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## ANNEX A

## NORTHERN IRELAND AND PUBLIC EXPENDITURE

Purpose of paper

1. This paper describes the scope of Northern Ireland public expenditure; how the total of Northern Ireland public expenditure is determined; how that total is allocated to spending programmes within Northern Ireland; how the total is financed.
2. The paper also refers to the role of Parliament in relation to Northern Ireland public expenditure and the role of the NI Audit Office and Public Accounts Committee.

The scope of Northern Ireland public expenditure

3. The Secretary of State for Northern Ireland is responsible for:

	1996/97	£m
<u>Non-Block</u>		
National agriculture	178	
<u>Block excl Social Security Benefits</u>		
NI agriculture	159	
Industry, Energy, Trade and Employment	529	
Transport	178	
Housing	248	
Environment	263	
Protective Services (Fire)	43	
Education, Arts and Libraries	1409	
Health and Personal Social Services	1603	
Other Public Services	88	
Law and Order (NIO)	901	
<u>Total Block excl Social Security Benefits</u>	<u>5599</u>	
Social Security Benefits	3190	
TOTAL	<u>8789</u>	

IN CONFIDENCE

## IN CONFIDENCE

4. Thus the Secretary of State is responsible for public expenditure on matters which are, under the NI Constitution Act, defined as "transferred" (eg agriculture, education, health, economic development) and matters defined as "reserved" (eg police, prisons, criminal justice).
5. The Secretary of State is not responsible for other elements of public expenditure in Northern Ireland (eg Northern Ireland Court Service, Army, Inland Revenue, Customs and Excise).

How is total NI public expenditure determined?

6. For the purpose of this paper, NI public expenditure is defined as those elements which are the responsibility of the Secretary of State.
7. The level of UK public expenditure, including that for Northern Ireland, is set through the annual Public Expenditure Survey (PES). The level of expenditure for eg 1996/97 and the two subsequent years was decided during 1995, and the level of expenditure for each national expenditure Programme is announced in the Chancellor of the Exchequer's Financial Statement and Budget Report. The level of expenditure for Northern Ireland - covering both Northern Ireland Departments and the Northern Ireland Office - is currently determined within that system.
8. The overall level of expenditure provision for the Northern Ireland Block excluding Social Security Benefits is normally set primarily by means of a "comparability formula". This formula adjusts the Block excluding Social Security Benefits by 2.87% of changes to comparable GB programmes, reflecting NI's proportion of the UK population.
9. This system is not immutable. It is open to the Treasury to abrogate the

IN CONFIDENCE

## IN CONFIDENCE

operation of the formula by seeking to reduce NI expenditure; it is also open to the Secretary of State to bid for additional resources beyond those available under the comparability formula if she considers that NI's needs would not be adequately met by the formula. Any such bid can be taken to suspend the operation of the comparability formula, and thus leave all NI expenditure open to detailed Treasury scrutiny.

10. The Secretary of State has substantial discretion to allocate resources to meet her assessment of public expenditure needs and priorities within the Block excluding Social Security Benefits.
11. Two other elements of NI public expenditure are separately determined:
  - (a) Social Security Benefits - which are resourced on a basis which reflects parity of Benefit conditions and rates with GB;
  - (b) National Agriculture - which is subject to a separate negotiation involving the Treasury and the Secretaries of State for MAFF, Scotland, Wales and NI.

How the NI total is allocated to NI programmes

12. Within the Northern Ireland Block excluding Social Security Benefits, DFP operates its own annual Public Expenditure Survey. NI Departments and the NIO submit expenditure proposals for the next three years, including bids for any additional resources which they consider necessary.
13. These submissions are normally presented in April/May, and DFP discusses them with departments in the ensuing months.
14. It is not until autumn that the overall level of resources available for NI becomes known as a result of the UK PES. At this stage, the DFP Minister

IN CONFIDENCE

## IN CONFIDENCE

makes recommendations to the Secretary of State on which bids should be met, where reductions should be made etc.

15. When the Secretary of State decides on allocations to departmental programmes, usually in late November, departments then translate those allocations into detailed budgets for their own functions and eg Education and Library Boards, Health and Social Services Boards.
16. This year, the annual public Expenditure Survey has been suspended to allow for the Government's "Comprehensive Spending Review". This was launched to examine thoroughly all public spending across the UK to ensure that it aligns with the Government's priorities and that resources are used to best effect. All Departments including Northern Ireland are due to report shortly on the outcome of their respective CSRs. The annual Public Expenditure Survey cycle will then resume.

Approval by Parliament

17. The Public Expenditure Survey is conducted internal to Government, and expenditure decisions taken within it require the approval of Parliament before taxpayers' money is used to finance them. Thus the expenditure plans for the year ahead are incorporated into Northern Ireland Main Estimates which are drawn up by each NI Department and which must be approved by DFP which then presents them to Parliament. In the case of the NIO, Estimates must be approved and presented to Parliament by HM Treasury following consultation with DFP. There are usually two or three Parliamentary opportunities to discuss NI public expenditure in the transferred field:
  - (a) Main Estimates (usually May-June)
  - (b) Autumn Suppelmentary (December) - taken only if necessary

IN CONFIDENCE

## IN CONFIDENCE

## (c) Spring Supplementary (February/March)

Since Main Estimates are approved too late to authorise expenditure for the beginning of the financial year on 1 April, money is also voted "on account" for the incoming financial year at Spring Supplementaries stage, to enable government expenditure to continue until the Main Estimates are formally voted through Orders in Council known as "Appropriation Orders". The debates are an opportunity for Members to raise any matter of public concern in the transferred field, and they avail themselves of this opportunity.

18. During the financial year it remains open to the Secretary of State to reallocate resources within the Block excluding Social Security Benefits to meet emerging priorities, proposing Supplementary Estimates as necessary to Parliament. In practice, additional demands are usually balanced by reduced requirements. If this is not the case, it could be necessary to take action to reduce expenditure in discretionary areas and, in exceptional circumstances, a bid on the UK Contingency Reserve may be submitted to the Treasury.

How is NI public expenditure financed?

19. NI public expenditure is financed partly by revenue raised in NI:

	1996	£m
	/97	
(a) NI's share of UK taxation (the "attributed share") eg income tax, VAT, corporation tax;	3685	
(b) National Insurance Contributions paid by NI residents	1051	
(c) the Regional Rate;	215	
(d) miscellaneous other receipts	443	
and partly by revenue raised in GB.		
(e) NIO grant-in-aid to the NI Consolidated Fund	2419	

## IN CONFIDENCE

- financed from UK Consolidated Fund;
- |     |   |             |
|-----|---|-------------|
| (f) | transfer to NI National Insurance Fund from | 75          |
|     | GB National Insurance Fund;                 |             |
| (g) | NIO expenditure on Law and Order services - | 901         |
|     | financed from UK Consolidated Fund          |             |
|     | <b>TOTAL</b>                                | <b>8789</b> |
20. Items (a)-(f) finance "transferred services" administered by NI Civil Service departments; item (g) finances "reserved" services administered by the NIO.
21. Items (e)-(g) are the main components of the GB "subvention" to NI, which also includes eg expenditure on the NI Courts Service which is outside the responsibility of the Secretary of State.

Regional and District Rates

22. The principle is that total rates raised in NI should make a broadly equivalent contribution to the cost of local authority-type services as local taxation does in GB, subject to an appropriate level of rate support which takes account of NI circumstances.
23. The Regional Rate is struck by DFP and contributes to the cost of local authority-type services administered by central government.
24. District Rates are struck by each District Council and contribute to the cost of District Council services. For technical reasons they do not contribute to the financing of NI public expenditure as defined in para 3.
25. The level of NI rate support is subject to annual negotiation between DFP and the Treasury. At present NI's level of rate support (84%) is significantly higher than in England, Scotland and Wales, which effectively means that Northern Ireland ratepayers make a smaller contribution to local-authority type services than do council tax payers in GB.

IN CONFIDENCE

## IN CONFIDENCE

Receipts from the European Union

26. The definition of Northern Ireland public expenditure in paragraph 3 includes expenditure financed by receipts from EU programmes including the Structural Funds. Most Structural Fund receipts are taken into account when the public expenditure total is set, so that it is greater than it would have been if the Structural Fund receipts were not available.
27. All Structural Fund receipts are paid to Northern Ireland departments, brought to account by them, and passed on as appropriate to final recipients.
28. EU Structural Fund receipts to programmes for which the Secretary of State is responsible amounted to over £200 million per annum over the six years from 1994 to 1999. However, it is important to acknowledge that there may be significant changes for Northern Ireland's Structural Fund receipts after 1999.
29. The EU Peace and Reconciliation programme is a special "ring-fenced" addition to the Northern Ireland public expenditure programme, separate from the effect of anticipating general Structural Fund receipts.
30. Northern Ireland also received further EU funding of approximately £184m in 1996/97 from the Guarantee Section of the European Agricultural Guidance Fund. Under this, money is passed from the EU to the farmer, mainly via the Intervention Board Executive Agency.

Comptroller and Auditor-General

31. The Comptroller and Auditor-General for Northern Ireland authorises the

IN CONFIDENCE

## IN CONFIDENCE

issue of public funds from the Northern Ireland Consolidated Fund and certifies the accounts of all Northern Ireland Departments and a wide range of other public sector bodies. He is also responsible for examining the economy, efficiency and effectiveness with which policy is carried out, and probing the basis of expenditure decisions. He currently submits reports to the Public Accounts Committee at Westminster, which examines officials and reports to Parliament on those issues where it considers it appropriate to do so. This independent ex-post facto examination of Government spending is an important influence on the system.

IN CONFIDENCE