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Public Finance Scrutiny Unit

Forthcoming Executive Draft Budget 2017-18: Assembly Consideration

This Briefing Paper aims to facilitate the Assembly in fulfilling its roles and responsibilities in relation to the forthcoming Executive Draft Budget 2017-18. Despite the current limited availability of departmental information and data, the Paper provides context and potential issues for Assembly consideration *via* its Members and statutory committees.

Introduction

On 28 September 2016, the Department of Finance (DoF) provided oral evidence to the Committee for Finance (CfF) in respect of the Executive's 2016 budget process, advising that:¹

- There will not be a formal Draft Budget stage for 2017-18;
- There is insufficient time to conduct a Draft Budget stage, with full consultation after the Chancellor's Autumn Statement;
- The DoF is keen to receive statutory committee views before the Draft Budget proposals are produced and presented to the Executive;
- The DoF presumes each statutory committee will engage with its respective department, to consider the department's service delivery plans and related anticipated costs, including the impact of inflation, pay and price increases; and,
- The DoF recognises that such engagement will be at the discretion of each departmental minister; but it could include consideration of the relevant department's competing priorities and how it would cope if reductions were made to its budgets.

With the above in mind, and the limited information and data currently available to the Assembly, this Briefing Paper aims to support Assembly Members and statutory committees (committees) in fulfilling their roles and responsibilities in relation to the Executive Draft Budget 2017-18² (the Draft Budget). The Paper is intended to facilitate both Members and committees when they seek to inform and or scrutinise Executive planning and decision-making relating to the Draft Budget.

The Paper is presented as follows:

1. **Background Information** – It defines terminology and highlighting central aspects of the financial arrangements under prevailing devolution, all key to the Draft Budget;
2. **Key Recent Governmental Developments** – These developments may impact on the Draft Budget;
3. **Northern Ireland 'Funding Envelope'** - It explains how allocations for Northern Ireland (NI) for the 2017-18 financial year were set at the 2015 Spending Review. They are expected to be impacted by the Chancellor's 2016 Autumn Statement, resulting in new allocations for NI – i.e. a revised 'funding envelope' for NI from the UK Government. This will impact on the Draft Budget;³ and,
4. **Potential Issues for Consideration** – The identified issues are intended to support the Assembly in fulfilling its roles and responsibilities in relation to the Draft Budget, despite current information and data challenges.

¹Official Report [28 September 2016](#), accessed 17 October 2016

² At the present time since no Budget has been produced the PFSU assumes that this will be the title of the Draft Budget.

³ Official Report Wednesday 28 September 2016 available online at:

<http://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=19179&evidID=10767>, accessed on 21 October 2016

1. Background Information

Given the technical nature of budgeting, this section first defines key public expenditure terms. It then highlights those aspects of the financial arrangements under current devolution that impact on Executive budgeting.

1.1 Key Public Expenditure Terms

The public expenditure terms outlined below in **Box 1** are central to understanding departmental budgeting in NI:

Box 1: Key Public Expenditure Terms

There are two types of public expenditure:

1. **Capital expenditure**, which is allocated to purchase, build or enhance an asset. For example, an extension to a school, or new road gritters; and,
2. **Resource/Current expenditure**, which is allocated to pay for day-to-day expenses and running costs. For example, teachers' salaries, or road salt.

Both capital and resource expenditure are further sub-divided into:

1. **Departmental Expenditure Limits (DELs)** - spending which can be controlled by departments, and for which firm multi-year departmental budgets are set. For example, for trimming hedgerows or providing training schemes for apprentices; and,
2. **Annually Managed Expenditure (AME)** - expenditure that is volatile, demand-led, and is not controllable on a short-term basis. For example, welfare payments.

1.2 Executive Budgeting

This sub-section highlights the following key financial arrangements under current devolution, which impact on Executive budgeting:

- 1.2.1 UK Spending Reviews and the NI Block Grant;
- 1.2.2 Legal Bases for the Executive's Budget;
- 1.2.3 Executive Budget Process and,
- 1.2.4 Available Funding Sources for the Executive Budget.

1.2.1 UK Spending Reviews and the NI Block Grant

Given the UK's devolution arrangements, Executive budgeting is significantly impacted by 'Spending Reviews' (SRs). The UK Government uses SRs for medium-term

expenditure planning, making expenditure allocations for Whitehall departments for a number of years ahead.

These allocations then have a 'knock on' effect for the Executive's budget, in that they increase or decrease the amount of money that the Executive receives from the UK Government in the form of the 'Block Grant', as determined by the Barnett formula.⁴ This Grant is made up of DELs only and may be increased or decreased by further in-year allocations. It currently is the largest funding source available to the Executive for its budget, i.e. around 94% of it. (For further information on the Block Grant, refer to sub-section 1.2.4 below).

Autumn Statement

Each year, the UK Government publishes two economic forecasts; the first is the Chancellor's Budget in the spring, and the second is his/her 'Autumn Statement'. Spending announcements are often made at both these 'fiscal events'.

1.2.2 Legal Bases for the Executive's Budget

The Executive's 2016 Budget process will allocate funding in respect of 2017-18 Resource DEL, and 2017-18 to 2020-21 relating to Capital DEL.

Section 64(1) of the *Northern Ireland Act 1998* (as amended) states:

*The Minister of Finance and Personnel shall, before the beginning of each financial year, lay before the Assembly a draft budget, that is to say, a programme of expenditure proposals for that year which has been agreed by the Executive Committee in accordance with paragraph 20 of Strand One of the Belfast Agreement.*⁵

Following the *Fresh Start Agreement* in November 2015, Section 64 was amended by the *Northern Ireland (Stormont Agreement and Implementation Plan) Act 2016*.⁶ It inserted a new section - 64(1B) – which states that the Minister of Finance must lay a further statement alongside the Draft Executive Budget, showing that the amount of UK funding required by the Draft Budget will not exceed the amount available and set out in the first statement.⁷ In other words, the Executive must propose a 'balanced budget'.

In addition, Paragraph 20 of Strand One of the *Belfast/Good Friday Agreement* states:

The Executive Committee will seek to agree each year, and review as necessary, a programme incorporating an agreed budget linked to policies

⁴ See Briefing Paper produced by RalSe Public Finance Scrutiny Unit NIAR 911-11, dated 16 January 2012, for more detail about the operation of the Barnett formula available online at: http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2012/finance_personnel/0412.pdf accessed on 19 October 2016.

⁵<http://www.legislation.gov.uk/ukpga/1998/47/section/64>

⁶<http://www.legislation.gov.uk/ukpga/2016/13/section/9>

⁷Explanatory Notes <http://www.legislation.gov.uk/ukpga/2016/13/notes/division/6/index.htm> (see paragraph 30)

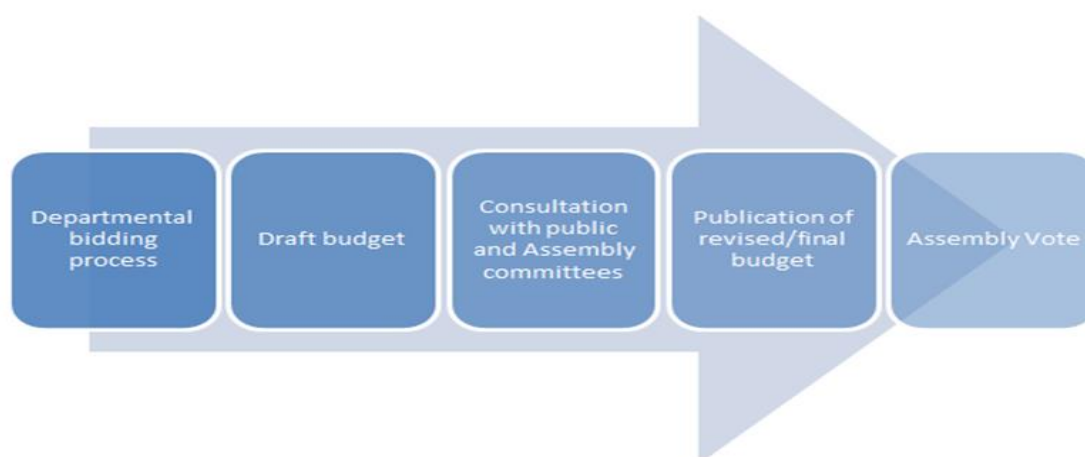
*and programmes, subject to approval by the Assembly, after scrutiny in Assembly Committees, on a cross-community basis.*⁸

The current budget expires on 31 March 2017, therefore a new Executive Budget is required from that point. Usually, the publication of a Draft Budget is the means through which the Executive commences this process, dividing its available resources amongst the various ministerial and non-ministerial departments. (See **Figure 1** below, which illustrates the process that was undertaken for the 2008-11 Budget and the 2011-15 Budget).

1.2.3 Executive Budget Process

Figure 1 depicts the budget process followed by the Executive in 2007 and 2010:

Figure 1: Budget Process 2007 and 2010⁹



However, this process was not followed by the Executive in 2015 for its Budget 2016-17. At present, the Executive is not following this process for its Budget 2017-18, which is explained below in sub-section 3.4 of this Paper.

1.2.4 Available Funding Sources for the Executive Budget

The funding sources available to the Executive under current devolution arrangements include:

- (i) Block Grant;
- (ii) Borrowing;
- (iii) Rates Revenue; and,

⁸https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/136652/agreement.pdf

⁹Figure compiled by PFSU using information taken from: Committee for Finance and Personnel (2008): *Report on the Executive's Draft Budget 2008-2011*: http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_12.07.08R.htm#appendix6

(iv) European Funding.

Collectively these sources fund the Executive's Budget, which then is allocated to ministerial and non-ministerial departments. Each funding source is explained in the following paragraphs.

Block Grant

The Block Grant is the funding provided by central government to devolved administrations. Through SRs (explained earlier) the UK Government determines the Block for multi-year periods, with spending limits fixed for each year within the period, and limits on the level of funding carried forward from year to year. The current Block covers 2016-17 to 2019-20.

Simply stated, the size of the Block Grant is determined using the Barnett formula. It is a population-based funding allocation mechanism based on changes in planned spending on 'comparable programmes' in government services in England, England and Wales or Great Britain (GB), as appropriate. These then are adjusted for relative populations. The changes are called "Barnett consequentials"; and may be positive or negative, increasing or reducing the block, for both Capital and Resource.

Borrowing

Additional Budget finance is available through borrowing. The Executive's borrowing powers – general and temporary - are provided in legislation and the Reinvestment and Reform Initiative (RRI). The Executive can borrow up to £200m per year to fund capital projects and infrastructure.

The Executive has borrowing powers under section 1 of the *Northern Ireland (Loans) Act 1975* (the 1975 Act). Sub-section 2 of the 1975 Act sets an overall limit on borrowing at £2 billion (bn). The *Northern Ireland (Miscellaneous Provisions) Act 2006* extended this borrowing limit to £3bn.

Two further things to note about borrowing are explained below:

- *RRI Borrowing*

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

It appears RRI does not have a statutory basis. However, the DoF advises that borrowing under this initiative is covered implicitly by the 1975 Act and the *Northern Ireland Miscellaneous Provisions Act 2006*.¹⁰

The allocations made to the Executive by the Treasury *via* RRI borrowing are recorded as AME. They therefore are not included in the Executive's DEL. However, interest payments are recorded as DEL.

The Executive has set aside £58.5m in 2016-17 for interest charges on RRI borrowing.¹¹ This £58.5m is resource DEL, so it reduces the total amount of this expenditure available for allocation to departments in 2016-17.

- *Non-RRI Borrowing*

In addition to RRI borrowing, the Executive can use borrowing powers under section 61 of the *Northern Ireland Act 1998* (the 1998 Act) as follows:

(1) The Secretary of State may advance to the Department of Finance and Personnel sums required for the purpose of—

(a) meeting a temporary excess of sums to be paid out of the Consolidated Fund of Northern Ireland over sums paid into the Fund; or

(b) providing a working balance in the Fund.¹²

Rates Revenue

Regional Rates are collected from households and businesses in NI. They are determined by the Executive and generate additional resources to support its delivery of public services. This revenue is unhypothecated, meaning the Executive can use it to fund any project.

For 2016-17 the Executive increased both Domestic and Non-domestic Rates in line with inflation. It also proposed a continuation of rates reliefs, e.g. the Small Business Rates Relief Scheme.

European Funding

EU funding is distributed by the Executive *via* departments. To date such funding has played a significant role for NI. For example, it received over £1bn in EU Structural Funds between 2002 and 2012 through programmes such as the NI Rural

¹⁰ E-mail correspondence from DFP. Received by RaISe on 11 January 2014.

¹¹ Letter from DoF to CfF dated 22 September 2016.

¹² HM Treasury (2015) Statement of Funding Policy Page 36 available online at: https://www.gov.uk/government/uploads/.../statement_of_funding_2015_print.pdf accessed on 21 October 2016

Development Programme, the European Regional Development Programme, the European Social Fund and the European Fisheries Fund Programme.

However, such EU funding must be 'matched' in accordance with applicable EU rules. Those rules require the NI department, which acts as the paying agency, to allocate an amount from its budget. This is the 'match rate' requirement. The amount is dependent on the specific EU funding concerned.

In addition, where applicable, the department may 'match' fund using external private sources.

Hence, while securing EU funding can increase the Executive's overall spending power, it also can impact on how the Executive uses the Block Grant. If use of such receipts and expenditure contravenes EU requirements, then the department concerned may have to return the EU funding to Brussels.

2 Key Recent Developments

There have been a number of developments impacting on the Draft Budget, including:

- 2.1 Transferred Functions necessitating Restructured Baselines;
- 2.2 A new Chancellor's Autumn Statement following the EU Referendum;
- 2.3 A new Executive and its anticipated Programme for Government; and,
- 2.4 Executive Budget 2017-18 Timetable.

2.1 Transferred Functions necessitating Restructured Baselines

In May 2016, the number of NI government departments reduced from 12 to 9. The change required the Executive to allocate each new department a budget. A previous RaISe Paper, entitled *Restructuring Northern Ireland Departments: Machinery of Government Changes*,¹³ explained Treasury rules governing such reorganisation.

For the purposes of this Paper, given this reorganisation in NI, those Treasury rules require that the spending power of the transferring and the receiving departments are not affected, i.e. no department should be left better or worse off as a result of the function transfer.

The new departmental budgets reflecting the function transfers were agreed in advance of the Executive Budget 2016-17.¹⁴

¹³RaISe (2016) [Restructuring Northern Ireland Departments: Machinery of Government Changes](#), accessed 17 October 2016

¹⁴ DoF (2016) Letter to Cif, dated 18 October 2016

2.2 2016 Autumn Statement

On 25 July 2016 the new Chancellor indicated that he may use the 2016 Autumn Statement to 'reset' the UK's public finances, if an economic downturn followed the European Union Referendum.

The 2016 Autumn Statement is scheduled to occur on 23 November 2016.¹⁵ And while its impact on the Executive's Block Grant (its 'funding envelope') remains to be seen, in September 2016 the DoF noted that the prospect of a fiscal adjustment introduces '*significant public expenditure uncertainties*'.¹⁶ It may change, increasing or decreasing the main funding source available to the Executive for its Budget.¹⁷

There is plenty of speculation about what the Chancellor may do. One thing that many commentators do agree on is that the UK Government's economic policy is likely to shift from a focus on monetary policy to fiscal stimulus.¹⁸ If this happens, it may result in a boost to the Executive's Capital DEL. But if the UK Government funds additional expenditure by further cutting Resource DEL, this could result in extra cuts to that expenditure category in the (NI) Block Grant. Combined with rising inflation,¹⁹ this could be a 'double whammy' on the Executive's available resources.

2.3 A new Executive and its anticipated Programme for Government

In May 2016, Assembly elections resulted in a new Executive, which announced that the new Executive Budget will include linkages to the forthcoming 'Programme for Government' (PfG). To date there is no information from the Executive as to what form this will take. (Sub-section 4.8 below outlines a number of potential issues for Assembly consideration around this development.)

2.4 Executive Budget 2017-18 Timetable

To date the DoF has put forward three timetables relating to the Executive Budget 2017-18:

2.4.1 Timetable 1

The first was provided to the CfF on 8 June 2016 and is provided below in **Table 1**:

¹⁵<https://www.gov.uk/government/topical-events/autumn-statement-2016>

¹⁶Letter from the DoF to the CfF dated 5 September 2016, reference CFP/018/16-21.

¹⁷For more information on the NI Block Grant as it stands, see previous RaiSe Paper NIAR 249-16, dated 23 September 2016 RaiSe (2016) [Budget 2016: Background Briefing for the Committee for Education](#), accessed 10 October 2016, see section 2.

¹⁸*The Telegraph*, 8 October 2016 [Winners or losers on the end of Autumn's fiscal boost](#)

¹⁹*The Telegraph*, 17 October 2016 Economic Week Ahead, BUSINESS; Pg. 7

Table 1: Budget 2016 Timetable dated June 2016²⁰

Key Action	Date
Guidance issued to departments (with baseline prints)	July 2016
Departments provide details of any structural changes	End July 2016
Restructured Baseline prints issued to Departments	Mid August 2016
Departmental Budget returns due	End August
Ministerial Statement to Assembly on HMT Budget Controls ('Fresh Start' Agreement commitment)	Mid September
Draft Budget Paper to Executive	End September 2016
Draft Budget to Assembly	Early October 2016
Budget Consultation closes (8 weeks)	Late November
Budget Document Laid in Assembly	Early January 2017
Assembly Debate & Vote	Early January 2017

2.4.2 Timetable 2

However, there has been a number of significant changes to the timetable for reasons, including the Chancellor's Autumn Statement announcements.

As a result, the Draft Budget consultation period now is happening **before** the final details of the 'funding envelope' (what will be the Block Grant) are known, and therefore prior to the publication of the Draft Budget. This is illustrated in the revised timetable produced and provided by the DoF to the CfF on 21 September 2016, as shown below at **Table 2**:

²⁰Presentation by the DoF to the CfF, 8 June 2016

Table 2: Budget 2016 Timetable dated September 2016²¹

Action	Date
Initial Departmental Analysis Returns due to DoF	10 October
DoF Engagement with Departments	10 October – 31 October
Finalised Departmental Analysis with DoF	31 October
Committee Input Received	31 October
Pre-Consultation with key stakeholders	November
UK Chancellor's Autumn Statement	23 November
Budget Paper to Executive	Early December
Statement to Assembly on Overall Budget Envelope	Early December
Budget Presented to Assembly	Late December/Early January

2.4.3 Timetable 3

Table 3 below provides details of the DoF's proposed timetable for Assembly consideration stages for the 2017-18 Executive Budget. It also compares the current indicative timetable with the actual 2016-17 timetable:

Table 3: Assembly consideration stages for 2016-17 Budget, when compared with indicative stages for 2017-18 Budget

Key Steps	2016-17 Budget	2017-18 Budget (Indicative)
Written Assembly Statement	17 December 2015	19 December 2016
Budget document laid	13 January 2016	9 January 2017
Assembly debate and vote	19 January 2016	31 January 2017

3. Northern Ireland 'Funding Envelope'

This section provides details of the current funding allocations for NI for the 2017-18 financial year. Those allocations are significant in terms of the Draft Budget in that they were set by the then UK Government at the 2015 SR, and they will be impacted – to a lesser or greater extent - by the new Chancellor's November 2016 Autumn Statement. The anticipated new allocation figures following the Chancellor's Statement will significantly determine the amount of money available to the Executive for its

²¹ Letter from Minister to Chairperson of the CfF, dated 21 September 2016 Reference: SUB-1188-2016

Budget, i.e. its 'funding envelope' from the UK Government – see sub-section 1.2.4 above.

With this in mind, it is important to note that on 25 November 2015, the Chancellor presented the results of the 2015 SR, which provided details of the UK Government's spending plans for the 2016-21 period.²² Subsequent to the 2015 SR, the Chancellor's March 2016 Budget triggered 'Barnett consequentials' for NI.²³ These are detailed in **Table 1** and illustrated in **Figures 2 and 3** in the following pages. Data for 2015-16 are shown as the baseline year for the purposes of comparison.

The Executive initially had planned to produce its Budget in a manner that reflected the UK Government's 2015 SR timescales. In August 2016 however, the Finance Minister wrote to his Ministerial colleagues, outlining his intention to present a one-year Resource DEL budget and a four-year Capital DEL budget.²⁴ He stated that this was due to:

*....a number of significant public expenditure variables that would have the potential to destabilise a multi-year Resource DEL Budget. These include the British Government's adjustments of its fiscal targets following the EU referendum, their approach to Corporation Tax and the potential £3.5 billion of Public Expenditure cuts outlined by the previous Chancellor.*²⁵

The Minister's rationale was apparently based on the fact that – as noted earlier - the current allocations for NI for the 2017-18 financial year will be amended by the Chancellor's November 2016 Autumn Statement.²⁶

Later, on 28 September 2016, in evidence to the CfF, the DoF suggested that committee engagement with departments should take place **prior** to the announcement of the Autumn Statement. This is prior to the Draft Budget's publication. The DoF suggested that Members could utilise the current funding envelope announced at SR 2015, i.e. before the expected amendments explained above.²⁷

3. Given that the revised 'funding envelope' will be unknown until after the Chancellor's Autumn Statement, committees may wish to ask departments to provide information and data regarding the scenario planning they are undertaking for the 2017-18 financial year.

²²SR 2015 documents are available online at: <https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

²³For further information on Barnett consequentials, refer to RaiSe January 2012 paper [04/12](#)

²⁴<http://aims.niassembly.gov.uk/questions/printquestionssummary.aspx?docid=271655>

²⁵<http://aims.niassembly.gov.uk/questions/printquestionssummary.aspx?docid=271655>

²⁶<http://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=19179&evidID=10767>

²⁷<http://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=19179&evidID=10767>

3.1 Current allocations for NI for the 2017-18 financial year

For the Assembly's ease of reference, this sub-section provides the current allocations for NI for the 2017-18 financial year. Note that the figures in Table 4 below are for Departmental Expenditure Limits (DEL) only. This means that Annually Managed Expenditure (AME) is excluded. (Each is defined in Box 1 at sub-section 1.1 in this Paper).

Table 4: NI Executive Resource and Capital DEL in Cash and Real Terms*, 2015-16 to 2020-21²⁸

£ million		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Non-ringfenced Resource DEL	SR 2015	9,661.50	9,745.00	9,821.00	9,827.50	9,853.80	--
Non-ringfenced Resource DEL	Budget 2016		5.8	64.9	69.3	70.2	--
<i>Total</i>		<i>9,661.50</i>	<i>9,750.80</i>	<i>9,885.90</i>	<i>9,896.80</i>	<i>9,924.00</i>	<i>--</i>
Real Terms		9,661.50	9,606.70	9,567.59	9,381.13	9,231.52	
Capital DEL	SR 2015	957.3	1,009.60	1,036.00	1,073.20	1,126.30	1,184.70
Capital DEL	Budget 2016		3	1.2	3.8	5.1	
<i>Total</i>		<i>957.3</i>	<i>1,012.60</i>	<i>1,037.20</i>	<i>1,077.00</i>	<i>1,131.40</i>	<i>1,184.70</i>
Real Terms		957.3	997.64	1,003.80	1,020.88	1,052.45	1,080.42
Financial Transactions Capital DEL	SR 2015	104.3	113.6	100.7	76.4	66.1	54

*Real Terms figures calculated by RaiSe using [Treasury GDP deflators](#),²⁹ June 2016

In relation to the NI funding envelope, the following observations may be made about **Figures 2 and 3** below:

²⁸ DoF briefing to Cff, dated 8 June 2016

²⁹ GDP deflators are calculated using inflation forecasts and used to show figures in so-called 'real terms' i.e. to estimate the extent to which the purchasing power of the limits set in the SR will be affected by changes in prices.

- In cash terms, Resource DEL shows a slightly increasing trend over the specified period. In real terms however, there is a reduction in Resource DEL; and,
- Capital DEL can be seen to be increasing in both cash and real terms over the given period.

Figure 2: NI Executive Resource DEL in Cash and Real Terms, 2015-16 to 2019-20

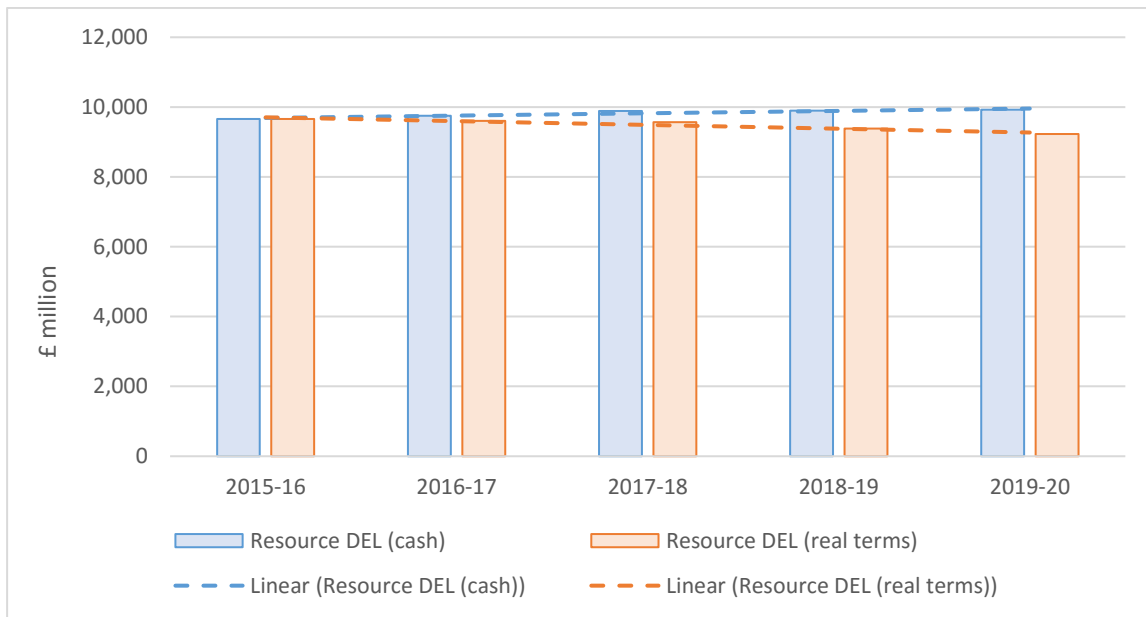
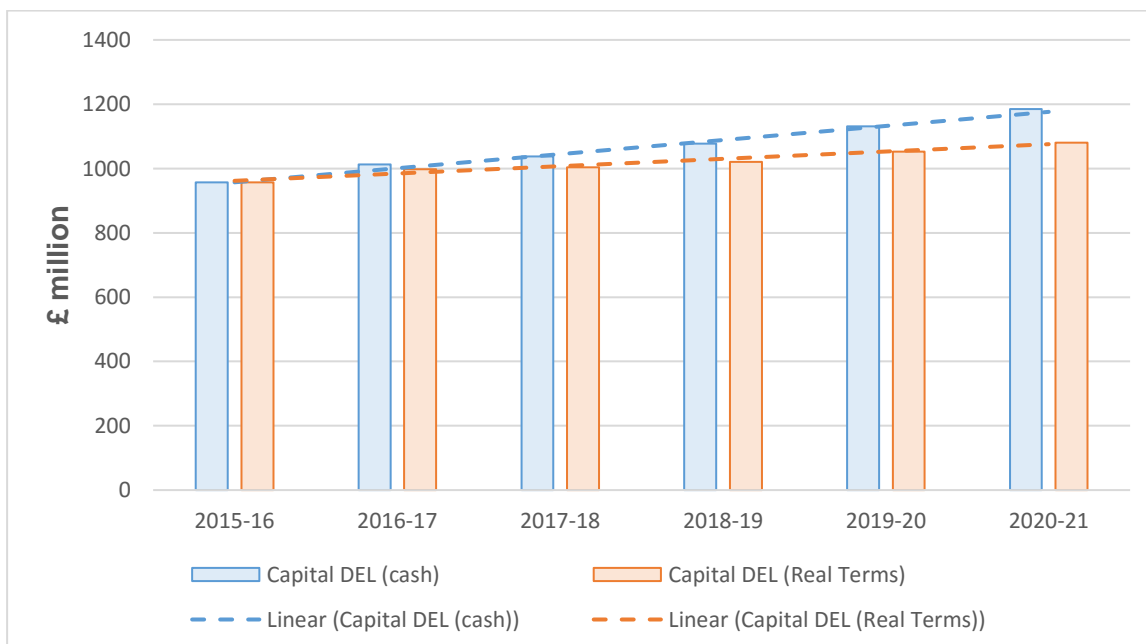


Figure 3: NI Executive Capital DEL in Cash and Real Terms, 2015-16 to 2020-21



4. Potential Issues for Consideration

This section outlines potential issues meriting the consideration of Assembly Members and committees. It aims to support the Assembly in fulfilling its roles and responsibilities in relation to the Draft Budget. Divided into eight sub-sections, it addresses:

- 4.1 Routine Budget Planning Considerations;
- 4.2 Transferred Functions;
- 4.3 'Back Office' Functions;
- 4.4 Resource DEL v Capital DEL;
- 4.5 Flagship Projects;
- 4.6 Financial Transactions Capital;
- 4.7 Executive Budget Funding Sources Beyond the Block Grant; and,
- 4.8 Executive's PfG.

4.1 Routine Budget Planning Considerations

The budget process for the 2017-18 Executive Budget will allocate Non-ringfenced Resource and Capital DEL to individual departments. Routine budget planning considerations for departments about the forthcoming Budget include the following:

- 4.1.1** What contractual commitments has the department in both Resource and Capital DEL categories?
- 4.1.2** What Resource and Capital DEL is already legally committed for delivery of statutory functions?
- 4.1.3** What assumptions has the department made about pay inflation?
- 4.1.4** What assumptions has the department made about price inflation for supplies of goods and services?
- 4.1.5** What services/activities could cease if budget reductions are required?
- 4.1.6** What services/activities could it reduce/curtail if budget reductions are required?
- 4.1.7** Has a decision been made on how remaining resources will be prioritised by the department? If so, what criteria will the departmental Minister apply?

4.1.8 Has the DoF/the Executive undertaken an assessment to determine the level of DEL co-financing needed by individual departments for programmes already underway, as well as those that are to start, to ensure European monies are not lost to NI?

4.1.9 To what extent has the assessment included consideration of potential impacts that would arise from changes made by the Executive to co-financing levels for EU programmes?

4.2 Transferred Functions

As noted in sub-section 2.1 of this Paper, there was a reorganisation of Executive departments in May 2016, which included transfers of departmental functions. Treasury rules require that the spending power of the transferring and the receiving departments are not affected, i.e. no department should be left better or worse off as a result of the function transfer.

Although the DoF provided the CfF with the revised departmental baselines following reorganisation in May - 'restructured baselines' – those figures relate to the **total** funding by departmental objective. It therefore remains unclear in terms of where the transferred functions are located within the departmental structures, and the extent to which related budget monies have moved with those various transferred functions.

Committees may wish to request that their departments provide:

4.2.1 A breakdown of the transferred functions for their respective departments as a result of the Executive's re-structuring exercise, including details of the budget that was attached to each function.

4.2.2 Details of the assets that transferred under the restructuring exercise, their current condition, maintenance schedule and useful life.

4.2.3 How, if at all, has the department restructured its budget to enable it to align with departmental priorities, including an explanation of the policy intention?

4.3 'Back Office' Functions

In previous years, the Finance Minister's Monitoring Round Statements included a table listing departmental administration expenditure. This enabled the Assembly to monitor trends in departments' expenditure on 'back office' functions as opposed to frontline service delivery.

The DoF's *2016-17 In-year Monitoring Guidelines* state that there is no strict ceiling on administration expenditure:

...there is no formal limit on the level of administration costs. It is for individual Ministers to decide on the proportion of their budget that is allocated to frontline services or administration costs.³⁰

However, the DoF will continue to monitor and record departments' administration expenditure:

This decision does not remove the need to record information at that level and any movement between frontline services and administration costs must be recorded and will be monitored by DoF at each monitoring round.³¹

Consideration of the level of this expenditure is limited at present due to the absence of administration cost data in the Finance Minister's June Monitoring statement.³² Additional consideration would enable committees to have a greater understanding of the relative balance between frontline and back office expenditure, enhancing their ability to scrutinise their respective departments' financial prioritisation.

4.3.1 Committees may wish to ask their departments to provide details of their administration expenditure, i.e. the relative balance between frontline and back-office expenditure?

4.4 Resource DEL v Capital DEL

In September 2016, in the context of the 2016 Executive Budget process, the DoF indicated in a letter to the CfF that the Executive will seek to distribute its Resource DEL for 2017-18 only, and its Capital DEL for 2017-18 to 2020-21.³³

4.4.1 The CfF may wish to ask the DoF whether it plans to produce a further one-year Budget for the 2018-19 year or a two-year Budget in line with the 2015 SR.

4.4.2 Can the DoF assure the CfF and other committees that the Draft Budget will be produced prior to the consultation period in the future.

4.5 Flagship Projects

Executive Budget 2016-17 allocated a considerable proportion of the Executive's DEL to a number of 'Flagship projects', as shown below in **Table 5**:

³⁰DoF (2016) [In-year Monitoring of public Expenditure Guidelines 2016-17](#) (revised July 2016), accessed 29 September 2016, paragraph 5.11

³¹DoF (2016) [In-year Monitoring of public Expenditure Guidelines 2016-17](#) (revised July 2016), accessed 29 September 2016, paragraph 5.11.

³²DoF (2016) [June Monitoring Statement](#) accessed 4 October 2016

³³Letter from the DoF to CfF, dated 5 September 2016, reference CFP/018/16-21.

Table 5: Flagship Projects³⁴

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

4.5.1 Committees may wish to ask their departments about how the Executive Budget 2016-17 allocations to Flagship Projects impact on the ability of Ministers and their departments to prioritise their departments' capital budgets for 2017-18 and beyond?

4.6 Financial Transactions Capital

Media reports from 14 September 2016 suggest that the European Investment Bank has shown 'greater reluctance' to engage with the DoF around its role with the NI Investment Fund since the EU Referendum result. A report states that this has led to the DoF 'reassessing possible delivery models', which in turn could lead to a delay in introducing the Investment Fund.³⁵

Such a delay could impact on the use of Financial Transactions Capital (FTC), which in turn could lead to NI surrendering funding to Treasury.

4.6.1(a) The CfF may wish to request that the DoF provide details regarding the current timeframe for introducing the Investment Fund.

4.6.1(b) What planning has been undertaken to ensure that no FTC funding will be surrendered to Treasury in the 2016-17 financial year?

4.6.1(c) How confident is the DoF that no FTC funding will be surrendered?

4.7 Executive Budget Funding Sources Beyond the Block Grant

As noted in sub-section 1.2.4, in addition to the Block Grant, other funding sources are available to the Executive under current devolution arrangements. The following paragraphs highlight key current issues relating to some of those sources, in the context of Draft Budget discussion:

³⁴NI Executive (2016) [Budget 2016-17](#), accessed 17 October 2016, see page 39

³⁵ *Belfast Telegraph*, <http://www.belfasttelegraph.co.uk/business/news/brexit-may-cost-northern-ireland-economy-55m-in-future-investments-35046571.html> accessed on 19 October 2016

4.7.1 Borrowing; and,

4.7.2 Rates.

4.7.1 Borrowing

As detailed in sub-section 1.2.4 of this Paper, the Executive may borrow under current devolution arrangements. This includes:

- (i) RRI Borrowing; and,
- (ii) Non-RRI Borrowing.

Outlined below are key current issues relating to borrowing in the context of Draft Budget discussion.

RRI Borrowing

As noted, the allocations made to the Executive by the Treasury *via* RRI borrowing are recorded as AME. They therefore are not included in the Executive's DEL. However, interest payments are recorded as DEL.

The Executive has set aside £58.5m in 2016-17 for interest charges on RRI borrowing.³⁶ This £58.5m is resource DEL, so setting it aside reduces the total amount of DEL available. In terms of the Draft Budget, it is foreseeable that a similar amount of DEL will need to be set aside.

4.7.1(a) How did the Executive evaluate the impact of previous RRI borrowing on the NI economy? If any evaluation took place, how will the Executive use those findings to ensure that such borrowing is appropriately targeted in the Draft Budget?

4.7.1(b) How will the interest charges on RRI borrowing be accommodated throughout the 2017-18 financial year? And, what consideration was given to interest rate changes to those charges, if any?

4.7.1(c) How much of the loan principal is repaid in the 2017-18 financial year?

Non-RRI Borrowing

In addition to RRI borrowing, the Executive can use borrowing powers under section 61 of the *Northern Ireland Act 1998* (the 1998 Act), as noted in sub-section 1.2.4 of this Paper.

³⁶ Letter from DoF to Cff dated 22 September 2016.

At 31 March 2016, the total level of outstanding debt stood at £2.1bn. Some £1.8bn of this relates to loans under RRI.³⁷ Therefore, the outstanding debt includes some £300m of non RRI borrowing.

Figure 4 below shows the interest paid on loans by the Executive from 2013-14 and 2014-15:

Figure 4: Interest paid on loans by the Executive from 2013-14 and 2014-15³⁸

4. ANALYSIS OF INTEREST PAID		
	2014-15 £000	2013-14 £000
National Loans Fund		
Advances From National Loans Fund	25,636	31,976
Advances From National Loans Fund in respect of the Reinvestment and Reform Initiative (RRI)	51,038	47,246
	<u>76,674</u>	<u>79,222</u>

As can be seen within the highlighted section above, interest payments on **non-RRI** borrowing for 2014-15 amounted to £25.6m.

4.7.1(d) The CfF may wish to ask the DoF whether it has set aside resources for interest payments in respect of non-RRI borrowing from the 2017-18 Budget.

4.7.1(e) Following on from the above response, what monies are set aside for interest payments in relation to other (non-RRI) borrowing for 2016-17 and 2017-18?

4.7.1(f) What is the total interest forecast (RRI and non-RRI) to be paid in 2016-17 and 2017-18?

4.7.1(g) What is the projected cost of interest payments for the next five years?

Finance Minister's Recent Discussion with Treasury

In June the Finance Minister outlined his intention to open negotiations with the Treasury help to identify innovative ways to borrow.

There are other ways in which to borrow. For the first time, councils have enhanced borrowing powers. How can we work with them? Belfast City Council wants to spend £1 billion in the city centre, in particular on the little cultural quarter in the north inner city where the 'Belfast Telegraph' building is. How can we partner it? Will our partnership be that we just have to write a cheque, or can we help it with its borrowing? Can we find an innovative way in which to allow it to borrow more? Those are areas that I would like officials to start to explore. We have touched on this a few times, and it

³⁷ Letter from DoF to CfF dated 22 September 2016.

³⁸ DoF (2015) *Public Income and Expenditure Account for the year ended 31 March 2015*: <https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/final-pi-e-account-2014-15.pdf>

*would be a bit bold for me to say that I have said to the Treasury that I want to borrow more when I have not. I have said to the Treasury that we need to talk about a number of issues.*³⁹

4.7.1(h) The CfF may wish to request that the Finance Minister provide details of current or planned discussions with Treasury about borrowing.

4.7.2 Rates

As detailed in sub-section 1.2.4 of this Paper, the Executive has revenue-raising options available to it under current devolution arrangements. Key current issues relating to rates and the Draft Budget concern the following and are explained below:

- (i) Linkage of Rates to Inflation; and,
- (iii) Non-domestic Rating.

Linkage of Rates to Inflation

Since 2011 the Executive has agreed that revenue raised *via* the Regional Rate should be uplifted in line with inflation. For 2016-17, the Executive Budget stated:

*...both the domestic and non-domestic poundage rates [...] will continue to be frozen in real terms rising only by the current GDP deflator index (1.7 per cent).*⁴⁰

4.7.2(a) Is the Executive still committed to the position of keeping rate bills low by capping the poundage rates in line with inflation?

4.7.2(b) Is it prudent to ignore the revenue-raising potential of the Regional Rate, given the limited number of revenue-raising measures available to the Executive under current devolution arrangements?

Non-domestic Rating

It appears that the current Finance Minister is minded to raise more revenue *via* rates. In evidence to the CfF in June 2016, he stated:

*...we do not have enough money to do all the things that we want to do, but is there capacity to raise more money from the rates system? I believe that there is, and I would like to examine that with colleagues.*⁴¹

³⁹ Mr Máirtín Ó Muilleoir MLA (Minister of Finance) *Overview, Priorities and Business Plan 2016-17*. Evidence given to the Finance Committee dated 8 June 2016: <http://data.niassembly.gov.uk/HansardXml/committee-18245.pdf>

⁴⁰NI Executive (2016) *Budget 2016-17*, accessed 17 October 2016, see page

⁴¹ Mr Máirtín Ó Muilleoir MLA (Minister of Finance): *Overview, Priorities and Business Plan 2016-17*. Evidence given to CfF, dated 8 June 2016: <http://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=18245&evidID=10586>

4.7.2(d) How does the Executive plan to raise more money *via* Non-domestic Rates, without adversely impacting on business by increasing rate bills?

On two occasions the Small Business Rates Relief (SBRR) Scheme has been extended past 2015, and now it is due to end 31 March 2017.⁴² In October 2016 the Finance Minister gave the following answer to an Assembly Question:

*My Department is working on a set of proposals to give effect to recommendations from the full policy evaluation of Small Business Rate Relief, completed in December 2014 by Neil Gibson's Economic Policy Unit, taking into account feedback on a subsequent discussion paper on the future of the scheme issued by my Department earlier this year. I intend to bring forward better targeted proposals in the coming weeks.*⁴³

4.7.2(e) What is the underlying rationale for the DoF's proposals?

4.7.2(f) Will the proposals target specific sectors of the economy, e.g. tourism or retail; and if so, what will be the selection criteria for each sector?

4.7.2(g) What are the cost implications of these proposals in terms of revenue foregone to the Executive?

4.7.2 (h) What are the implementation costs, if any, for Land and Property Services and the DoF Rating Policy Division e.g. in terms of IT changes etc.?

4.8 Executive's PfG

As detailed at sub-section 2.3 of this Paper, the 2017-18 final year will be the first full year of the new PfG, with its focus on Outcomes.

4.8.1 How has the DoF sought to take account of the PfG in its 2017-18 funding allocations?

4.8.2 What guidance has the DoF issued to departments on linkages between departmental budgets and the PfG? Please provide a copy to the CfF.

At the recent Outcomes-Based Accountability Conference held in Belfast in October 2016, the Head of the Northern Ireland Civil Service (HOCS) responded to a question regarding its implementation, stating:

*...silos need to be broken down and there needs to be more collaborative working.*⁴⁴

⁴² NIExecutive (2016) *Budget 2016-17*: <https://www.northernireland.gov.uk/publications/budget-2016-17>

⁴³ Assembly Question AQW 4118/16-21:

⁴⁴Outcomes and Impacts: Outcome-Based Accountability Conference, Belfast, 11 October 2016

4.8.3 What steps have the Executive and individual departments taken to address the historical issue of departments operating in budgetary and policy silos?

4.8.4 How will the Executive and individual departments encourage, enable and support such collaborative working both now and in future?

4.8.5 How will the Executive and individual departments monitor, review and evaluate such collaborative working?

In a further response the HOCS stated that funding decisions would be evidence-based,⁴⁵ i.e. evidence would be sought to assess how a particular course of action would address an undesired outcome or conversely contribute to a desired outcome.

4.8.6 Since the 2017-18 financial year will be the first full year of the PfG, committees may wish to request details of how this system is to operate in practice within individual departments.

In a further response the HOCS stated that the Executive intended to publish report cards for each of the Outcomes identified within the PfG.⁴⁶

4.8.7 Committees may wish to enquire whether expenditure on individual programmes has been identified within departments for the purposes of linking them to the Outcomes *via* the 'report cards'?

⁴⁵ Outcomes and Impacts: Outcome-Based Accountability Conference, Belfast, 11 October 2016

⁴⁶ Outcomes and Impacts: Outcome-Based Accountability Conference, Belfast, 11 October 2016