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PUBLIC EXPENDITURE IN NORTHERN IRELAND NORTHERN IRELAND AND THE PUBLIC EXPENDITURE SURVEY

1. The Government's annual PE Survey and White Paper cover all public expenditure in the UK, including that in Northern Ireland, which is Programme 17. The table for Programme 17 in the 1986 White Paper is attached as Annex 1.

SCOPE OF NI PROGRAMME

2. The programme covers all the expenditure which is within the control of the Secretary of State for NI and embraces the Northern Ireland Office, Northern Ireland Departments, Area Boards for Health and Education, District Councils and other public bodies such as the Northern Ireland Housing Executive. It excludes expenditure incurred in Northern Ireland by departments for which other Secretaries of State or Ministers have responsibility (such as the Ministry of Agriculture Fisheries & Food, Ministry of Defence and Lord Chancellor's Department), which is included in the relevant Departmental programmes. It has been decided that some of the agricultural expenditure in NI for which MAFF has hitherto been responsible should be transferred to the NI programme, and the necessary legislation is in preparation.
3. In 1986-87 NI cash spending is planned to exceed £4.5 billion out of total cash spending in the UK of some £139 billion. For future years the figures given in Annex I are those agreed at the conclusion of the 1985 PE Survey.

DETERMINATION OF THE NORTHERN IRELAND TOTAL - THE COMPARABILITY PRINCIPLE

4. In recent years when public expenditure in GB has been increased or decreased in the context of Public Expenditure Surveys, the NI total has been automatically adjusted to take account of changes to comparable programmes in GB, ie expenditure on services in GB for which in NI the Secretary of State is responsible. This "formula" method of adjustment is known as the comparability principle and is based on relative population (the population for NI being taken to be 2.75% of that of GB). Thus the NI total is arithmetically

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altered by 2.75% of the net adjustment to the defined comparable GB programmes. If for example the Survey review resulted in a cut in PE in GB of £1,000m of which £800m was on comparable programmes and £200m on non-comparable programmes such as defence the NI allocation would be reduced by 2.75% of £800m - £22m. The detailed workings of the NI formula have not been made known publicly.

TERRITORIAL EXPENDITURE

5. The comparability principle (which also applies to Scotland and Wales) has come under pressure in the last three years from HM Treasury on the grounds that the results of its application appear to them to have operated to the advantage of Northern Ireland and in particular Scotland. A recent study under Cabinet Office chairmanship confirmed that the Block arrangements had not led to any significant distortion of public expenditure patterns between the countries of the United Kingdom though because of changes in relative population there was a case for some reduction in the Scottish baseline. There remains something of an impression in some circles that Northern Ireland has overprovision in public expenditure: however it was decided in 1985 that there should not be any detailed attempt to assess need against a full range of objective criteria. There are many indicators on which it can be demonstrated that levels of public expenditure in Northern Ireland are lower than in Great Britain in respect of certain aspects of need.

1986 PUBLIC EXPENDITURE SURVEY

6. In recent Public Expenditure Surveys within Northern Ireland, successive Secretaries of State for Northern Ireland have endorsed the need for priority in planning for Law and Order, Industrial Development and Support and, within the social and environmental programmes, Housing. Detailed work is currently being undertaken to assess the effectiveness of these priorities. There are major pressures on public expenditure already identified in the context of the 1986 Survey. In particular the security situation continues to require additional resources; industrial support cases (especially Harland & Wolff and Short Bros) may require enhanced levels of provision; the Health and Education baselines, as in Great Britain, continue under pressure and there is a continued requirement that levels of expenditure on Housing be maintained at a significantly higher level than in Great Britain because of the

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significant lag in Housing standards between Great Britain and Northern Ireland. Detailed work on all departments requirements is continuing and further papers will be submitted to Ministers on the Public Expenditure Survey later in the Autumn.

FLEXIBILITY WITHIN NORTHERN IRELAND

7. The flexibility to decide on the expenditure allocations and priorities within the NI block has been regarded as essential by successive NI Secretaries of State in enabling them to respond to particular local needs and circumstances, which has in turn been seen as a political necessity given the small size of NI and the fact that many services which would in GB be provided by local authorities are here provided direct by NI government Departments. It means that the NI public expenditure allocation, having been adjusted on the basis of the comparability principle, is available to the Secretary of State to allocate to individual NI programmes on the basis of the most up-to-date assessment of the local position. This can entail moving resources contrary to adjustments in corresponding programmes in GB, for example if housing in GB is cut the Secretary of State is free to leave the NI housing programme untouched - or even to increase it - and make whatever adjustments to other programmes are necessary to live within his total. Between Surveys the Secretary of State retains this flexibility to make any adjustments necessary within the NI total to meet changing needs (except that it is not usually possible to switch resources from non-cash-limited areas into cash limited programmes) and to ensure that the resources made available are maximised. Close monitoring of NI public expenditure over the past few years has meant that cash outturn has been within 1% of the target set. This compares very favourably with performance in GB.

CONTINGENCY RESERVE

8. The application of the comparability principle and the freedom to switch resources internally mean that great care is necessary in deciding to make a separate bid on the Reserve for additions to the NI total. If, for example, a Reserve bid for a comparable programme is successful in GB outside the Survey itself, it has been agreed that NI will be allocated its appropriate share based on need. It is, therefore, only in respect of totally unforeseen circumstances that a separate NI bid would be justified. In such

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circumstances, however, the Secretary of State is not precluded from making such a bid and indeed access to the Reserve has been successfully sought in the past where need has been justified. It is not, of course, permissible to plan allocations on the basis of successful access to the Reserve. In the particular case of the 1986 Survey a bid for the additional costs of the Anglo Irish Agreement has been lodged, covering the costs of running and guarding the Secretariat and meeting of the Conference and of additional policing costs to contain protest against the Agreement.

FINANCING OF PUBLIC EXPENDITURE IN NORTHERN IRELAND

9. **The** level of NI's public expenditure is determined solely through the Public Expenditure system. It therefore reflects not only the Province's needs but the availability of resources in the UK and the needs of other areas of the UK. Because of the relatively high needs of NI (arising from its relatively depressed economic conditions) NI's public expenditure is inevitably partly financed by revenue generated elsewhere in the United Kingdom. The largest component of the non-local funding is the grant in aid paid by the NIO to bridge the gap between the NI Consolidated Fund's current expenditure and its current revenue.

10. **The** extent to which NI public expenditure is supported by revenue raised in GB is commonly referred to as the "subvention" to NI. The calculation of the subvention in Annex II takes no account of additional army costs in NI (£135m). While the "subvention" represents about one third of NI's public expenditure, it does no more than reflect the general position throughout the UK whereby revenue raised in the more prosperous regions is used to finance expenditure in the less prosperous. It is only the existence of separate government accounting arrangements for NI - a legacy of devolution - which makes such transfers uniquely identifiable for this region.

FINANCIAL CONTROL IN NORTHERN IRELAND

11. **Statutory** responsibility for control of spending by NI Departments (but not NIO, where the DFP role is confined to PE Survey work) rests with the Department of Finance and Personnel (DFP), not with HMT. In practice, however, there are aspects of spending on which DFP consults HMT. These relate mainly to issues (primarily in the sphere of industrial policy) where

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there is a strong national policy dimension and where Ministers collectively might be involved (and hence Treasury officials would be required to brief the Chief Secretary).

12. The responsibilities of DFP vis a vis NI spending departments are akin to those of HMT and MPO in relation to spending departments in Whitehall. Their aim is to simulate, so far as is practicable, the Whitehall arrangements, thereby ensuring an orderly approach to resource allocation and control issues in NI and justifying the large measure of independence which NI enjoys from detailed Treasury control on the great majority of resource issues. The rules, as set out in a letter to all NI Departments in 1982 are:-

- (1) DFP should be consulted at the formative stage of policy proposals which could have financial, manpower, management or organisational connotations. Papers on such matters submitted to PCC (the Policy Co-ordinating Committee of Permanent Secretaries) or Ministers in charge of Departments should indicate whether a DFP view has been sought and, if so, with what result, and the relevant passage should be agreed with DFP.
- (2) Submissions to the Secretary of State with similar connotations should likewise make clear what the DFP view is, though this would not preclude either DFP or the Minister of State in charge of that Department putting in a separate note. The object should be to ensure that the Secretary of State, when taking his decisions, has a comprehensive assessment of the issues from the standpoint of all aspects of his responsibilities.
- (3) When proposals which have resource implications for NI emanate from Whitehall, DFP should be involved from the formative stage onwards. Save in exceptional circumstances, DFP should be responsible for communications with HMT and for the preparation or clearance of drafts of correspondence with HMT Ministers.
- (4) Side-copying of papers to DFP does not constitute consultation and the absence of a response from DFP to papers copied to it should not be taken as assent. Neither is it a substitute for a formal submission to obtain approval or clearance.

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ANNEX I

3.18 Northern Ireland

Table 3.18

£ million

	1980-81 outturn	1981-82 outturn	1982-83 outturn	1983-84 outturn	1984-85 outturn	1985-86 estimated outturn	1986-87 plans	1987-88 plans	1988-89 plans
Northern Ireland Office									
17.7 Law, order and protective services	308	339	356	372	401	435	464	470	490
Total Northern Ireland Office	308	339	356	372	401	435	464	470	490
Northern Ireland Departments⁽¹⁾/⁽²⁾									
17.1 Agriculture, fisheries, food and forestry	53	56	68	76	78	79	82	90	90
17.2/3 Industry, energy, trade and employment	338	359	347	357	403	417	465	460	460
17.4 Transport	120	125	111	123	122	122	120	120	130
17.5 Housing	239	234	284	315	337	357	355	360	360
17.6 Other environmental services	122	129	140	153	158	164	173	170	170
17.7 Law, order and protective services	10	12	14	15	18	20	21	20	20
17.8 Education and science, arts and libraries	458	499	534	564	591	628	666	680	700
17.9 Health and personal social services	484	546	589	634	666	700	738	770	800
17.10 Social security	716	865	995	1,084	1,172	1,282	1,361	1,450	1,510
17.11 Other public services	16	16	19	20	23	25	30	30	30
17.12 Common services	18	22	23	29	33	41	45	50	50
Total Northern Ireland Departments	2,574	2,864	3,124	3,368	3,599	3,835	4,057	4,210	4,320
Total Northern Ireland	2,882	3,203	3,480	3,740	4,000	4,270	4,521	4,680	4,810
<i>Of which:</i>									
<i>Financed by ERDF receipts</i>	21	16	18	13	17	15	27	33	40
<i>Financed by ESF receipts</i>	23	25	35	38	38	35	35	37	39
⁽¹⁾ See Part 6.									
⁽²⁾ Memorandum Table.									
<i>Total expenditure within the Secretary of State's responsibility includes the following:-</i>									
<i>Under Northern Ireland Department</i>									
Northern Ireland Electricity Service	24	50	44	47	74	69	78		
Northern Ireland Housing Executive	123	95	157	167	184	89	174		
Northern Ireland Public Trust Port Authorities	1		1		1	1	1		
Northern Ireland Transport Holding Company	15	21	15	19	21	22	23		
Total public corporations	163	167	217	234	280	280	275		

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ANNEX II

SUBVENTION includes:-

	£m 1985-86 Provisional Outturn
Grant in aid under the Northern Ireland Constitution Act 1973	955
Expenditure by Northern Ireland Office	437
Expenditure by Northern Ireland Courts Service	13
Expenditure by Ministry of Agriculture Fisheries & Food	72
Contribution from the Great Britain National Insurance Fund	60
	<hr/> 1,537 <hr/>

SUBVENTION does not include:-

The extra cost of the Army's task in Northern Ireland	135
European Community Receipts	83
Refunds of VAT	27

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