

STRAND 1: FINANCE ISSUES

PAPER BY THE BRITISH GOVERNMENT

- 1.1 By way of background, Annex A describes the existing arrangements relating to Northern Ireland public expenditure, and Annex B describes the proposed arrangements relating to the Scottish Parliament and Welsh Assembly.
 - 1.2 This paper suggests some key issues, relating to Finance, which Talks participants might consider in the context of options for new democratic institutions. It should be noted that, on many of the issues considered below, agreement would need to be reached with the Treasury in the context of whatever political settlement was agreed.
 - 1.3 The paper proceeds on the assumption that the arrangements for determining and allocating public expenditure in Northern Ireland after a settlement should continue to be based on the operation of the "Barnett" formula to generate a figure for the size of the NI 'block'.
2. What public expenditure programmes should new political institutions in Northern Ireland be responsible for?
- 2.1 This would effectively be determined by the range of functions to be devolved to new political institutions in Northern Ireland from among those for which the Secretary of State is currently responsible. So Talks participants may wish to take account of the implications of assuming financial responsibility for the range of functions which they consider appropriate for the new institutions.

3. Resource issues not covered by the "Barnett" formula

3.1 Some public expenditure issues (eg provision for Social Security Benefits, special cases such as EU Peace and Reconciliation Programme) are currently settled with the Treasury separate from the Barnett formula (see para 8 of Annex A). In relation to these:

- (a) should new political institutions in Northern Ireland act in support of the Secretary of State in dealings with the Treasury?
or
- (b) should the Secretary of State deal with the Treasury, on behalf of the new political institutions, on these issues? or
- (c) should the new institutions deal direct with the Treasury?

3.2 The Secretary of State would have the advantage of a seat in Cabinet when public expenditure issues were being decided at the UK level. New political institutions in Northern Ireland would, on the other hand, have a more intimate knowledge of the spending needs and priorities.

4. One Block or two?

- 4.1 If only some of the Secretary of State's current responsibilities were transferred to new political institutions in NI, would it nonetheless be better for both transferred and reserved functions to be managed as a single Block, or for the new institutions to have a separate Block?
- 4.2 A single Block would facilitate reallocations between transferred and

IN CONFIDENCE

reserved (Secretary of State) functions but might create friction between the new political institutions in Northern Ireland and the Secretary of State; a separate Block would give new political institutions a greater autonomy over transferred programmes but would tend to reduce flexibility.

- 4.3 In either case, the Treasury would be likely to regard NI expenditure as a single Block for the purpose of considering claims on the Reserve.

5. Allocations of the NI Block to Departmental programmes

- 5.1 New political institutions in Northern Ireland would be given a Block total to be divided up according to their priorities.

- (a) in determining what and how much to bid for within the Block total, would Departmental Committees/Heads of Departments operate a weighted majority/require sufficient consensus?
- (b) assuming bids exceeded the NI Block total, how would the new political institutions reach timely decisions on allocations to programmes and to spending bodies? Would a Finance and General Purpose Committee, operating on a weighted majority/sufficient consensus basis, undertake the arbitration role? If not, how would decisions be reached?

6. Allocations to North/South programmes

- 6.1 Should the NI contributions to any North/South implementation body or mechanism be resourced out of the NI Block (either directly or through relevant Departmental programmes), on a basis determined by the new political institutions in NI, or should they be funded independently?

IN CONFIDENCE

- 6.2 An advantage of such allocations being resourced from a Northern Ireland Block would be that their priority in relation to Departmental allocations would be determined by elected representatives in a direct competition for resources.

7. Local taxation

- 7.1 At present, DFP negotiates a level of Rate Support with the Treasury and this effectively determines the extent to which Regional Rate-payers contribute to the cost of Block services. As NI Rate Support, at around 84%, is significantly higher than in England, Scotland and Wales, the Treasury favours progressive increases in the Regional Rate so as to reduce the cost to the GB taxpayer.

- subject to satisfying the Treasury that, in the context of a political settlement, Regional Rate-payers were making an appropriate contribution to the cost of Block services, would Talks participants favour new political institutions in Northern Ireland having the discretion to propose increases in the Regional Rate, over and above what normal Rate Support settlements would imply, as a means of financing additional Block expenditure?

- 7.2 The advantage of this discretion would be that it would allow new political institutions in Northern Ireland to pursue expenditure objectives on the basis that the Regional Rate-payers would meet the cost, with the new political institutions accountable to them. However arrangements would be needed to ensure that any additional Social Security Benefits costs arising from the exercise of this discretion might be charged to the Northern Ireland Block, and that increases in

IN CONFIDENCE

such self-financed expenditure did not threaten public spending targets.

- 7.3 The potential disadvantages are that it could be difficult to reach agreement with the Treasury on whether/at what level NI local taxation was making an appropriate contribution to Block services; and that new political institutions in NI might be reluctant to contemplate imposing additional tax burdens, at least in their early years.

8. Other Tax-raising powers

- 8.1 The Scots Parliament (but not the Welsh Assembly) will have powers to vary the basic rate of income tax by up to 3p in the pound, to finance additional Block expenditure.

- should new political institutions in Northern Ireland have a similar power?

- 8.2 Advantages and disadvantages are broadly as for the Regional Rate; moreover additional administrative costs for the Inland Revenue would be charged to the Northern Ireland Block.