

NORTHERN IRELAND PUBLIC EXPENDITURE

The Secretary of State's current responsibilities

The Secretary of State for Northern Ireland is currently responsible for the expenditure of the Northern Ireland Office, the six Northern Ireland departments and, through them, the other major public bodies e.g. the Health Boards, the Education and Library Boards and the Northern Ireland Housing Executive. Expenditure in Northern Ireland on the Army and the Northern Ireland Court Service is outside the Secretary of State's responsibility. Also excluded is expenditure in Northern Ireland by other UK Departments, notably Inland Revenue and Customs and Excise.

The Assembly's responsibilities

2. On devolution there will be a split in the Secretary of State's responsibilities between those which will transfer to the Assembly (the functions of the six NI Departments) and those which will remain with the Secretary of State (the functions of the NIO). The Assembly has decided that under devolution the functions of the existing six departments will be distributed across ten new departments and the Office of the First Minister and Deputy First Minister.

The Public Expenditure Aggregates

3. There are two main Public Expenditure aggregates:

Departmental Expenditure Limits (DEL) - these are firm spending plans for the next three years which are intended to encourage longer-term planning.

CONFIDENTIAL

Annually Managed Expenditure (AME) - expenditure which cannot reasonably be subject to firm multi-year limits and must be re-examined annually with Treasury.

The Northern Ireland DEL includes all the programmes over which the Secretary of State has some discretion including Health, Housing and Education. The NI AME is largely Social Security Benefits and Common Agricultural Policy expenditure. A table summarising the plans for DEL, AME and main programmes in 1999-00 is attached.

Adjustments to Public Expenditure in Northern Ireland

4. The principles for allocating public expenditure between the countries of the United Kingdom under devolution were published by the Treasury on 31 March 1999 in "Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly - A Statement of Funding Policy". The main adjustments to NI Public Expenditure are from the following:

(i) Barnett formula

The overall level of the NI DEL is adjusted mainly through the operation of the Barnett formula which adjusts the NI total by 3.4% of changes in comparable English programmes reflecting Northern Ireland's population relative to that of England. The population percentage is updated annually. (If a programme has a wider coverage than England, e.g. it covers Great Britain, the population percentage is adjusted accordingly.) The NI total may therefore increase or decrease in line with changes in comparable spending in England. The Secretary of State is not bound to reflect the increases/decreases in English programmes within the NI DEL but has flexibility to distribute the resources in response to local needs and priorities. Under devolution, the Assembly will

C O N F I D E N T I A L

have similar discretion to decide on the allocation of resources to individual programmes.

(ii) Social Security Benefits (in AME)

Social Security Benefit spending is determined on the basis of entitlement and funded on the basis of parity of benefit conditions and rates with Great Britain. Benefits expenditure is "ring-fenced" i.e. additional spending is met by Treasury, but conversely, reduced spending does not release resources for other NI programmes.

(iii) Common Agricultural Policy (CAP) expenditure (in AME)

Levels of expenditure are negotiated at the national level with Treasury and distributed to each country on the basis of entitlement. The Secretary of State does not have discretion to reallocate this expenditure to other programmes.

(iv) Other spending not determined through the Barnett formula

Other spending programme allocations may also be determined outside the Barnett formula. For example, the EU Special Support Programme for Peace and Reconciliation provided additional spending to NI for specific programmes. The Welfare to Work allocations have also generally been determined on the basis of relevant client group. Such allocations are normally "ring-fenced" i.e. they are intended for specific purposes and cannot be moved to other programmes in the DEL.

The Regional and District Rates

5. Local taxation in Northern Ireland is in the form of the Regional and District Rates. The Regional Rate is struck by the Department of Finance and Personnel and contributes to the cost of services administered by central

CONFIDENTIAL

government whereas District Rates are struck by each District Council and contribute to the cost of District Council services. Subject to certain constraints, Regional Rate increases may be used to increase public expenditure in Northern Ireland. The expenditure plans set for the next three years reflect a contribution from Regional Rate increases.

Spending Reviews

6. The 1998 Comprehensive Spending Review fixed the Northern Ireland Departmental Expenditure Limits for 1999-00 to 2001-02. Allocations to Northern Ireland programmes within the overall totals were announced in December 1998.

7. There is no national spending review this year; the next is planned for 2000 and will confirm the allocations for 2001-02 and set new expenditure totals for the following two years. The total of expenditure available for Northern Ireland is determined in the national reviews. The Secretary of State, and in future the Assembly, will of course be able to review NI programme allocations in the absence of a national review and reallocate resources if necessary within the fixed totals available.

8. Spending review decisions on allocations for the in-coming financial year will normally be required by the late autumn to allow departments, Boards and other public bodies to be given budgets in time to plan effectively.

In-year Expenditure Monitoring

9. Spending reviews normally address the plans for the next three years. The Secretary of State also has flexibility to reallocate resources during the financial year to meet emerging pressures. Each year there are normally four monitoring rounds (in July, October, December and February) which provide to the Secretary of State details of the emerging pressures and easements for decisions on reallocations.

Receipts from the European Union

10. The NI DEL includes expenditure financed by receipts from EU Programmes including the Structural Funds. Most Structural Fund receipts are taken into account at the UK level when the public expenditure total is set, so that UK Programmes are greater than they would have been if the receipts were not available. Under these arrangements, the Secretary of State (and the Assembly in future) provides public expenditure cover from the NI DEL for expenditure financed by EU receipts, as well as for "domestic" programmes.

Approval by Parliament - Estimates and Appropriation

11. Expenditure decisions taken by Government require the approval of Parliament before taxpayers' money is used to finance them. Under the present arrangements the expenditure plans for the year ahead are incorporated in the Northern Ireland Main Estimates drawn up by each NI Department and approved by DFP which then presents them to Parliament. Supplementary Estimates may also need to be presented to Parliament for approval of the proposed reallocations in-year. In the case of the NIO, Estimates must be approved and presented to Parliament by HM Treasury following consultation with DFP. Under devolution, the NI Departmental Estimates will be presented to the Assembly rather than to Parliament for consideration and approval.

Resource Budgeting

12. The Government plans to introduce resource budgeting for the 2000 Spending Review. Resource budgeting will provide a new basis for the planning and control of public expenditure based on commercial accounting techniques and information. Whilst the introduction of resource budgeting should bring no changes to the underlying funding principles, it will have implications for the way the Barnett formula is applied.

CONFIDENTIAL

NORTHERN IRELAND PUBLIC EXPENDITURE PLANS 1999-2000

	£M
Departmental Expenditure Limit	
Northern Ireland Office	
Law, Order & Protective Services	995
Northern Ireland Departments	
Agriculture, Fisheries & Forestry	169
Trade, Industry, Energy & Employment	490
Roads & Transport	116
Housing	212
Environmental Services	391
Protective Services (Fire)	49
Education, Culture & Recreation	1558
Health & Personal Social Services	1863
Social Security Administration	160
Other Public Services	113
Capital Modernisation Fund	6
Northern Ireland Regional Rate Receipts	-270
Total for NI Departments	4856
Total Departmental Expenditure Limit	5852
Annually Managed Expenditure	
Agriculture, Fisheries & Forestry (CAP)	128
Pensions	68
Social Security Benefits	3390
Totally Annually Managed Expenditure	3586
Welfare to Work Expenditure	87
Total within Secretary of State's Responsibility	9525

Numbers may not exactly sum due to rounding

Source: "NI Expenditure Plans and Priorities: The Government's Expenditure Plans 1999-00 to 2001-02"

NIO PUBLIC EXPENDITURE AND MANPOWER

General Overview

The NIO Vote carries the expenditure for the maintenance of Law and Order and related services. The majority of this funds the police, prisons and compensation for criminal injuries and damage. It also covers the costs of the Department of the Director of Public Prosecutions (NI)(DPP), the Crown Solicitor's Office (CSO) and the Forensic Science Agency (FSANI). The Department also bears the costs of the Secretary of State and the Ministerial team.

NIO Vote

2. The Department's budget for the next three years was determined by last year's Comprehensive Spending Review. Our Estimate provision for the current (1999/2000) financial year £989m. This has been allocated as follows:

	£m
Policing	658
Prisons	161
Compensation	81
*Forensic Science (FSANI)	5
DPP	9
*CSO	4
Core Department	79

* Gross figures which are netted off by £8m receipts.

C O N F I D E N T I A L

In total the Department and its Agencies employ some 3882 staff (including 2355 prison service grades). Policing including the Police Authority for Northern Ireland (PANI) involves a total of 16,173 made up of 11,392 full-time and 1238 part-time policemen plus 3,543 civilian staff.

3. The NIO also has a Vote 2 which pays into the Northern Ireland Consolidated Fund (NICF) the difference between spending by Northern Ireland Departments and the Province's income from locally raised tax revenue. The NIO's responsibility is limited to ensuring that the money is properly transferred to the NICF. Responsibility for its control rests with the NI Department of Finance and Personnel (DFP) and the relevant NI Department.

4. Within the NIO ultimate responsibility for Departmental expenditure rests with the Accounting Officer (the Permanent Under Secretary) supported by the Principal Establishment and Finance Officer (PEFO) and by Financial Services Division (FSD). Line management exercises its responsibility in terms of each individual manager being accountable for his/her annual budget.

Resource Management - General Issues

5. The new financial framework introduced last year as a consequence of the Comprehensive Spending Review has established essentially fixed budget allocations to each Department including the NIO. While the Secretary of State retains responsibility for the total NI Block the NIO has potential access to easements arising in other NI Departments in the event that it faces inescapable unbudgeted pressures. Should devolution take place the rest of the NI Block would then fall to be managed by the devolved Assembly. In consequence financial difficulties facing the NIO would have to be resolved either internally or with the assistance of HM Treasury.

C O N F I D E N T I A L

6. Management of NIO expenditure within such constraints poses considerable problems arising mainly from:

- the ongoing volatility and unpredictability of the security situation which can generate unforeseen demands e.g. additional overtime working by policemen or extra compensation payments
- the fact that some 81% of our Vote I expenditure is pay or pay related thereby reducing our room to manoeuvre in the event of unexpected demands..

Resource Management - Current Issues

7. Since 86% of the Department's running costs consists of pay and pay related expenditure it is difficult to make savings without cutting posts. A major review of the Department's running cost position has recently been completed and plans are now being laid to enable the Department to live within its allocations over the next three years.

8. The most immediate pressures facing the NIO fall to the non-running cost side of the Vote. These cover a range of issues including compensation payments, policing and the Key Persons Protection Scheme. Additional pressures are anticipated in the autumn following the publication of the Criminal Justice Review Report and the Patten Report on policing. It is inevitable that we shall be seeking additional funding in-year to meet these demands. What is not yet clear is whether our initial approach will be directed to DFP or HMT. This will be determined by whether or not power has been transferred.