017, the Budgets for the next three fiscal years were set year-by-year by the Secretary of State for NI and voted on by the UK Parliament. Once restored in January 2020, the Executive put in place a single year Budget for 2020-21 (again with no time for a Draft Budget), but this was soon being revised to reflect the Covid-19 response. Another single year Budget followed for 2021-22, this time with a Draft Budget too. In both cases, they mirrored single-year Spending Reviews in the UK, with the disruption from Brexit and then the pandemic precluding the setting of longer-term plans.

On 27 October 2021, the Chancellor set out a fresh three-year Spending Review for Whitehall departments through to 2024-25 and the Finance Minister has said that he intends to set a multi-year Budget for the same period.[96] On the usual timetable, described below, the Assembly is unlikely to have legislated for this Budget by the time it is dissolved ahead of the elections scheduled for May 2022. But the new Assembly and Executive is expected to pick up the process where it leaves off rather than restart the clock. Barring a dramatic change in the composition and priorities of the Executive, the spending plans in the forthcoming Budget could simply be revised at the beginning of the next fiscal year or in later 'Monitoring Rounds'.

The two multi-year NI Budgets through to 2014-15 were developed alongside agreed Programmes for Government (PfGs). However, neither these nor any other PfGs to date have been linked clearly to the Executive's Budget allocations. The Executive prepared another draft PfG following the May 2016 Assembly elections, but it had not been agreed by the time the institutions collapsed in January 2017. This draft PfG was based around 12 desired outcomes, with various indicators to judge progress against them. The NI Civil Service maintained the same objectives when they were in control, publishing an *Outcomes Delivery Plan* in 2018 and 2019.

Work on a PfG resumed in January 2020 following the publication of the New Decade New Approach agreement, but was paused in response to the Covid pandemic. A revised Framework of nine well-being Outcomes was agreed by the Executive in late 2020 as the first step in the development of a PfG. This was issued for public consultation in January 2021, closing in March 2021. The Outcomes Framework is yet to be finalised, as Ministers remain focussed on Covid-19 interventions during the remainder of the mandate. The incoming Executive will presumably agree its own PfG and it remains to be seen how closely this would resemble the current draft. One consistent message from stakeholders – and from the report on the Budget process published by the NI Audit Office in June 2021[97] – is that budget allocations need to be linked more clearly to PfG plans and targets. This is reflected in NDNA as a priority for the Executive.

[96] https://www.finance-ni.gov.uk/news/murphy-presses-chancellor-multi-year-budgeting
[97] https://www.niauditoffice.gov.uk/publications/northern-ireland-budget-process-0

It is hard to talk definitively about the Budget process over these eventful years, but one noteworthy feature is that there are actually four Budget processes that matter for NI running concurrently – within the executive and legislature, in NI and the UK:

- **Decision-making by the UK Government:** As we have seen, the Treasury's decisions on departmental spending at Spending Reviews are the key input to the Executive's Budget, as they largely determine its DEL block grant. The Treasury updates Spending Review plans at intervening fiscal events and the Executive adjusts its own plans in response. Within any given year, the Treasury keeps a close eye on the Executive's DEL spending through the year and has to decide whether to agree to any reserve claims. Once the year is over, the Executive reports provisional and final spending outturns to the Treasury. These determine its entitlement to Budget Exchange and feed into Treasury and Office for National Statistics data releases.
- **Decision-making and reporting by the NI Executive:** Once it has a reasonable idea how much income it can expect from the UK Government, residual EU funding and other smaller sources, when setting a Budget the Executive has to decide to what extent to supplement that with revenue from the Regional Rates and borrowing and then allocate the available resources across NI departments. Based on the operation of past multi-year Budgets, the initial allocations are likely to be reviewed ahead of each fiscal year and further modified at three 'Monitoring Rounds' within each year. Budget formation and the monitoring and modification of the resulting plans is led by the Department of Finance, but the requirement for agreement in a multi-party coalition means that it is typically less able to dictate outcomes than the Treasury in Whitehall spending rounds.
- **The legislative process in the UK Parliament:** Most of the Executive's income comes in grants from the UK Government. These are paid via the Northern Ireland Office in Whitehall and the UK Parliament has to vote 'supply' to the NIO (i.e. to approve its spending) through its Estimates process in the same way that it does for other UK Government departments. The NIO's accounts are also laid before the UK Parliament and may be the subject of scrutiny by the NI Affairs and Public Accounts Committees.
- **The legislative process in the NI Assembly:** The Finance Minister is required by law to present a Draft Budget to the Assembly before the end of the fiscal year covered by the existing Budget and to state that it can be financed consistent with the grant income that it has been allocated by the UK Government. In contrast to the UK process, but more in line with many other countries, the Executive develops both a Draft and Final Budget, with time for consultation and consideration between the two. One problem during the period of single year Budgets is that the UK Government has sometimes set DEL totals relatively late in the fiscal year and the Executive has taken a long time to agree the Draft Budget, eating into the consultation period. When the Executive modifies its spending allocations in-year, the Finance Minister provides the Assembly with a Written Ministerial Statement setting out the details of the changes. The Assembly has the opportunity to respond to the allocations but does not vote to approve them. As at Westminster, supply is voted to NI departments twice a year at

Main and Spring Estimates. NI departmental reports and accounts are laid before the Assembly and the NI Audit Office audits both these and the Public Income and Expenditure Accounts which show the flows of cash into and out of the NI Consolidated Fund during the fiscal year.

It is widely hoped that the return to multi-year budgeting will encourage the Executive and individual departments to think more long-term by providing greater predictability around their finances. But much of the formal process of setting and approving departmental spending plans will remain on an annual cycle. In the remainder of this chapter, we first describe the process for setting a Budget (single or multi-year) and then turn to the annual cycle of setting, amending and approving plans. Finally, we look at how forecasts for some elements of the Executive's spending and funding are incorporated in the forecasts for the UK public finances that are produced by the Office for Budget Responsibility at each UK fiscal event.

Setting an Executive Budget

The UK Government Spending Review

As we have seen in earlier chapters, the Executive's Budget focuses on spending by NI departments on public services and capital investment and this is very largely financed from the Block Grant it receives from the UK Government. This means that the first significant step in the Executive Budget process is actually taken by the UK Treasury, when it sets Departmental Expenditure Limits (DELs) for Whitehall departments and these determine the Executive's DEL via the operation of the Barnett formula. Year-to-year changes in DELs are determined relative to baselines set by the Treasury, excluding what it sees as one-off items from the previous year.

In addition to changes implied by the Barnett formula, the Spending Review DELs may also reflect 'non-Barnett additions' to the block grant for the likes of City deals and financial support packages for political agreements (as described in Chapter 4). But these are often agreed as a total sum over several years and the amounts allocated to any particular year are typically provisional and subject to revision.

As we saw in Chapter 4, the Executive's DEL is equal to its Block Grant, but the Executive can spend more than this in gross terms as income from fees and charges, income from the Regional Rates, EU funding, other income and capital borrowing are treated as negative DEL in the Treasury's control framework and PESA and therefore create additional headroom within the net DEL envelope.[98]

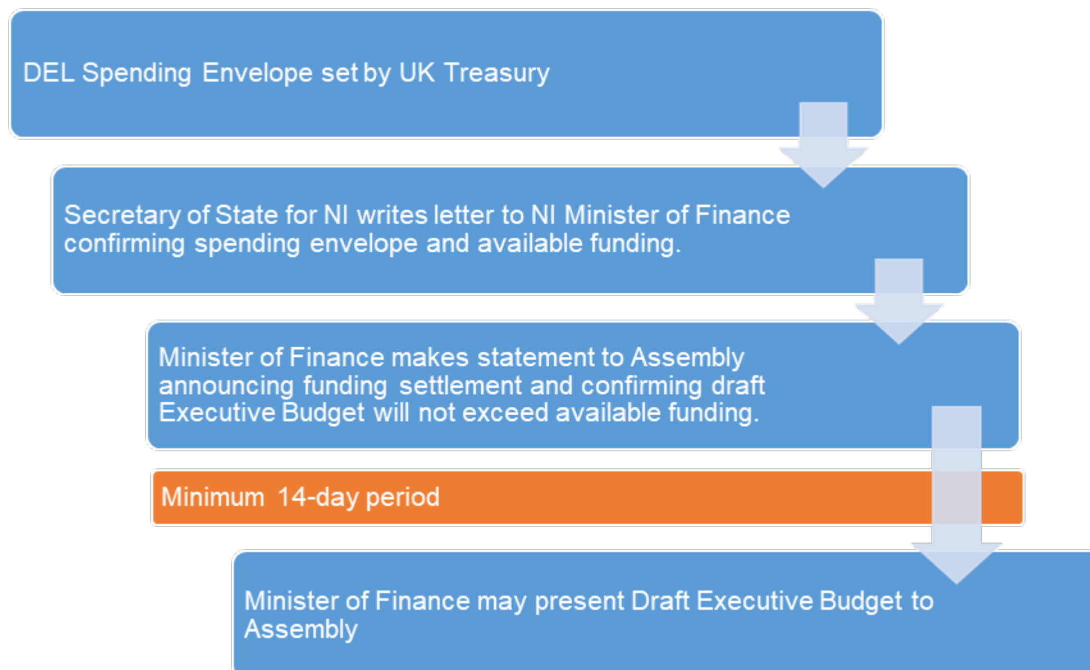
The October 2021 Spending Review has set DELs for the UK departments and the Executive for the three years from 2022-23 to 2024-55. As noted above, this follows two single year Spending Reviews for 2020-21 and 2021-22.

The setting of the Executive's DEL and Block Grant at the Spending Review or Round triggers a number of confirmatory steps:

[98] The treatment of the Executive's income is complicated and differs between Estimates, Budgets and National Accounts. The implementation of the Review of Financial Processes (the equivalent of the UK 'Clear Line of Sight' project) should align these various frameworks of presentation and reporting more closely.

- On the day of the Spending Review, the **Chief Secretary to the Treasury** confirms to the Secretary of State for Northern Ireland and to the Executive what the Executive's DEL Block Grant will be for the following year.
- A few days after the Review the **Secretary of State for NI** writes formally to the NI Finance Minister to confirm the same number. (In the case of the October 2021 Spending Review, the Secretary of State gave formal notification two days after the Chancellor's statement.)
- At least 14 days before publishing a Draft Budget, the **Finance Minister** lays a Statement before the Assembly again confirming this funding and undertaking – as required by the Northern Ireland (Stormont House Agreement and Implementation Plan) Act 2016 – that *"funding required by any draft Budget [will] not exceed the amount notified by the Secretary of State"*.[99] This requirement followed the 2014 welfare reform crisis, when the Executive published a Draft Budget document anticipating that the parties would be able to agree to implement a package of reforms such that the Treasury would not penalise it for failing to implement the UK package. The UK Government regarded this as an 'unbalanced' Budget and imposed penalties until the issue was resolved in the Fresh Start Agreement.

Figure 6.1 – Timeline from Spending Review to Draft Budget



The Draft and Final Budget

In the months leading up to the Spending Review, the Department of Finance begins preparing a Draft Budget, focusing on the allocation of funding for public services, administration and capital spending within DEL – rather than welfare and other

[99] https://www.legislation.gov.uk/ukpga/2016/13/enacted Section 9

Annually Managed Expenditure (AME). In doing so it asks each department to identify priorities, pressures and potential savings (typically up a specified percentage of its existing budget). Once the Treasury has confirmed the DEL block grant at the Review, the Finance Minister can put final proposals to the Executive for approval. Once approved, the Draft Budget is then presented to the Assembly and published.

The published Draft Budget document typically:

- Sets out the **economic context** for the Budget decisions (although the link between the NI economy and potential spending is very limited).
- Briefly describes the different **sources of funding** for the public services and capital spending within DEL – the block grant, other UK financial support, Regional Rates, EU grants, other income and capital borrowing.
- Outlines the **role and current priorities of each NI department**.
- Sets out the **resource and capital allocations** to each NI department and 'centrally held funding', for example interest payments and money held back for allocation through the year. (Regional Rates revenue and capital borrowing are in effect treated as negative spending here.)
- Explains how departments will assess the **equality** impact of the Budget. (Section 75 of the Northern Ireland Act 1998 requires public bodies to show due regard to the need to promote equality of opportunity between people of different religious beliefs, political opinions and other characteristics.)
- Presents **Annex tables** that reconcile total departmental allocations to the Treasury's RDEL and CDEL totals. There are also two tables showing expected AME spending, broken down by programme and department.[100]

Regrettably, none of the tables in recent Draft (or Final) Budget documents compare the latest plans to a consistent series of past outturns. In the 2021-22 Draft Budget document, the only comparison was between the draft resource DELs for each NI department and a baseline derived by *"taking the previous year's budget and adjusting it for certain [unspecified] factors including time-bound allocations"*.[101] The derivation of the departmental baselines essentially mimics what the Treasury does at the UK level.

Once the Draft Budget has been published, a formal public consultation begins with Finance asking for comments on the allocations, plans and priorities.[102] In the consultation on the 2021-22 Draft Budget, 177 formal responses were received, including from business groups, trade unions and voluntary organisations.

Judging from past experience, the statutory committees in the Assembly are likely to take evidence from their departments during the consultation period. The Chair of the Finance Committee also typically tables a 'take note debate' in the Assembly, which allows MLAs to air their views. In the past, the Finance Committee has

[100] Most recently https://www.finance-ni.gov.uk/publications/2021-22-draft-budget
[101] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Draft%20Budget%202021-22%2019.01.21.pdf paragraph 5.2
[102] https://www.finance-ni.gov.uk/consultations/budget-consultation

brought together the conclusions of the take note debate and the fruits of the committees' evidence sessions into a co-ordinated report on the Draft Budget.

Under the Northern Ireland Act 1998, the Executive was supposed to run a consultation period of at least 12 weeks (for all major policy proposals, not just the Budget), but this was reduced to 8 weeks in the Fresh Start Agreement.[103] The Act requires the Executive to present a Final Budget to the Assembly before the end of the last fiscal year covered by the existing Budget. So the length of the consultation period depends on the date of the Draft Budget and that in turn depends on: i) when the UK Government confirms the DEL block grant, ii) how long it takes Finance to finalise the proposed allocation between NI departments and iii) how long after that it takes the Executive to discuss and then agree the package. All are uncertain and make the Budget timeline both variable and unpredictable (Table 6.2).

Table 6.2 – Timing of Executive Budget milestones in recent years

	Days before publication of Final Budget				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
UK Spending Review	137	573	23	21	154
Ministerial Statement	0	0	13	16	148
Draft Budget	80	78	0	0	100

Source: Department of Finance

Notwithstanding the agreed minimum durations, consultation periods (when they happen at all) have been getting steadily shorter since 2007 (Table 5.1), to the frustration of MLAs and other stakeholders. The consultation on the 2021-22 Draft Budget opened on 18 January and responses were requested by 25 February, 28 working days later. The latest Spending Review has been announced relatively early, which bodes well, but it remains to be seen how quickly the Executive can act. Clearly, it is all the more desirable to have an adequate consultation period when spending plans for multiple years are being consulted on rather than a single year.

The Final Budget reflects changes prompted by the consultation and the impact of any changes in funding that result from the UK Government's Spring Budget or Statement, which may alter UK departmental settlements and thus affect the Executive's DEL via the Barnett formula. Once the Executive has agreed the Final Budget, Finance publishes a fresh document setting out the details. The main presentational difference from the Draft is that the Final Budget document breaks each departmental allocation down by 'spending area' or 'Units of Service'.

When the Final Budget is published, the Finance Minister makes written and oral statements to the Assembly and MLAs debate it.

[103] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479116/A_Fresh_Start_-_The_Stormont_Agreement_and_Implementation_Plan_-_Final_Version_20_Nov_2015_for_PDF.pdf (The text of the Fresh Start Agreement says that the time limits are maxima rather than minima, but this was unintentional.)

The annual Budget cycle

Main Estimates and the Budget Act

Whether the Final Budget covers a single year or multiple years, the vote at the end of the Assembly debate does not itself confer authority on NI departments to spend or commit resources in accordance with it. That requires separate Assembly approval year by year through the so-called Estimates process and associated Budget Acts. Under the former, departments put forward Estimates comprising one or more 'Requests for Resources' (RfRs) to the Assembly covering one financial year at a time. (These RfRs may also contain provision for cash and other funding to finance arms-length bodies through grants or loans.) There is one RFR per department (including the non-Ministerial departments) with the exception of four departments: the Department of Health, the Department of Justice, the Department of Education and the Department of Finance. These departments put forward a single additional RfR each, in respect of the pension schemes they manage. The first 'Main' Estimate of the fiscal year is usually published in June or July.

The net resources required by each department, the income they are authorised to retain ('accruing resources') and their net cash requirements at Main Estimates are reproduced in the Budget Bill/Act and together with the Estimates these provide the statutory authority for the expenditure and associated financing within the ambit of each department. Counter-intuitively, the first bill to authorise spending over a full fiscal year is the Budget (No. 2) Bill, which is usually taken through the Assembly before the summer recess and receives Royal Assent by the end of July. (In 2021 the bill was introduced on 7 June, reached its Final Stage on 22 June and received Royal Assent on 4 August.) Formally the Act once passed:

- **Authorises departments to draw down a specified cash sum** from the NI Consolidated Fund to cover spending over the remainder of the fiscal year;
- Appropriates that sum for the **specific purposes** set out in the RfRs. Each RfR sets out a number of functions being carried out by the department in pursuit of one or more of its stated objectives;
- Authorises the Department of Finance to **borrow** against that sum; and
- **Authorises departments' use of resources up to a specified sum** to cover expenditure of resources over the remainder of the fiscal year.

The Budget needs formal cross-community support in the Assembly, as described in Chapter 2. If it were not to get it, the Finance Minister would need to negotiate another Budget and the statutory process on a Budget Bill could not begin. But departments could continue to spend, thanks to the Vote on Account mechanism described below. Given that most parties in the Assembly are participants in the Executive that has agreed the Budget, Budget Bills are generally passed with ease.

The Vote on Account and striking the Regional Rate

The Assembly, like the UK Parliament, is unusual by the standards of other legislatures in considering its key pieces of budget legislation (the Budget Bill and Finance Bill respectively) once the fiscal year is already under way, rather than beforehand. This is only possible because of a 'Vote on Account', a legal mechanism by which the Assembly allows departments to spend some money in the first few

months of the coming fiscal year before the full Budget legislation is passed. The Vote generally authorises spending equal to 45 per cent of the allocation for each department for the previous year and the Budget (No. 2) Bill then tops this up for the full year (which is termed the 'balance to complete').

For example, in February 2020, the Finance Minister put a Motion:

> *"That this Assembly approves that a sum, not exceeding £7,962,895,000, be granted out of the Consolidated Fund, for or towards defraying the charges for the Northern Ireland Departments, the Food Standards Agency, the Northern Ireland Assembly Commission, the Northern Ireland Audit Office, the Northern Ireland Authority for Utility Regulation, the Northern Ireland Public Services Ombudsman, and the Public Prosecution Service for Northern Ireland for the year ending 31 March 2021."*

At around the same time that the Assembly considers its Vote on Account, the UK Parliament considers an equivalent one for UK departments, including the Northern Ireland Office. This ensures that there is formally money 'in' the NI Consolidated Fund that the Assembly can authorise NI departments to spend. As in the Assembly, the Vote on Account is 'topped up' at Main Estimates (usually in June).

To ensure that the NI Budget balances, as the NI (Stormont House Agreement and Implementation Plan) Act 2016 requires, legislation is also required to set (or 'strike') the poundage for the Regional Rate, consistent with the Final Budget. When the Executive and Assembly are functioning, the Department of Finance makes an Order to that effect for the Assembly to affirm by Resolution. This normally takes place in February for the following fiscal year, but it slipped into April for 2021-22 as a result of Covid-19 and the associated delay in agreeing a Final Budget.

In-year Monitoring Rounds

Once the Executive has agreed the Budget, the spending allocations contained within it are reviewed three times a year at 'In-year Monitoring Rounds' (IYMRs) – usually in June, October and January. The Department of Finance manages these according to *In-Year Monitoring Guidelines,* which it publishes annually. According to the latest *Guidelines*, the goal is *"to aid good financial management and ensure that resources are directed towards the Executive's highest priority areas"*. [104]

At each IYMR, the Department of Finance asks departments to:

- Surrender any **'reduced requirements'** for resources, for example as a result of unexpectedly strong receipts, unplanned asset sales, savings from new pay/price assumptions, a service being deliverable at lower cost than expected or a decision to cease or reduce a particular service or function.
- Identify **'departmental pressures'** that require extra resources, for example because of an income shortfall or an increase in the cost of providing a service that the department cannot meet from its own resources. In its 2021-22 *Guidelines*, Finance said it would only entertain bids to meet departmental pressures that *"clearly demonstrate the potential impact on the draft Programme for Government commitments"* and *"are*

[104] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/2020-21%20In-Year%20Monitoring%20Guidelines.pdf

consistent with departmental aims, objectives and priorities and contribute to the achievement of departmental targets"; and

- Propose the **reclassification of budget cover from one category of spending to another.** This may arise when a Minister wishes to transfer resources between administration and frontline services, for example. Any shifts between Resource and Capital DEL require Executive (and in some instances Treasury) approval[105].

- Say when they wish to **reallocate budget cover from one area of spend to another** within the department to manage their budget envelope. .

In deciding how to address proposals for increases, reductions and reallocations of departmental resources, the Department of Finance takes into account any increase or decrease in the total resources available for the Executive to spend (for example because of fresh grant support from the UK Government or changes in forecasts for other income sources like the Regional Rates). And in meeting departmental bids, it sometimes has scope to allocate funds that were held centrally rather than earmarked for a specific department in the original Budget (such as some recent Covid-19 funding). But centrally held funds have to be held for a broadly identified purpose, as the Executive does not in general permit the Minister for Finance to hold an all-purpose contingency reserve. In-year allocations to departments are treated as 'non-recurrent', in other words they are not included in the recipient department's baseline when the next Budget is drawn up.

Ahead of each IYMR, Assembly committees take evidence from their departments – much as they do between the Draft and Final Budget. Typically, each departmental finance director will brief the relevant committee on shifts in priorities, emerging pressures, areas of reduced spending need or capacity, and so on. Once completed, the Minister for Finance makes a detailed statement to the Assembly on the IYMR outcome, although it is not asked to approve the reallocations. (As noted above, Assembly spending approval is given through Estimates votes and the Budget Acts.)

By way of example, the Minister's statement on the June 2021 IYMR revealed that:

- The Executive was able to allocate an additional £240 million to **resource and conventional capital DEL**, compared to the Final Budget on 27 April 2021. This reflected: the Barnett consequentials of higher UK spending; stronger Regional Rates revenue and contributions from other centrally managed items; the fruits of the May 2021 'Covid Exercise' (which distributed the £114 million generated in relation to Covid-19 Barnett consequentials since the announcement of the Final Budget for 2021-22, as well as some further Covid allocations, to a total of £189.5 million Resource and £30.4 million Capital across 10 departments); and £44.1 million in reduced requirements by departments, almost half of which was accounted for by the delay in the Casement Park stadium in West Belfast, for which final planning permission was approved in July 2021,

- The £149 million available for allocation to **resource DEL** met less than half the £341.5 million in bids that were submitted by departments. As Chart 6.1

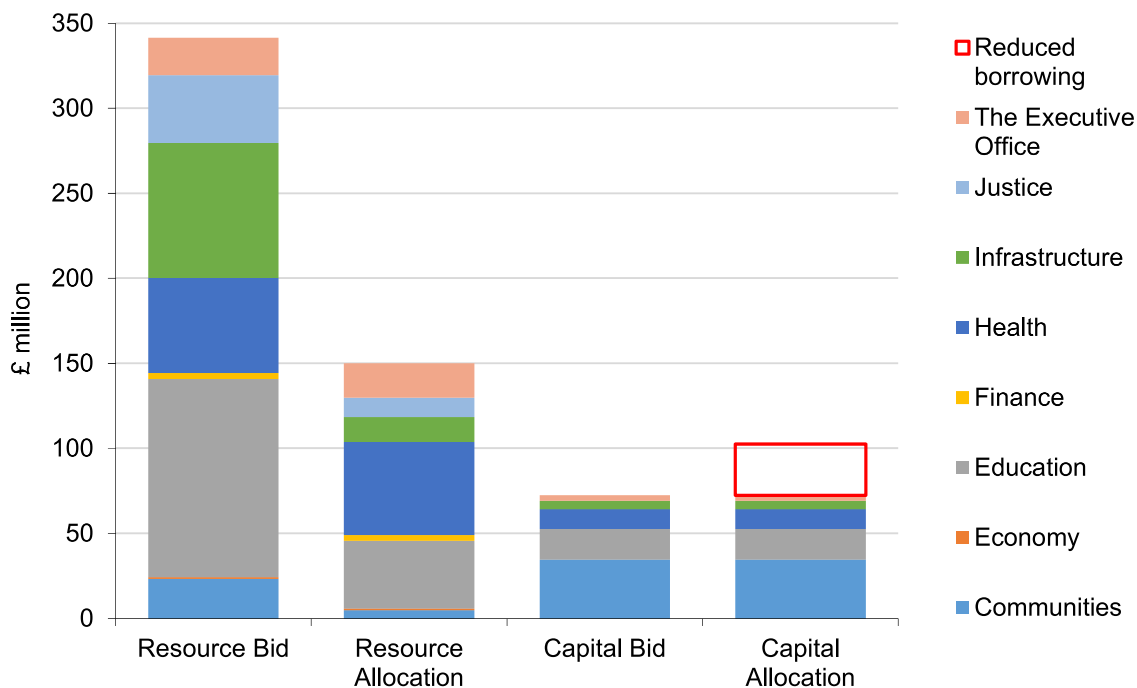
[105] The 2019-20 Budget, set by the NI Secretary of State, included a Capital to Resource switch of £130 million

shows, Education, Infrastructure and Justice all received significantly less than they asked for, while the requests from Health were almost fully met.

- The £91.0 million available for allocation to **conventional capital DEL** was more than sufficient to meet the £61.3 million that departments bid for, with Communities and Education taking the largest shares. The remaining resources were used to reduce capital borrowing by £30 million (giving a very small over-commitment of £300,000).

The Scottish Government publishes Budget Revisions and the Welsh Government publishes Supplementary Budgets twice a year. Both resemble Monitoring Round statements, but without detailing unsuccessful departmental bids in the same way.

Chart 6.1 – Total bids and allocations at the June 2021 MMR



Source: Department of Finance

If previous multi-year Budgets are anything to go by, the Department of Finance may run a fourth Monitoring Round at the end of the second and subsequent fiscal years of the multi-year period, presenting updated spending plans in a similar format to the Draft and Final Budget publications (e.g. with a discussion of economic context).

Provisional and Final Outturns

Alongside the outcome of the June Monitoring Round, the Department of Finance usually publishes the provisional spending outturn for the previous fiscal year. The scale of any underspend against the Final Budget determines the proportion of it that the Department of Finance can carry forward to the following (i.e. current) year under the Treasury's Budget Exchange scheme, described in Chapter 4.

In the case of the June 2021 statement, the provisional outturn showed eligible underspends of £85.7 million for resource DEL and £17.8 million for conventional capital DEL. Both were below the Budget Exchange limits and could therefore be carried forward fully. As usual (see Chart 4.10), the underspend for Financial

Transactions Capital was proportionately much larger at £55.6 million and only £29.2 million could be carried forward. The Minister noted that: *"This reflects the challenge associated with identifying suitable projects that can avail of this finance that can only be used for loans or equity investments in the private sector."*

The media and the Assembly tend to take an interest in the provisional outturn to the extent that the underspends revealed cannot be carried forward and must therefore *"be returned to the Treasury"*. The fact these excess underspends are lost entirely to NI rather than being reallocated across departments lends them a greater political salience than is typically the case at the UK level.

Final spending outturns are captured in late summer, following the auditing of departments' resource accounts. These are formally reported to the Treasury and to the Assembly Finance Committee. The provisional outturn data are used in the Treasury's *Public Expenditure Statistical Analysis* (PESA) publication, and this is restated as final outturn when that data becomes available for preceding years.

All being well, the audit process confirms that departments have spent only what was authorised in the relevant Budget Acts. But departments sometimes exceed their limits or spend on things that lie outside the ambit of their Requests for Resources, which is therefore *ultra vires*. If the NI Audit Office finds any irregular expenditure by the Executive (or if the UK National Audit Office finds any by the UK Government when the Executive is not meeting) the auditors make a report to the Public Accounts Committee, which may hold hearings and in turn produce its own report. Subsequently, the Assembly has the chance to debate the report and to authorise the overspend or unlawful spending retrospectively through an Excess Vote. In exceptional circumstances, this process can carry over more than a year.

When the Assembly dissolved on 26 January 2017, the usual process of considering and approving the 2016-17 Spring Supplementary Estimates through a Budget Bill could not take place. This led to nine breaches of the resource or cash totals provided for in the Main Estimates for the year ending 31 March 2017 (i.e. for most departments and pension schemes). The Assembly's Public Accounts Committee took evidence on these Excess Votes following the restoration of the Assembly and reported on them in 8 July 2020. Main Estimates in October 2020 was the first opportunity for the Assembly to consider the statement of excesses and vote to approve the authorisation of additional resources from the Consolidated Fund.

The UK Autumn fiscal event and Spring Supps

The UK Government's autumn fiscal event (usually in November or December, but October in 2021) in effect finalises the Executive's DEL block grant for the current fiscal year, via the Barnett consequentials of any in-year changes to UK DELs.

The Executive is able to reflect these in the January Monitoring Round, which in turn is reflected in the Spring Supplementary Estimates ('Spring Supps') published (usually) in February and the Budget Act taken through the Assembly (usually) in March. The January Monitoring Round also confirms how much Budget Exchange the Executive will draw down for the year. As noted above, the UK spring fiscal event (Budget or Statement) usually has a negligible impact on the Executive's funding in the very short amount of the fiscal year that remains, although this was not the case in the Covid-dominated March 2020 and 2021 Budgets.

As mentioned above, Votes on Account in the spring give the Assembly and the UK Government the authority to undertake some spending into the start of the next fiscal year. In the Assembly, the Vote on Account is typically debated and approved through the (on this occasion unnumbered) Budget Bill alongside Spring Supps. If this process were not completed, all expenditure other than what was approved at the Main Estimates would be irregular and therefore unlawful.

Covid-19 and the Barnett Guarantee

The scale and nature of the Covid-19 shock created significant challenges for public finance management both at the UK level and for the devolved administrations.

The pandemic has had two main fiscal consequences:

- First, public health restrictions and peoples' and employers' own caution with regards to social mixing **depressed economic activity and reduced tax receipts** below the levels that would otherwise have been expected. Given the relatively limited sums that the Executive raises in tax on its own account, and how it does so, the crystallisation of this fiscal risk has been almost entirely shouldered by the UK Government, which has in effect borrowed – partly on the Executive's behalf – to maintain existing public spending commitments in the face of this temporary loss of income.
- Second, **the UK Government and the devolved administrations have explicitly increased public spending and (to a lesser degree) reduced taxes** to tackle the direct impact of the pandemic (for example through higher health spending) and to help vulnerable individuals and businesses through what is again assumed to be a largely temporary loss of income (for example through the furlough scheme and business rates holidays. Under the operation of the Barnett formula, higher UK Government spending in most of these areas implies more spending power for the Executive, which is in effect financed by greater borrowing at the UK level.

The sums of money that the UK Government has had to borrow have been enormous, but fortunately at a time when it is relatively cheap for it and most governments worldwide to borrow. But the public finance challenge has not just been about the sums of money involved, but also the frequency with which the policy response has had to be updated and new spending commitments announced. This has required significant adaptation of the fiscal policy process at all levels.

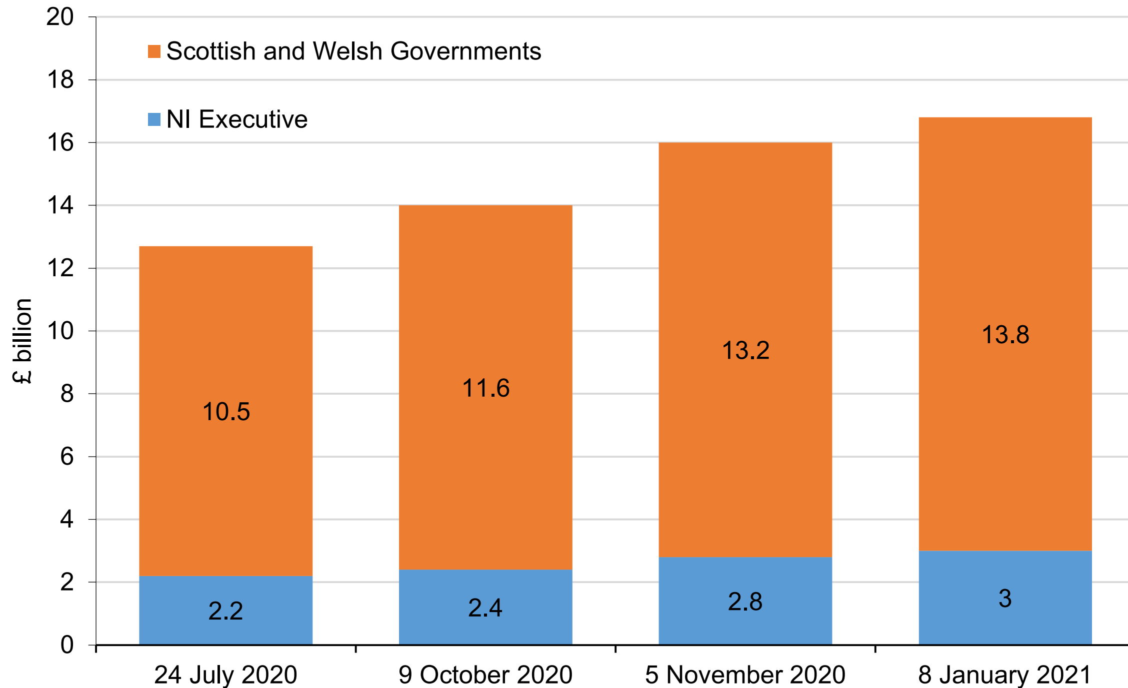
For the UK Government, the pandemic meant that in the year following the March 2020 Budget the Treasury in effect had 16 separate fiscal events up to and including the March 2021 Budget, rather than the two for the Budget process is designed.[106] For the devolved administrations, the challenge was that their spending needs were also changing rapidly but that Barnett consequentials are calculated and applied only at the two formal fiscal events each year (plus Spending Reviews if distinct).

In response, the UK Government agreed to offer a 'Barnett guarantee' to the devolved administrations of £12.7 billion on 24 July 2020, including £2.7 billion for the NI Executive. By guaranteeing a minimum level of Barnett consequentials, this allowed the administrations to anticipate future spending in England and fund their

[106] See Chart 1.8 in https://obr.uk/efo/economic-and-fiscal-outlook-march-2021/

Covid-19 response in parallel, rather than having to borrow or wait to receive an uncertain level of funding on the usual timetable. The guarantee was increased on three occasions through the later months of 2020 and eventually reached £16.8 billion, including £3 billion for the Executive (Chart 6.2).

Chart 6.2 – The Covid-19 Barnett Guarantee



Source: HM Treasury

As it turned out, the Barnett consequentials of England-only spending in 2020-21 exceeded the £3 billion guaranteed by the Treasury and no ex-post 'top-up' was required. At the UK Spring Supplementary Estimates in early 2021, the devolved administrations received £2.1 billion more in Barnett consequentials than they had been guaranteed in December 2020 (including £0.3 billion for the Executive). Due to the lateness of this funding announcement in the financial year, the administrations were allowed to move some or all of it into 2021-22 and all three chose to do so.

The devolved administrations have pressed the Treasury to make a Barnett Guarantee available again in 2021-22, but it has not done so to date.

OBR and NI Executive forecasts at UK fiscal events

At each UK Budget and Spring/Autumn Statement, the Office for Budget Responsibility publishes five-year-ahead forecasts for the UK public finances – incorporating (but not separately identifying) the finances of the Executive.

On the spending side, the OBR's forecasts incorporate firm DEL plans over the period for which the Treasury has set them, less the OBR's own forecast of the total level of net underspending. For later years the Treasury gives the OBR a provisional overall DEL envelope (which implicitly includes the Executive's DEL) but with no departmental breakdown. As regards demand-led AME spending, the OBR

commissions forecasts from the Executive for the component items of its AME spending based (where relevant) on the OBR's draft economic forecast. These include a forecast for total rates revenue, but the OBR uses the DEL plans for the gross spending financed by the central government share of these rates. The OBR is free to amend the forecasts that the Executive sends it when it publishes its own, but, where it includes the Executive's forecasts, it rarely adjusts them by much.

OBR forecasts go through a number of iterations ahead of each UK fiscal event to reflect new data and judgements and (in the final 'post-measures' round) the impact of the policy decisions that the UK Government intends to announce at the event. The Executive normally submits forecasts for two of the pre-measures rounds.

State pensions and social security benefits

State pensions and social security benefits are by far the largest component of the AME forecast that the Executive submits to the OBR. The NI Department of Communities provides a five-year ahead benefit-by-benefit forecast and officials attend 'challenge meetings' with the OBR and the Department for Work and Pensions to discuss them. These forecasts are based on the cost of the welfare system in NI as it would operate under parity with UK Government policy settings and thus exclude the cost of any 'super-parity' decisions (which have to be funded from its DEL). As we saw in Chapter 5, there are 'super-parity' costs for welfare in NI because of the mitigations the Executive agreed to finance when it decided (after some delay) to implement the UK welfare reforms announced in 2012.

Another consequence for forecasting of this episode is that there has been a delay in the introduction of welfare reforms in NI compared to elsewhere in the UK (as shown in Table 5.6). This has meant that the Department for Communities has not been able to rely on the Department for Work and Pensions to supply it with forecasts for the elements of welfare spending affected by these reforms, as it is able to do for more straightforward items like the state pension.

The social security forecasts are a forward-looking indicator of at least part of the Executive's finances, but their relevance to its high-level financial planning are limited as the UK Government adjusts the Executive's cash funding to reflect any divergence between forecast and outcome. That said, they do help the Department for Communities and the wider NI Civil Service identify pressures and trends affecting specific recipient groups and with implications for service delivery.

Other AME and receipts

As regards the other AME forecasts the Executive provided in October 2021:

- The Executive expects to borrow £140 million to finance capital spending under the **Reform and Reinvestment Initiative** in 2021-22 and it assumes borrowing of £200 million a year thereafter. (The OBR uses the plans in capital DEL that include the gross spending financed by this borrowing.)
- **Net Regional Rates revenue** was forecast at £367.5 million for 2021-22, after deductions and rebates, and assumed to remain at that level in future years. (Again, the OBR uses the spending plans in current DEL that include the gross spending financed by the central government's component of Regional Rates.)
- The AME envelope for the **Renewable Heat Incentive** scheme was expected to remain flat at £33.5 million a year.

- Forecasts for the **public service pension scheme payments and contributions** are prepared by the relevant NICS departments.
- **Student loans outlay and repayment** forecasts are prepared by the Department for the Economy.
- **Public corporations capital spending** forecasts are submitted by the NI Housing Executive, NI Transport Holding, NI Trust Ports and DVA (NI Water are treated as an NDPB of the Department for Infrastructure for budget purposes and therefore do not provide a separate forecast).

Transparency

The NI and UK Budget processes are necessarily intertwined and not surprisingly share common features, for example the distinction between the processes run within government (by the Treasury and Department of Finance) and the ways that these are reflected in reporting to and formal approval by the legislatures.

But there are differences too. Notwithstanding the frustrations that many stakeholders feel when trying to understand the NI Budget process, one key difference is that the NI Budget process is in significant ways more open and transparent than the UK one (and closer to other countries and what bodies like the Organisation for Economic Cooperation and Development might regards as best practice). Most obviously, the UK Government does not publish a Draft Budget, despite various half-hearted attempts over the years to make the other annual fiscal event more consultative in nature. The Treasury has never regarded the prospect of greater formal stakeholder engagement in the Budget process with much enthusiasm and it is striking that innovations like the creation of the OBR were not accompanied by the sort of 'opening up' of the Budget process that is typically recommended by bodies like the OECD.

The NI Budget process also casts more light on decision-making within government than the UK one, perhaps reflecting the greater autonomy and legal personality of departments. The UK Treasury would certainly never publish details of the spending bids that it receives from departments (and does not agree to) as the Department of Finance does at times when reporting on In-year Monitoring Rounds.

Annex A Key data and publications

Various official publications provide data and analysis regarding the NI public finances, most of which have been drawn upon in this guide. The most useful are listed below.

Office for National Statistics (ONS)

Country and Regional Public Sector Finances

An article and accompanying spreadsheets providing an estimate of the 'net fiscal balance' of each UK region (including the regions of England) for the previous fiscal year, with breakdowns of revenue and spending and supplementary tables showing the key metrics in per person terms. These data encompass all layers of government in each region, so the figures for the Executive cannot be viewed in isolation. But the spreadsheets do provide a relatively long historical run of data, back to 1999-00.

Published by the Office for National Statistics, usually in May
https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2020

HM Treasury

Statement of Funding Policy

First published in March 1999, HM Treasury's Statement of Funding Policy sets out the policies and procedures that underpin the UK Government's funding of the devolved administrations, describing the elements of that funding (including the operation of the Barnett formula) and the interactions with the funding the administrations raise themselves. Typically published alongside the autumn fiscal event, it usefully highlights where arrangements differ across the three devolved regions. The Treasury describes the Statement as being *"the subject of consultation between HM Treasury and the devolved administrations"*.

Published by HM Treasury, usually alongside the autumn fiscal event in November
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf

Block Grant Transparency

This publication and accompanying spreadsheet, published annually since 2017, provides a detailed breakdown of the devolved administrations' block grant funding, for example showing the impact of changes to baselines, Barnett consequentials and non-Barnett additions. It was first produced in response to calls for greater transparency around the calculation of the block grant from the House of Commons Procedure Committee. The 2021 edition provides information for the

years covered by the 2015 Spending Review, the 2019 Spending Round and the 2020 Spending Review, including changes up to Main Estimates 2021-22.

Published annually by HM Treasury, usually in June to reflect March Budget decisions
https://www.gov.uk/government/publications/block-grant-transparency-june-2021

Public Expenditure Statistical Analyses (PESA)

PESA is the Treasury's most comprehensive presentation of public spending data for the UK, covering central government (which includes the devolved administrations), local government and public corporations. The data is presented in accordance with the Treasury's control aggregates (DEL and AME for departments, including breakdowns by economic category – such as pay, procurement and grants) and under the 'expenditure on services' framework (which includes breakdowns by the OECD's Classification of the Functions of Government (COFOG)). The data is also split by government sector and country and region – including NI. The data are presented for financial years, mostly for the recent five years but sometimes for the latest year or a longer historical run.

Published by HM Treasury, usually in July.
https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa

Country and Regional Analysis

An article and accompanying spreadsheet documenting 'identifiable' public expenditure in NI, Scotland, Wales and the English regions over the latest five fiscal years. (Identifiable spending is that of specific benefit to the residents of a particular region and which is usually undertaken in that region.) The data is broken down into current and capital spending and into the main headings defined under the OECD's Classification of the Functions of Government (COFOG).

Published by the HM Treasury, usually in November
https://www.gov.uk/government/collections/country-and-regional-analysis

NI Department of Finance

NI Draft and Final Budgets

The Executive's flagship Budget documents typically describe the economic context for the Budget, the different sources of funding, the role and current priorities of each department, and the resource and capital allocations to each department (with the Final Budget going into greater detail). Annex tables reconcile total departmental allocations to the Treasury's controls totals and provide forecasts for expected AME spending, broken down by programme and department. Alas the Budget documents do not shown the plans alongside comparable outturn data..

Published by NI Department of Finance, before the fiscal year(s) covered begin
https://www.finance-ni.gov.uk/topics/finance/budget-plans

In-year monitoring guidance and statements

Three times a year the Department of Finance revisits the allocations of DEL spending by department set out in the Budget to reflect changes in the overall financial situation of the Executive (for example due to changes in UK Government funding) and changes in the needs of departments. The Department of Finance publishes details of the outcome of each round, including both successful and unsuccessful departmental bids for additional resources, and also an annual guidance note explaining the process. The June In-Year Monitoring Statement also includes provisional spending outturns for the previous fiscal year, which determine the Executive's access to Budget Exchange carry-forwards.

Published by NI Department of Finance, usually in June, October and January (statements) and April (guidance)
https://www.finance-ni.gov.uk/publications/year-monitoring-publications

Estimates publications

The Department of Finance publishes Main and Spring Estimates, which set out spending plans for each of the NI departments in slightly greater detail than the Budget. These form the basis for the Assembly's authorisation of the funding and resources necessary to cover them that is provided in the Budget Acts. Before the start of the financial year, the Department includes a Vote on Account in its 'Spring Supps' legislation. This Vote on Account provides that for the incoming year departments can spend up to 45 per cent of their last year's expenditure. Then, through the course of the financial year, the Department publishes the Main Estimates, and towards the end of the financial year, Spring Supplementary Estimates (with the Vote on Account for the next year).

Published by NI Department of Finance, usually in June (Main) and February (Spring Estimates and Vote on Account).
https://www.finance-ni.gov.uk/publications/estimates-publications

NI Public Income and Expenditure Accounts

Annual accounts on a cash basis for the money flowing into and out of the NI Consolidated Fund (NICF), for the year-end to March and audited by the NI Audit Office. The NICF is in effect the Executive's current account, managed by the Department of Finance and held at Danske Bank. The largest inflow is grant income from the UK Government and the largest outflow is 'supply' to departments (i.e. funds that the Assembly has voted approval for departments to spend).

Published by NI Department of Finance, usually in the September after the financial year-end
https://www.finance-ni.gov.uk/publications/public-income-and-expenditure-accounts

The Office for Budget Responsibility (OBR)

Economic and fiscal outlook

Twice a year the OBR publishes an *Economic and fiscal outlook* to coincide with the UK Budget and the Spring/Autumn Statement (either of which may or may not coincide with a 'Spending Review'. The EFO contains five-year-ahead forecasts for the UK public finances, including (but not separately identifying) the Executive and

other devolved administrations, as well as local councils and public corporations. The EFO does include specific forecasts for domestic and non-domestic rates in NI.

Published by the Office for Budget Responsibility, usually in March and November
https://obr.uk/efo/economic-and-fiscal-outlook-march-2021/

Northern Ireland Office (NIO)

Annual Report and Accounts

In addition to the report and audited accounts for the NIO itself, these include an unaudited 'regulatory reporting' annex that explains the calculation of the cash grant paid to the NI Consolidated Fund to cover DEL and AME spending. The Statement of Parliamentary Supply tables also compare the grant voted to the Executive (via the NIO) by the UK Parliament with the amount drawn down.

Published by the Northern Ireland Office, usually in the June after the financial year-end
https://www.gov.uk/government/publications/northern-ireland-office-annual-report-and-accounts-2020-21

Annex B Supplementary tables

The tables in this Annex contain further information to explain how we have derived our presentations of gross spending shown in Chapter 5.

The tables are presented in three sections:

- the first section includes a high-level overview table that shows how we have derived both total gross DEL spending for all the NI departments – as shown in Charts 5.8 to 5.17 – and how we have further derived total gross spending in our analysis of 'money in' and 'money out' – as shown in Tables 5.1 to 5.3;
- the second section shows how we have derived total gross DEL spending for each individual department – as shown in Charts 5.8 to 5.17; and
- the third section shows how we have derived gross spending and receipts in our analysis of 'money in' and 'money out' – as shown in Tables 5.1 to 5.3 - based on our analyses of the data underlying each of the Treasury's totals for RDEL, CDEL, and current and capital AME, as published in PESA 2021.

All these tables begin with the Treasury's totals for DEL, or DEL and AME, where these totals are **net** of receipts. Then we derive gross spending by **removing the receipts.**

The tables in the third section also bring in receipts data from Block Grant Transparency 2021, and they introduce implied funding flows to provide the remaining UK Government funding that is required to finance gross spending in AME, after allowing for the other receipts and after removing non-cash spending.

High-level overview of our derivations of gross spending

The following table shows how we have derived total gross DEL spending for departments – as shown in Chart 5.6. The figures derived here are for all departments. The split by department as shown in each chart is derived in the following section.

The derivation of total gross DEL spending for all departments starts with total RDEL and CDEL for the NI Executive, as shown in PESA tables 1.3 and 1.8, and then derives gross DEL spending by removing the receipts contained in RDEL and CDEL. More details about those receipts are given in the third section of this Annex below, which splits RDEL and CDEL into gross spending and receipts, and then explains the detailed makeup of those receipts.

In order to derive total gross spending in our analyses of 'money in' and 'money out', we start with the total gross spending for all departments, as shown in the following table, and then we:

- remove depreciation in RDEL (because this is non-cash spending, and we want to measure money in and money out on a cash basis, or a basis close to cash)
- add in departmental AME spending, both current (RAME) and capital (CAME)
- remove receipts included in RAME and CAME

- remove non-cash spending included in RAME and CAME
- and remove spending financed by RRI borrowing that is included in CAME. This avoids double-counting with the same spending included in CDEL, as explained in notes 2 and 5 in the table below.

Reconciliation of Treasury totals for DEL with total gross spending by the NI Executive

					£ million
	2016-17	2017-18	2018-19	2019-20	2020-21
Treasury totals for NI Executive DELs:					
Resource DEL (RDEL, including depreciation)[1]	10,475	10,625	11,006	11,945	15,527
Capital DEL (CDEL)[1]	1,005	1,148	1,297	1,346	1,718
Total NI Executive DEL	**11,481**	**11,773**	**12,303**	**13,291**	**17,244**
To derive total gross DEL spending for each department *we additionally:*					
Remove receipts included in RDEL	1,727	1,771	1,861	1,902	1,133
Remove receipts included in CDEL [2]	508	300	318	310	274
Gives:					
Total NI Executive gross DEL spending, as shown in the charts in Chapter 5	**13,716**	**13,845**	**14,483**	**15,503**	**18,651**
To derive gross spending in our analysis of 'money in' and 'money out' *we additionally:*					
Remove depreciation included in RDEL	-590	-547	-525	-584	-642
Include NI Executive departmental resource AME (RAME)[1]	8,253	8,872	9,753	9,471	10,965
Include NI Executive departmental capital AME (CAME)[1]	498	318	374	340	280
Remove receipts included in RAME	136	147	154	178	158
Remove receipts included in CAME [3]	30	36	50	93	46
Remove non-cash spending included in RAME [4]	-2,166	-2,665	-3,311	-3,020	-3,982
Remove RRI spending included in CAME [5]	-214	-34	-67	-10	0
Remove other general capital spending included in CAME [6]	-3	3	5	1	-1
Gives:					
'Money out' gross spending by the NI Executive	**19,660**	**19,976**	**20,916**	**21,971**	**25,475**

1 DEL and Departmental AME, as published in PESA Tables 1.3, and 1.8.

2 The CDEL receipts include income from borrowing under the Reinvestment and Reform Initiative (RRI), which finances additional spending on RRI in CDEL.

3 The receipts in departmental CAME are mainly repayments of financial transactions (student loans and social security

4 For simplicity, we have removed all items in departmental RAME that are not included in total managed expenditure. This removes all non-cash spending, and any other items not recognised as spending in the National Accounts.

5 Departmental CAME includes gross spending financed from borrowing under RRI. But this is also included in DEL - see note 2 above. And since we have removed the RRI borrowing receipts in DEL, we need to remove the RRI gross spending in AME to prevent double counting.

6 This is largely non-cash, or items not recognised as spending in the National Accounts.

Source: data underlying PESA 2021.

Derivation of gross DEL spending for individual departments

The following table shows the derivation of total gross DEL spending for each individual department, as shown in Charts 5.8 to 5.17. This derivation for each department follows the methodology shown in the overview table above: for each department, total gross DEL spending is derived as RDEL (including depreciation) plus CDEL, less RDEL receipts and less CDEL receipts. The totals for all departments plus 'Other' match the totals in the

overview table. The content of 'Other' is explained below. The DEL receipts are explained in the following section.

The table shows that the totals for NIE DELs are made up from departments' DELs, plus 'Other', where 'Other' contains the following:

- In RDEL, 'Other' contains interest payments on RRI borrowing, less receipts of Regional Rates, which are netted off within RDEL;
- In CDEL, 'Other' contains receipts of RRI borrowing, which are netted off within CDEL;
- In removing the RDEL receipts, 'Other' removes the regional rate receipts;
- And in removing the CDEL receipts, 'Other' removes the RRI borrowing receipts
- Which leaves 'Other' in total gross DEL spending, which just contains the interest payments on the RRI borrowing.

Derivation of gross DELs for individual departments

	2016-17	2017-18	2018-19	2019-20	£ million 2020-21
RDEL (including depreciation)					
DAERA	199	184	213	230	598
Education	1,956	1,978	2,036	2,144	2,464
Justice	1,103	1,083	1,089	1,149	1,204
Communities	787	805	835	803	1,101
Economy	1,041	951	913	1,212	1,521
Infrastructure	478	490	509	506	799
Finance	166	183	180	202	587
Health	5,103	5,328	5,645	6,139	7,321
Minor departments	92	86	86	91	99
The Executive Office	78	76	73	74	97
Total NIE departments	11,003	11,164	11,578	12,550	15,790
Other	-528	-540	-571	-605	-264
Total NIE RDEL (PESA Table 1.3)	**10,475**	**10,625**	**11,006**	**11,945**	**15,527**
Plus CDEL					
DAERA	39	39	64	81	86
Education	197	171	173	166	163
Justice	57	57	88	76	72
Communities	134	117	159	159	230
Economy	80	58	47	78	87
Infrastructure	413	423	519	504	587
Finance	34	31	36	29	17
Health	243	222	262	220	355
Minor departments	3	1	1	2	2
The Executive Office	17	62	14	41	120
Total NIE departments	1,219	1,182	1,364	1,356	1,718
Other	-214	-34	-67	-10	0
Total NIE CDEL (PESA Table 1.8)	**1,005**	**1,148**	**1,297**	**1,346**	**1,718**
Less RDEL receipts					
DAERA	357	374	364	358	62
Education	27	30	30	31	20
Justice	60	63	66	72	62
Communities	121	127	133	127	116
Economy	142	159	179	173	114
Infrastructure	121	125	128	128	98
Finance	131	117	136	138	143
Health	160	155	162	172	173
Minor departments	17	18	17	16	17
The Executive Office	8	8	20	30	17
Total NIE departments	1,142	1,176	1,236	1,246	822
Other	585	595	625	656	312
Total NIE RDEL receipts	**1,727**	**1,771**	**1,861**	**1,902**	**1,133**
Less CDEL receipts					
DAERA	17	23	34	24	29
Education	3	2	1	3	4
Justice	1	3	3	2	1
Communities	110	105	100	89	71
Economy	23	27	53	57	57
Infrastructure	106	95	45	97	71
Finance	2	4	0	0	8
Health	13	7	9	23	26
Minor departments	0	0	0	0	0
The Executive Office	19	1	7	7	7
Total NIE departments	294	267	252	300	274
Other	214	34	67	10	0
Total NIE CDEL receipts	**508**	**300**	**318**	**310**	**274**
Gives gross DEL spending:					
DAERA	611	620	675	693	776
Education	2,183	2,181	2,240	2,344	2,651
Justice	1,222	1,206	1,246	1,300	1,339
Communities	1,154	1,154	1,227	1,178	1,517
Economy	1,286	1,195	1,192	1,520	1,779
Infrastructure	1,118	1,133	1,200	1,235	1,554
Finance	333	335	352	368	755
Health	5,519	5,712	6,078	6,554	7,875
Minor departments	112	106	104	110	118
The Executive Office	121	148	114	150	240
Total NIE departments	13,658	13,789	14,429	15,452	18,603
Other	57	56	54	51	48
Total NIE gross DEL spending	**13,716**	**13,845**	**14,483**	**15,503**	**18,651**

Derivation of gross spending and receipts in our analysis of ‘money in’ and ‘money out’

Our analyses of ‘money in’ and ‘money out’ are shown in Tables 5.1 to 5.3. Those tables have been built up as follows:

- Table 5.1 derives total ‘money in’ and ‘money out’ by adding together the ‘money in’ and ‘money out’ components of Tables 5.2 and 5.3, where Table 5.2 covers current money in and out, and Table 5.3 covers capital money in and out;
- Table 5.2 derives current money in and out by adding together the ‘money in’ and ‘money out’ components of RDEL and RAME, as shown in the first two sets of tables below; and
- Table 5.3 derives capital money in and out by adding together the ‘money in’ and ‘money out’ components of CDEL and CAME, as shown in the following sets of tables below.

The tables below cover the split of data within the Treasury totals for RDEL, RAME, CDEL and CAME. All these totals are measured on a net basis, net of certain receipts. These receipts:

- either finance the spending directly, as with EU receipts or RRI borrowing;
- and/or the receipts are netted off because they are treated as negative spending in the National Accounts (eg income from fees and charges, or sales of assets).

The tables below come in pairs, with two tables for each DEL or AME total, where:

- the first table splits the net total between gross spending and receipts, and
- and the second table presents the gross spending as ‘money out’, and shows the accompanying ‘money in’, which consists of:
    - the receipts from the first table
    - plus either block grant for the net DEL total, or funding from the UK Government for the residual AME total, where net AME spending is fully funded by the UK Government, as explained in Chapter 4.

For the AME spending, the first table also splits the gross spending into:

- spending included in Total Managed Expenditure (TME) in the National Accounts
- ‘non-cash’ spending, which for simplicity we have defined as spending not included in TME. Almost all of this is non-cash spending, i.e. spending included in resource accounting and budgeting that requires budget cover from the UK Government, but which does not need to be financed by cash grants (i.e. ‘money in’).

We then only include the TME spending in AME gross spending in the second table.

Given that we have derived the gross AME spending as cash spending (or ‘near-cash’ spending, since spending in TME is measured on an accrued basis), then the remaining UK

Government funding, which we derive by residual as implied funding, should also be a cash grant. However, as we discuss in Chapter 5, we are aware that the total that we derive in Table 5.1 for Block Grant plus the implied UK Government funding (for the residual AME 'money in' as described here) does not match the total cash grant from the UK Government to the NI Consolidated Fund. For instance for 2019-20, the total for Block Grant plus implied UK Government funding is £19.5 billion, which is almost £3.5 billion more than the £16.1 billion UK Government cash grant to the NI Consolidated Fund.

This difference suggests that there may be further financing items that we haven't identified yet, or some further non-cash spending that we should be removing, all possibly related to the accounting treatment of arms-length bodies. We therefore plan to return to this analysis in future, to investigate the reasons for this difference in the overall cash funding.

Tables showing the analyses of RDEL and RAME, which are the building blocks for Table 5.2

Table 5.2 is constructed by adding together the results for 'money out' and 'money in' shown in the second table below, for each of RDEL and RAME.

PESA data for NI Executive RDEL excluding depreciation, and UK Government Block Grant

	2016-17	2017-18	2018-19	2019-20	£ million 2020-21
NI Executive RDEL (excluding depreciation)	**9,885**	**10,078**	**10,481**	**11,361**	**14,884**
Of which:					
Gross spending:					
Public services and administration	11,555	11,794	12,289	13,211	15,970
Debt interest on RRI borrowing	57	56	54	51	48
Less receipts netted off within RDEL:					
Income from fees and charges	-731	-734	-757	-763	-690
Regional rates	-585	-595	-625	-656	-312
EU funding	-323	-354	-392	-401	-53
Other income	-89	-88	-88	-82	-79
Where the RDEL net spending above is financed by					
Block Grant from the UK Government	**9,885**	**10,078**	**10,481**	**11,361**	**14,884**

RDEL (excl depreciation): spending and financing by the NI Executive

	2016-17	2017-18	2018-19	2019-20	£ million 2020-21
'Money out':					
Public services and administration	11,555	11,794	12,289	13,211	15,970
Debt interest on RRI borrowing	57	56	54	51	48
Total gross spending in RDEL (excl depreciation)	**11,612**	**11,850**	**12,342**	**13,262**	**16,018**
Financed by 'money in':					
Block grant (RDEL excluding depreciation)	-9,885	-10,078	-10,481	-11,361	-14,884
Income from fees and charges	-731	-734	-757	-763	-690
Regional rates	-585	-595	-625	-656	-312
EU funding	-323	-354	-392	-401	-53
Other income	-89	-88	-88	-82	-79
Total income financing RDEL (excl depreciation)	**-11,612**	**-11,850**	**-12,342**	**-13,262**	**-16,018**

Source: Data published in Block Grant Transparency (BGT) 2021 and data underlying PESA 2021. The BGT data for 2020-21 were published before PESA and show final plans, whereas PESA shows provisional outturn. So we have included a timing adjustment to reconcile the BGT data to PESA.

PESA data for NI Executive Departmental Resource AME (RAME) net spending

	2016-17	2017-18	2018-19	2019-20	£ million 2020-21
NI Executive Departmental RAME	**8,253**	**8,872**	**9,753**	**9,471**	**10,965**
Of which:					
Gross spending:					
Included in total managed expenditure (TME): [1]					
State pension and social security benefits	5,756	5,823	6,058	6,389	6,921
Net public service pensions	322	391	411	151	88
Renewable Heat Incentive Scheme and other non-discretionary spending	39	29	23	3	19
Depreciation	370	256	181	244	384
Other non-cash departmental AME	1,797	2,410	3,130	2,776	3,598
Less receipts netted off within Departmental RAME:					
Student loan interest receipts	-30	-35	-50	-93	-45
Other income	0	-1	-1	0	0

Departmental RAME (TME): spending and financing by the NI Executive

	2016-17	2017-18	2018-19	2019-20	£ million 2020-21
'Money out':					
State pension and social security benefits	5,756	5,823	6,058	6,389	6,921
Net public service pensions	322	391	411	151	88
Renewable Heat Incentive Scheme and other non-discretionary spending	39	29	23	3	19
Total gross spending in Departmental RAME (TME) [1]	**6,117**	**6,243**	**6,492**	**6,544**	**7,029**
Financed by 'money in':					
UK Government funding [2]	-6,087	-6,207	-6,442	-6,450	-6,983
Student loan interest receipts	-30	-35	-50	-93	-45
Other income	0	-1	-1	0	0
Total income	**-6,117**	**-6,243**	**-6,492**	**-6,544**	**-7,029**

1 This measure of Departmental RAME gross spending in TME excludes depreciation and other non-cash spending. It also excludes any other items not included in spending as measured in the National Accounts.

2 Implied UK Government funding for spending from Departmental RAME that is included in TME.

Source: data underlying PESA 2021.

Tables showing the analyses of CDEL and CAME, which are the building blocks for Table 5.3

Table 5.2 is constructed by adding together the results for 'money out' and 'money in' shown in the second table below, for each of CDEL (general capital), CDEL (financial transactions), and CAME (financial transactions).

We have not included any 'money out' and 'money in' for CAME (general capital) because the gross spending in this CAME control total is largely non-cash, after we have removed the capital AME spending financed by RRI borrowing (because this capital spending is already included in gross spending in CDEL).

PESA data for NI Executive CDEL (conventional capital)

	2016-17	2017-18	2018-19	2019-20	£ million 2020-21
NI Executive CDEL (conventional capital)	**1,043**	**1,166**	**1,363**	**1,390**	**1,627**
Of which:					
Gross spending:					
Capital grants	406	399	473	497	577
Spending on capital assets (purchases and additions)	1,051	979	1,116	1,105	1,230
Less receipts netted off within CDEL:					
Reinvestment and Reform Initiative borrowing	-214	-34	-67	-10	0
EU funding	-17	-35	-48	-43	-35
Capital grants from the private sector	-115	-89	-53	-100	-88
Income from fees and charges (R&D)	-17	-19	-19	-7	-11
Sales of capital assets	-37	-23	-33	-23	-26
Other capital income	-15	-13	-8	-30	-20
Where the CDEL net spending above is financed by					
Block Grant from the UK Government	**1,043**	**1,166**	**1,363**	**1,390**	**1,627**

CDEL (conventional capital): spending and financing by the NI Executive

	2016-17	2017-18	2018-19	2019-20	£ million 2020-21
'Money out':					
Capital grants	406	399	473	497	577
Spending on capital assets (purchases and additions)	1,051	979	1,116	1,105	1,230
Total gross spending in CDEL (conventional capital)	**1,457**	**1,378**	**1,589**	**1,602**	**1,807**
Financed by 'money in':					
Block grant (CDEL conventional capital)	-1,043	-1,166	-1,363	-1,390	-1,627
Reinvestment and Reform Initiative borrowing	-214	-34	-67	-10	0
EU funding	-17	-35	-48	-43	-35
Capital grants from the private sector	-115	-89	-53	-100	-88
Income from fees and charges (R&D)	-17	-19	-19	-7	-11
Sales of capital assets	-37	-23	-33	-23	-26
Other capital income	-15	-13	-8	-30	-20
Total income	**-1,457**	**-1,378**	**-1,589**	**-1,602**	**-1,807**

Source: Data published in Block Grant Transparency (BGT) 2021 and data underlying PESA 2021. The BGT data for 2020-21 were published before PESA and show final plans, whereas PESA shows provisional outturn. So we have included a timing adjustment to reconcile the BGT data to PESA.

PESA data for NI Executive CDEL (financial transactions)

£ million	2016-17	2017-18	2018-19	2019-20	2020-21
NI Executive CDEL (financial transactions)	**-37**	**-18**	**-65**	**-44**	**91**
Of which:					
Gross spending:					
Loans to the private sector	49	66	21	54	174
Loans to public corporations and other central government bodies	6	4	6	0	10
Less receipts netted off within CDEL:					
Repayments of loans from the private sector	-24	-22	-33	-41	-51
Repayments of loans and equity withdrawals from public corporations and other central government bodies	-69	-66	-59	-57	-42
Where the CDEL net spending above is financed by					
Block Grant from the UK Government	**-37**	**-18**	**-65**	**-44**	**91**

CDEL (financial transactions): spending and financing by the NI Executive

£ million	2016-17	2017-18	2018-19	2019-20	2020-21
'Money out':					
Loans to the private sector	49	66	21	54	174
Loans to public corporations and other central government bodies	6	4	6	0	10
Total gross spending	**56**	**70**	**26**	**54**	**184**
Financed by 'money in':					
Block grant (CDEL financial transactions, net funding from UK Government)	37	18	65	44	-91
Repayments of loans from the private sector	-24	-22	-33	-41	-51
Repayments of loans and equity withdrawals from public corporations and other central government bodies	-69	-66	-59	-57	-42
Total income	**-56**	**-70**	**-26**	**-54**	**-184**

Source: Data published in Block Grant Transparency (BGT) 2021 and data underlying PESA 2021. The BGT data for 2020-21 were published before PESA and show final plans, whereas PESA shows provisional outturn. So we have included a timing adjustment to reconcile the BGT data to PESA.

PESA data for NI Executive Departmental Capital AME (CAME) financial transactions

					£ million
	2016-17	2017-18	2018-19	2019-20	2020-21
NI Executive Departmental CAME (financial transactions)	**281**	**289**	**315**	**344**	**287**
Of which:					
Gross spending:					
Student loans	361	381	404	443	403
Social security loans	56	54	62	66	35
Less receipts netted off within CAME financial transactions:					
Repayments of student loans	-81	-90	-93	-107	-119
Repayments of socal security loans	-56	-57	-59	-58	-32

Departmental CAME (financial transactions): spending and financing by the NI Executive

					£ million
	2016-17	2017-18	2018-19	2019-20	2020-21
'Money out':					
Student loans	361	381	404	443	403
Social security loans	56	54	62	66	35
Total gross spending	**418**	**435**	**466**	**509**	**438**
Financed by 'money in':					
UK Government funding [1]	-281	-289	-315	-344	-287
Repayments of student loans	-81	-90	-93	-107	-119
Repayments of socal security loans	-56	-57	-59	-58	-32
Total income	**-418**	**-435**	**-466**	**-509**	**-438**

[1] Implied UK Government funding

Source: data underlying PESA 2021.

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