Northern Ireland Assembly

Research and Information Service
Briefing Paper

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Public Finance Scrutiny Unit

Executive Budget 2017-18: Funding Envelope

This Briefing Paper supplements RaISe Paper NIAR 413-16 *Forthcoming Executive Draft Budget 2017-18: Assembly Consideration* (dated 21 October 2016). It provides updated information on the Executive's 'funding envelope' from Westminster for 2017-18, following the Autumn Statement made by the United Kingdom Chancellor in November 2016.

Key points

- The United Kingdom (UK) Chancellor's 2016 Autumn Statement had a negligible impact on Northern Ireland's Resource Departmental Expenditure Limit (DEL) allocation for 2017-18 expenditure on day-to-day running costs;

- The Statement did, however, provide a 4.5% uplift in real terms for Northern Ireland's Capital DEL allocation for the creation and enhancement of assets;

- It remains unclear at present as to how the Executive will use its 'funding envelope' from Westminster, i.e. Resource and Capital DEL allocations, when formulating its Budget 2017-18. Contributing to this uncertainty are a number of factors, including the Renewable Heat Incentive Scheme's financial implications, the lack of an agreed Executive Programme for Government and refreshed Economic Strategy and the apparent slippage in the agreed Assembly scrutiny and approval timetable of the Executive Budget 2017-18; and,

- Failure to agree and enact a Budget 2017-18 would cause cash flow problems for departments' delivery of public services and for their retention of income, as well as potentially impact on the devolution of corporation tax.

Introduction

This Briefing Paper seeks to support Assembly scrutiny of the Executive's Budget 2017-18, despite ongoing political developments and a significant lack of relevant information and data.

The Briefing Paper is structured as follows:

- Section 1 provides background, including the 2016 Autumn Statement and Executive reaction, recent developments in Northern Ireland and other key strategic issues for 2017-18;
- Section 2 outlines the agreed timetable for committee scrutiny of Executive Budget 2017-18;
- Section 3 establishes the amended 2017-18 funding envelope; and,
- Section 4 concludes, highlighting key apparent implications that would arise from no agreed Executive Budget.

1. Background

This section establishes the context in which the Executive must introduce and agree its Budget 2017-18.

1.1. 2016 Autumn Statement

On 23 November 2016, the United Kingdom (UK) Chancellor Philip Hammond delivered his 2016 Autumn Statement. This was to be a 'fiscal reset', overhauling the fiscal policy set by the former Chancellor. Mr Hammond took the opportunity to set out three new fiscal rules, confirming the UK Government has abandoned its plan of reaching a spending surplus by 2020.[1]

The Government's change in fiscal 'direction of travel' had been widely trailed in the wake of the European Union Referendum. In addition, as the Institute for Fiscal Studies (IFS) pointed out, the UK Government had "*the unimpressive record of meeting nought-out-of-three of its fiscal targets*".[2]

In the end, the Chancellor appears to have heeded the advice of many, such as the Organisation for Economic Cooperation and Development (OECD), which recently stated:

> *OECD governments could finance a ½ percentage point of GDP productivity-enhancing fiscal initiative […] Such an initiative could encompass high-quality spending on education, health and research and*

[1]Public Finance, 23 November 2016, Surplus target shunted to next Parliament as Hammond flexes fiscal rules
[2]IFS (2016) Winter is coming, accessed 20 December 2016, page 1

development as well as green infrastructure that all bring significant output gains in the long run.[3]

1.2. Executive reaction

In Northern Ireland, the Executive appeared to be concerned that the fiscal reset would disrupt its budget planning for the 2017-18 year and beyond, by drastically altering its 'funding envelope' from Westminster for 2017-18, i.e. Northern Ireland's Resource and Capital DEL allocations.

In September 2016, the Department of Finance (DoF) wrote to the Committee for Finance stating that the prospect of a fiscal adjustment introduced "*significant public expenditure uncertainties*".[4] The Executive therefore, decided to restrict its forthcoming budget proposals to a one-year exercise for Resource DEL. (For Capital DEL, it still appears to intend to set out budget plans for a longer period.)

1.3. Recent developments in Northern Ireland

Recent key developments in Northern Ireland that apparently impact on the Executive's formulation and agreement of its Budget 2017-18 are set out in the below subsections.

1.3.1. The Renewable Heat Incentive Scheme

There has been considerable attention afforded to the overspend related to the Renewal Heat Incentive (RHI) Scheme.[5] In effect, the outworking of this scheme is that the Executive is:

> *…facing a shortfall in funding of £20 million a year. Twenty million pounds is a major loss but, when you multiply it by 20 [years], you end up with a very big number.*[6]

The main question arising from this situation is how the Executive will choose to meet the shortfall, if the overspend cannot be prevented by emergency actions.

The first possibility is that the funding could be found from the overall funding envelope and deducted **before** allocations are made to departments.

A second option is that the funding will have to be found from the Department for the Economy's allocation. There is a relatively recent example of how the Executive treated an unanticipated shortfall in a single department's budget, which is set out in the following paragraphs.

[3]OECD (2016) Using The Fiscal Levers To Escape The Low-Growth Trap, accessed 20 December 2016, see page 3
[4]Letter from the DoF to the CfF dated 5 September 2016, reference CFP/018/16-21
[5]See Official Report, 19 December 2016, and Minutes of Evidence from the Public Accounts Committee, for further information
[6]Public Accounts Committee, Official report 30 November 2016

The Executive's Budget 2011-15 funding envelope was, in part:

> *…predicated on "releasing value" […] from the Port of Belfast.*[7]

In essence, the Executive hoped to access £20 million of the Port of Belfast's reserves. But:

> *…that [was] not […] possible due to legal difficulties.*[8]

In that instance, because of those legal difficulties, the anticipated £20 million funding from the Port's reserves for the former Department of Regional Development's use did not materialise.

That Department was consequently left with a £20 million shortfall in its funding. The Executive did not provide additional funding to that Department, i.e. the Executive did not spread the £20 million shortfall across its entire Budget.

In a committee evidence session, the former Minister of that Department stated:

> *The situation in 2015-16 has in no small part been exacerbated by greater funding constraints this year. In addition to the £15 million reductions to meet the Executive's 4% cuts, **funding has not been provided to meet the £20 million pressure for the release of value from the Belfast Harbour Commissioners**.*[9]*[emphasis added]*

At the time of writing, there does not appear to be a third option of seeking additional funding from the UK Government, to resolve the financial implications arising from the RHI Scheme. The Financial Annex to the 2014 *Stormont House Agreement* stated:

> *The UK Government has seriously considered the proposals put forward by the party leaders. It has tried to respond as positively as possible but this package reflects the difficult fiscal environment facing all governments and the need to be fair to all parts of the United Kingdom.*[10]

In addition, in the main text to the *Stormont House Agreement*, it is emphasised that the Executive needs to produce a 'balanced budget' for 2015-16.[11]

The subsequent 2015 *Fresh Start Agreement* reaffirmed the commitment to balanced budgets:

> *The UK Government […] welcomes the [Executive's] commitment to deliver a balanced budget in 2015-16 and to take steps to put Northern Ireland's*

[7] Official Report, 11 November 2014, accessed 20 December 2016
[8] Official Report, 11 November 2014, accessed 20 December 2016
[9] Committee for Regional Development Official Report, 25 March 2015, accessed 20 December 2016
[10] UK Government (2014) Stormont House Agreement: Financial Annex, accessed 6 January 2017, see page 1
[11] UK Government (2014) Stormont House Agreement, accessed 6 January 2017, see paragraph 4

> *finances on a sustainable footing including setting challenging cost reduction targets for the new departments.*[12]

The *Fresh Start Agreement* once again made the extension of financial flexibilities to the Executive by the UK Government contingent upon*:*

> *…the publication of a balanced budget for 2016-17 in the Assembly by the end of January 2016.*[13]

In addition, under the heading 'Budget controls', the *Fresh Start Agreement* stated that the UK Government welcomed the Executive's plan to establish an Independent Fiscal Council for Northern Ireland, which would:[14]

> *1. Prepare an annual assessment of the executive's revenue streams and spending proposals and how these allow the Executive to balance their [sic] budget; and,*
>
> *2. Prepare a further annual report on the sustainability of the Executive's public finances, including the implications of spending policy and the effectiveness of long-term efficiency measures.*

Taken together, it seems reasonable to assume that the implication of the cited paragraphs is that Northern Ireland will not receive special treatment in the form of a financial bailout of some sort from the UK Government. If this assumption is correct, the current Treasury rules will apply, as set out in the 2015 version of its *Statement of Funding Policy,* which states:

> *Spending Reviews set multi-year allocations for the devolved administrations. Like UK government departments,* ***devolved administrations must live within these block grant allocations and absorb unforeseen pressures****, managing as necessary by using the tools available to them, which vary across the devolution settlements. They are responsible for ensuring sufficient arrangements are in place for the planning and control of spending on devolved services to mitigate and manage the impact of emerging pressures.*[15][emphasis added]

In other words, this means that the devolved administrations (Northern Ireland included) are expected to manage emerging pressures on their budgets, i.e. by: (i) re-allocating funding from other priorities, (ii) finding savings or (iii) raising further revenue.

[12]UK Government (2015) A FRESH START: THE STORMONT AGREEMENT AND IMPLEMENTATION PLAN, accessed 6 January 2017, see page 25
[13] UK Government (2015) A FRESH START: THE STORMONT AGREEMENT AND IMPLEMENTATION PLAN, accessed 6 January 2017, see page 28
[14] UK Government (2015) A FRESH START: THE STORMONT AGREEMENT AND IMPLEMENTATION PLAN, accessed 6 January 2017, see page 27
[15]HMT (2015) Statement of funding policy: funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly, accessed 9 January 2017, see page 21

Ultimately therefore, it will be for the Executive to decide whether it chooses to fund the RHI Scheme overspend by 'salami slicing' all departmental budgets, or by applying it to the Department for the Economy, which is responsible for the RHI Scheme.

Scrutiny points:

1.3.1. (a) How does the Executive intend to fund the 2017-18 element of overspend on the RHI Scheme?

1.3.1. (b) What is the Executive's timescale for the establishment of the proposed independent Fiscal Council for Northern Ireland?

1.3.2. Planned Resource DEL reductions for 2019-20

During the 2016 Autumn Statement, the UK Chancellor confirmed that spending reductions previously announced in the Spring Budget 2016 for the 2019-20 year **will go ahead**. The Autumn Statement policy paper states:

> *As announced at Budget 2016, the government intends to identify £3.5 billion of savings in 2019-20. The government intends to allocate £1 billion of these savings for re-investment in priority areas.*[16]

If the full £3.5 billion of identified savings actually materialises, and is applied through the Barnett Formula, this could imply a maximum reduction in the Block Grant of approximately £118 million. But, if the UK Government chooses to protect areas such as health and education, the properties of the Barnett Formula will shelter Northern Ireland from some of those reductions.

On the same basis, if the Executive received Barnett Consequentials on the full reinvestment of £1 billion, that would result in a maximum addition of about £34 million, i.e. a net reduction of approximately £84 million.

Scrutiny point:

1.3.2. What preparatory steps does the Executive intend to take in anticipation of the scheduled further reductions in 2019-20?

1.3.3. Welfare Fraud and Error

Table 1 shows an allocation of £25 million per year for 'Welfare Fraud and Error'. This has been provided by the UK government as part of the financial package under the *Fresh Start Agreement*.[17]

The money is ringfenced, specifically for the purposes of an 'invest-to-save' approach, whereby funds will identify issues that will in turn release greater savings in future. In

[16] HMT (2016) Autumn Statement Policy Paper, accessed 20 December 2016, see section 2.21
[17] NIO (2015) Fresh Start Agreement, accessed 20 December 2016, see page 26

this instance, the intention is to generate savings by improving the detection of fraud and error within the welfare system.[18]

The intention is that the Executive will receive a share of any welfare savings found by the fraud and error reduction process. Any savings must be verified by the Office of Budget Responsibility (OBR).[19]

It may however, be of interest to note that to date, no savings have been secured. In June 2016, the Northern Ireland Office published a six-monthly update on the Agreement's implementation. This reaffirmed the UK Government's commitment to examine any savings proposal which it could verify.

In December 2016, a further update stated:

> *The UK Government has confirmed the release of funding to be accessed by the Department for Communities in a manner which best supports the implementation of welfare reform and addresses welfare error and fraud.*[20]

In addition, it reaffirmed once again that:

> *Any savings from these proposals that are certified by the OBR will be made available for the Executive to reinvest.*[21]

This means that, at some future date, there may be some additional funding available to the Executive. It is worth noting however, that the Department for Communities has estimated that in 2014, £25.2 million of public money was lost through benefit fraud.[22] This suggests that any savings are likely to be in this order of magnitude, which is around the same level of funding that has been secured to achieve savings.

Scrutiny points:

1.3.3. (a) When does the Executive believe it will begin to realise savings from the proposed fraud and error savings?

1.3.3. (b) How does the OBR currently assess any fraud and error savings?

1.3.3. (c) Is there a more up-to-date figure available for error and fraud?

[18] Official Report 24 October 2016, accessed 20 December 2016
[19] NIO (2015) Fresh Start Agreement, accessed 20 December 2016, see page 26
[20] NIO (14 December 2016) Fresh Start & Stormont House Agreements Six-Monthly Update, accessed 20 December 2016, see page 8
[21] NIO (14 December 2016) Fresh Start & Stormont House Agreements Six-Monthly Update, accessed 20 December 2016, see page 8
[22] https://www.communities-ni.gov.uk/articles/benefit-fraud-cost-and-results , accessed 20 December 2016

1.3.4. Key strategic issues for 2017-18

In June 2016, the Department of Finance (DoF) briefed the Committee for Finance on the UK public expenditure system. At that time the DoF identified the following as strategic issues for the Executive's budgeting:[23]

- Programme for Government;
- corporation tax;
- Welfare Reform;
- Apprenticeships Levy;
- Housing Association/universities Classification;
- Health;
- Rates;
- Tuition Fees; and,
- Others, including Historical Institutional Abuse Inquiry.

Scrutiny point:

1.3.4. What is the DoF's current assessment of the strategic issues? i.e. what has changed, and why?

Two issues anticipated to strategically impact on the Executive Budget 2017-18 are its Programme for Government and refreshed Economic Strategy. What is currently known about these is briefly considered in the following subsection.

1.3.5. Programme for Government and Economic Strategy

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 these linkages will take or how they will be made manifest simply the statement that:

> *…the decisions we will take on budget priorities will reflect and be driven by the improvement agenda we have set out in this Programme.*[24]

Typically, the Executive's Economic Strategy helps to define the parameters in which economic policy and strategy are made. At regular intervals the Executive revises the Economic Strategy, to take into account changing economic and financial circumstances.

[23] DoF briefing delivered to Committee for Finance, 8 June 2016
[24] NI Executive (2016) Programme for Government Consultation Document, accessed 20 December 2016, see page 5

The Executive's current Economic Strategy was published in 2012. It was produced to reflect the main priorities of the 2011-2015 PfG, [25] namely growing a sustainable economy and investing in our future.

It sets out the Executive's plan to grow a prosperous economy over the short, medium and longer term to 2030 and focuses on re-balancing and rebuilding the Northern Ireland economy. One of the three cross-cutting themes was to develop a regionally balanced economy.

The first outcome of the 2016 draft PfG consultation document is "*we prosper through a strong, competitive regionally balanced economy*." This may reflect the fact that Gross Value Added (GVA) and GVA per capita is consistently higher in Belfast than other Northern Ireland sub-regions. The gap between Belfast and the other sub-regions measured by GVA and GVA *per capita* widened between 1997 to 2015.[26]

Now under consultation, the 2016 draft PfG document makes reference to a refresh of the current Economic Strategy:

> *We are also working to develop our Economic Strategy and to bring forward a new Social Strategy which will set out how the Executive proposes to tackle poverty, social exclusion and patterns of deprivation based on objective need.* [27]

In 2016, the Executive found itself in a new economic and political reality. Economic growth has largely returned in Northern Ireland, driven in the main by the services sector, and a new official opposition has been established in the Assembly. How the revised Economic Strategy will seek to exploit this reality remains unclear at this time, as the refreshed Economic Strategy has not yet been brought to the Assembly.

In addition, the 2015 *Fresh Start Agreement* linked the devolution of corporation tax to the implementation of the *Stormont House Agreement*, stating:

> *The UK Government remains committed to the devolution of corporation tax powers, subject to the conditions set out in the Stormont House Agreement.*[28]

In other words, measures to secure the long term sustainability of the Executive's finances – such as balancing the budget and implementing Welfare Reform.[29]

[25] NI Executive (2011) Programme for Government 2011-15, accessed 20 December 2016, see pages 30-35
[26] ONS (December 2016) Regional gross value added (income approach), UK: 1997 to 2015, accessed 20 December 2016
[27] NI Executive (2016) Programme for Government Consultation Document, accessed 20 December 2016, see page 5
[28] UK Government (2015) A FRESH START: THE STORMONT AGREEMENT AND IMPLEMENTATION PLAN, accessed 6 January 2017, see page 27
[29] UK Government (2014) Stormont House Agreement: Financial Annex, accessed 6 January 2017, see page 4

Scrutiny points:

1.3.5 (a) When will the Executive's agreed PfG and refreshed Economic Strategy be available?

1.3.5. (b) What are the possible implications of the current difficulties for the devolution of corporation tax?

2. Scrutiny timetable for Executive Budget 2017-18

Prior to recent political developments, the Committee for Finance forwarded an agreed a timetable for committee scrutiny of Budget 2017-18 on 2 December 2016.[30]

Table 1: Timetable for Assembly scrutiny

Action	Date (2017)
Committee for Finance forwards request for information to statutory committees.	26 October
Statutory committees consider Committee for Finance Request and RaISe paper and issue request to depts.	10 &11 November
Chancellor's Autumn Statement	23 November
Statutory committees consider departmental response and forward to the Committee for Finance	30 November & 1 December
Ministerial Statement on overall 'Budget Envelope' (to be confirmed)	5 or 6 December
Committee for Finance considers departmental responses	7 December
Ministerial Written Statement on Budget (indications are this may be an oral statement with Assembly recalled)	19 December
RaISe paper following Ministerial Statements (only limited information can be provided at this stage)	6 January
Budget Document Laid in the Assembly	9 January
Committee for Finance Oral Evidence Session with Central Expenditure Division	11 January
Consideration of Departmental Budgets by Statutory Committees	11-12 January
RaISe detailed paper on the Budget	13 January
Further consideration of Departmental Budgets by Statutory Committees	18-19 January
Statutory Committees Agree positions on Departmental Budgets and Forward to CfF and Depts	25 & 26 January
Assembly Debate and Vote	31 January

On 5 December 2016, the Minister of Finance's written statement on the funding envelope was published on the Assembly website.[31] The statement details the Executive's up-to-date Departmental Expenditure Limits (DEL), as amended on 23

[30]E-mail from CfF clerk to all statutory committees, 2 December 2016.
[31]MoF, Written Statement, 5 December 2016, accessed 19 December 2016

November by the UK Chancellor's 2016 Autumn Statement.[32] These changes to the Executive's Funding Envelope are shown in Section 3 of this Paper.

The Ministerial Statement expected for 19 December did not occur due to ongoing political developments.

3. The 2017-18 Funding Envelope

As noted above, the Minister of Finance's written statement showed the Executive's DEL allocations from Westminster for the next few years.

For Resource, i.e. expenditure on day-to-day running costs, the Executive's DELs are shown in Table 2.

Table 2: NI Resource DEL[33]

Resource DEL

£million	2017-18	2018-19	2019-20
RDEL Block Grant	**10,454**	**10,476**	**10,508**
Of which Non Ring-fenced	*9,896*	*9,902*	*9,921*
Of which Ring-fenced	*558*	*574*	*587*
Additional Funding for PSNI	34	34	31
Return of 2015-16 welfare deduction	21		
Shared Future Funding	12	12	12
Tackling Paramilitary Activity	5		
Welfare Reform – Fraud and Error	25	25	25

For Capital, i.e. expenditure on the creation or enhancement of assets, the Executive's DEL is shown in Table 3.

Table 3: NI Capital DEL[34]

Capital DEL

£million	2017-18	2018-19	2019-20	2020-21
CDEL Block Grant	**1,192**	**1,232**	**1,291**	**1,326**
Of which General CDEL	*1,091*	*1,155*	*1,224*	*1,271*
Of which Financial Transactions Capital	*101*	*77*	*67*	*55*
Shared Education and Housing	7	19	10	6
Capital Borrowing – RRI	200	200	200	200
Capital Borrowing – SHA	100	50		

At the time of the Chancellor's 2016 Autumn Statement, the Office of Budget Responsibility (OBR) published updated forecasts for inflation.[35] Whilst the current

[32] HM Treasury (2016), Autumn Statement documents, accessed 19 December 2016. For further analysis on the Autumn Statement outcome beyond 2017-18, see Pidgeon (2016) Autumn Statement 2016: a fiscal molehill?
[33] MoF, Written Statement, 5 December 2016, accessed 19 December 2016
[34] MoF, Written Statement, 5 December 2016, accessed 19 December 2016
[35] OBR (2016) Overview of the November 2016 Economic and fiscal outlook, accessed 19 December 2016.

focus is on the 2017-18 year, Figures 1 and 2 below show the DEL for each year, **in real terms** calculated using the latest OBR forecast.

It should be noted that the Executive does **not** receive additional funding to compensate it for the impact of inflation on its spending power. In other words, **it must live within the cash limits provided in the DEL, irrespective of the rate of inflation.** The higher the rate of actual (rather than projected) inflation, the more difficult it will be to control expenditure within the limits. This is because public sector workers are likely to demand higher pay settlements, and the cost of supplies and services will increase.

3.1. Resource DEL, before and after 2016 Autumn Statement, in real terms[36]

Figure 1 below shows an almost imperceptible change to the Executive's Resource DEL for the 2017-18 to 2019-20 period. Figure 2 is charted on a different scale, so that the change in the funding envelope is more visible.

Figures 1 and 2 show **only** the **non-ringfenced** element of Resource DEL from Table 2, adjusted into real terms by the Public Finance Scrutiny Unit (PFSU)within the Research and Information Service (RaISe) into real terms. This means the following elements of the Executive's Resource DEL are **excluded**:

- Ringfenced Resource DEL;
- Additional PSNI funding;
- Shared future funding;
- Tackling paramilitary activity; and,
- Welfare reform – fraud and error.

These elements of the Executive's total Resource DEL were removed because, as stated in the Table, they are provided for specific purposes (i.e. ringfenced) and therefore are not part of the discretionary element of the funding envelope that the Executive can determine how to spend.

In summary, there is slightly more Resource DEL available to the Executive as a consequence of the 2016 Autumn Statement, i.e. approximately 2/3 of a percentage point. This is negligible in public finance terms.

[36] Real Terms values calculated by the PFSU using HMT deflators, Nov 2016, accessed 19 December 2016. Data from MoF, Written Statement, 5 December 2016, accessed 19 December 2016.

Figure 1: NI Resource DEL 2017-18 to 2019-20, in real terms

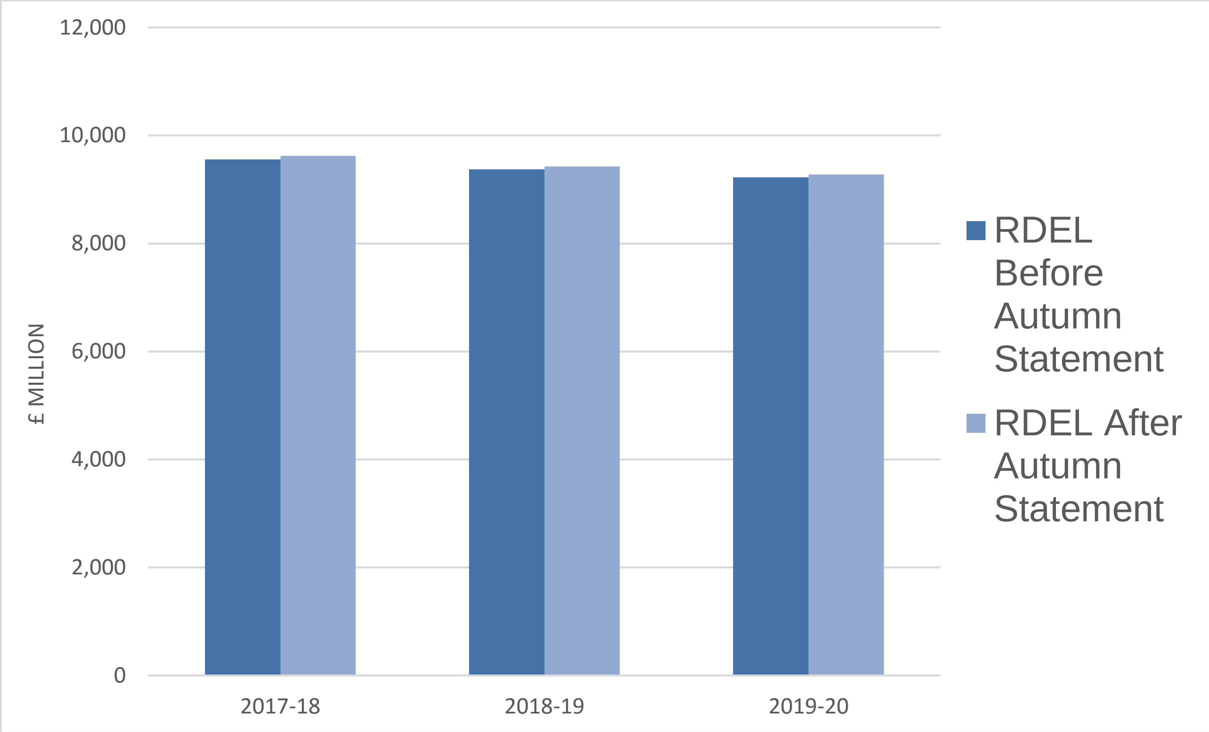
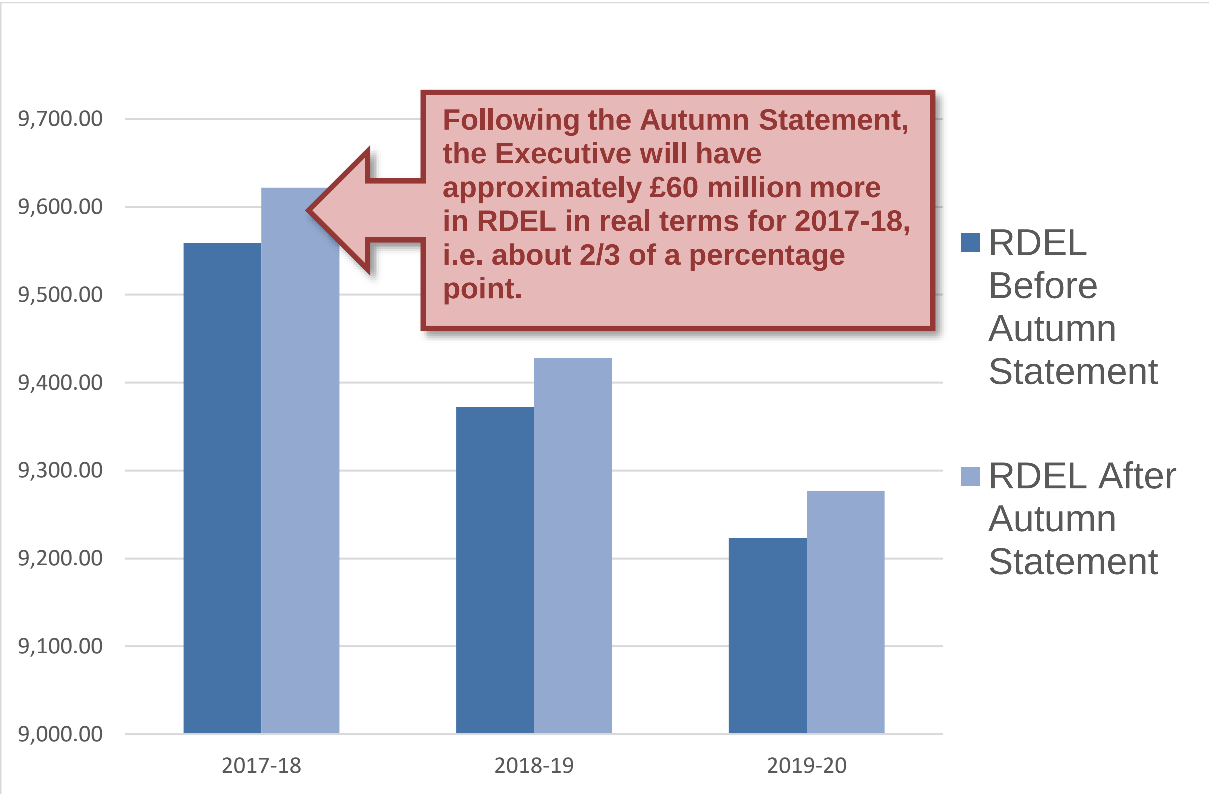
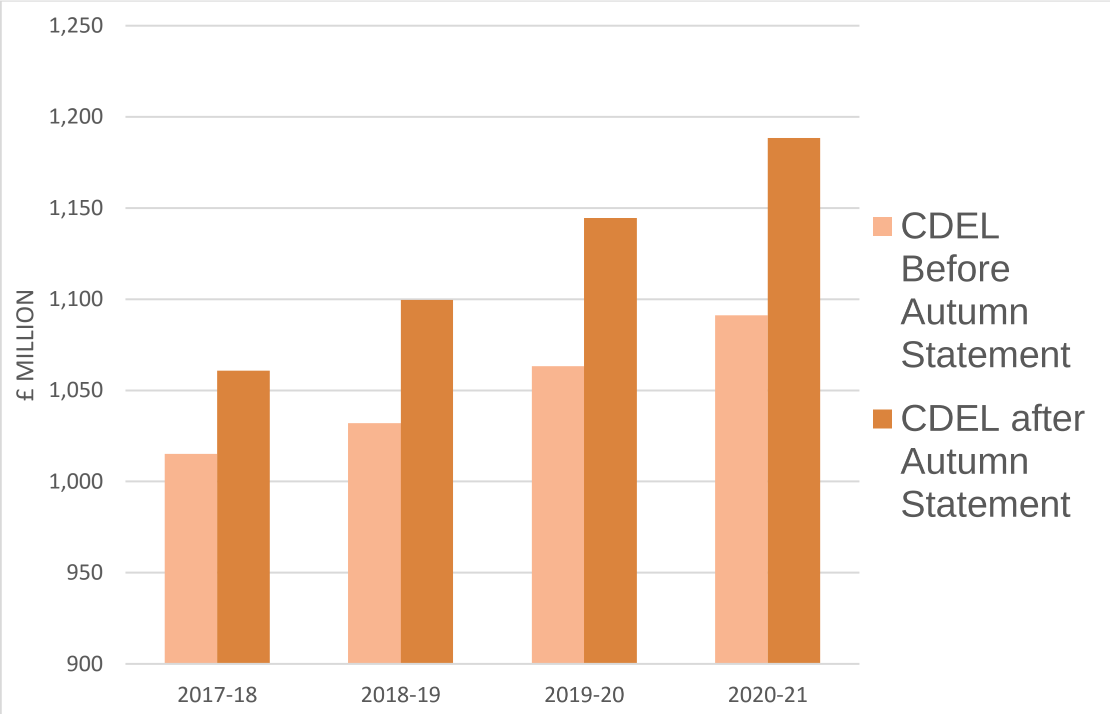


Figure 2: NI Resource DEL 2017-18 to 2019-20, in real terms, alternative chart scale



3.2. Capital DEL, before and after 2016 Autumn Statement, in real terms[37]

Figure 3: NI Capital DEL 2017-18 to 2020-21, in real terms



In summary, the 2016 Autumn Statement provided the Executive with a year-on-year increase to its Capital DEL up to 2020-21, in real terms. For 2017-18, the real-terms increase delivered by the 2016 Autumn Statement is approximately £45 million, or 4.5% above that set in the 2015 Spending Review. This increase will doubtlessly be welcomed, but may not be a game-changer in terms of driving regionally balanced economic growth.

3.3. Borrowing

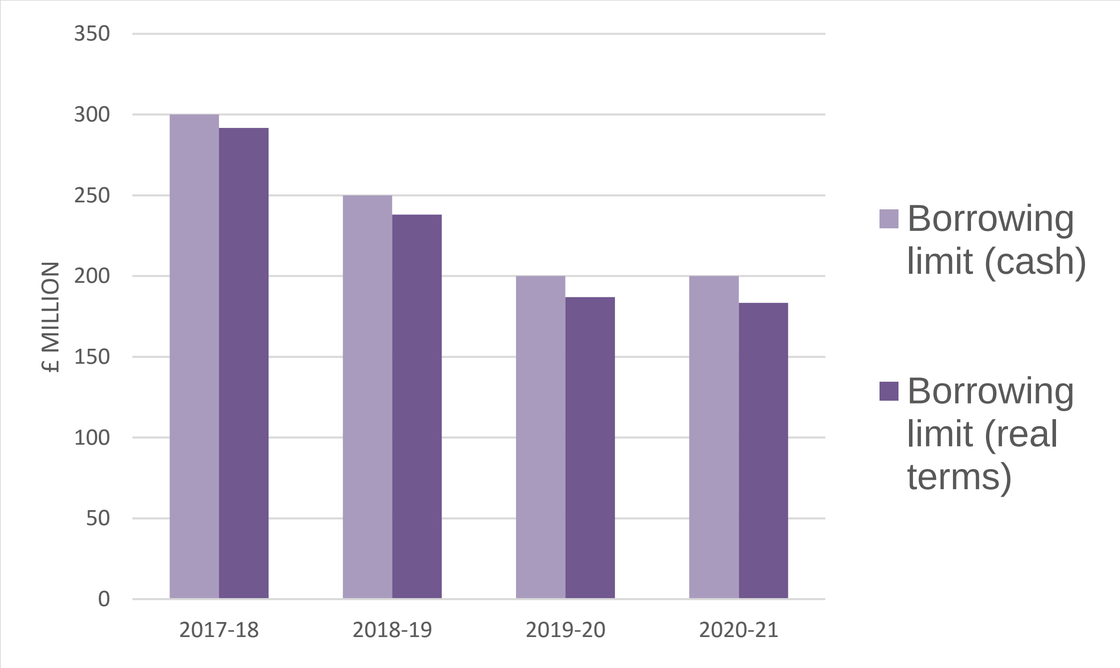
Reinvestment and Reform Initiative (RRI) borrowing is recorded as Annually Managed Expenditure (AME), and therefore is not included in the Executive's DEL. However, interest payments are recorded as DEL, so the amount of borrowing impacts (i.e. reduces) on future years' Resource DEL – e.g. £58.5m in 2016-17 for interest charges on RRI borrowing.[38]

Table 3 shows that the Executive continues to have available £200 million a year in borrowing under RRI. Additionally, the Stormont House Agreement allows additional capital borrowing of up to £350 million over a four-year profile, starting in 2015-16. So, 2017-18 and 2018-19 represent the final two years of that deal. Table 3 above at

[37] Real Terms values calculated by the PFSU using HMT deflators, Nov 2016, accessed 19 December 2016. Data from MoF, Written Statement, 5 December 2016, accessed 19 December 2016.
[38] Letter from DoF to CfF dated 22 September 2016, ref CFP/012/16-21

Section 3 shows £100 million and £50 million of such borrowing in 2017-18 and 2018-19 respectively.

Figure 4: NI borrowing ceilings, 2017-18 to 2020-21, in real terms, in cash and real terms[39]



Such borrowing will add to the Executive's overall stock of debt, and therefore to increased pressure on Resource DEL in future years. In Figure 4, it can be seen however, that over the four-year period, the Executive's borrowing limit reduces in real terms to the equivalent of just over £180 million at today's prices.

On 28 November, DoF wrote to the Committee for Finance, stating that the DoF estimates that £117 million of loan principal will be repaid in 2017-18. It also stated that any changes to the RRI rate of interest will be addressed through the in-year monitoring process.[40]

Scrutiny point:

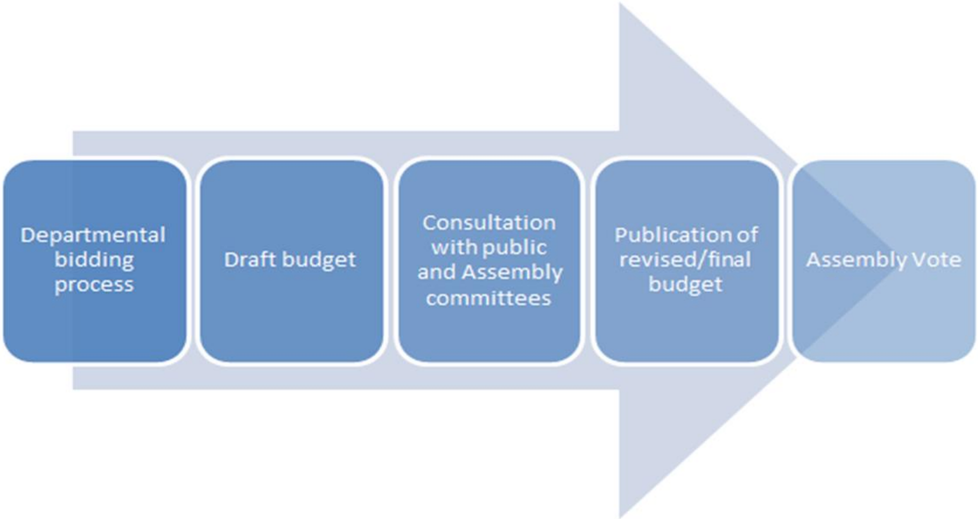
3.3. Given the limit on RRI borrowing remains capped at £200 million/year, has the DoF considered making a case for the limit to be increased now that the additional *Stormont House Agreement* borrowing expires after 2018-19?

[39]Real Terms values calculated by RaISe using HMT deflators, Nov 2016, accessed 19 December 2016. Data from MoF, Written Statement, 5 December 2016, accessed 19 December 2016.
[40]Letter to CfF, 28 November 2016, ref CFP/052/16-21, see Annex, responses to questions in section 4.7.1.

4. If there is no agreed Executive Budget for 2017-18

Figure 5 below shows the 'model' Northern Ireland budget process, and the steps that would in normal circumstances precede an Assembly vote.

Figure 5: Model budget process



Section 59 of the *Northern Ireland Act 1998*[41] provides for the event that the Assembly has not approved a budget, and passed the subsequent Supply Resolutions and Budget Acts. In the first instance, the DoF Permanent Secretary can issue no more than 75% of the total approved for the preceding year, i.e. the current budget year 2016-17.

If there is still no budget passed by the end of July 2017, that amount can increase to up to 95% of the total approved for the preceding year.

If this were to occur:

- The DoF may not be able to issue a direction under *Government Resources and Accounts Act 2001*.[42]
- In which case, departments may not be able to retain receipts (known as 'Accruing Resources') to offset their expenditure.
- If so, some departments would have serious problems. For example, approximately 53% of the Department of Agriculture, Environment and Rural Affairs' expenditure was offset in this way.

The major implication of such circumstances would be that departments would not have sufficient funds to deliver public services.

[41] http://www.legislation.gov.uk/ukpga/1998/47/section/59
[42] http://www.legislation.gov.uk/nia/2001/6/section/8

Scrutiny Points:

4. (a) What engagement, if any, has there been between the Executive and the UK Government about the possibility that no Executive Budget 2017-18 will be agreed?

4. (b) If so, what was discussed?

4. (c) If not, what contingency planning has the DoF undertaken?