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FROM: ALISON ROSS
PS/MR MURPHY

DATE: 28 JULY 1998

TO: MR QUINN

CSR : BELFAST TELEGRAPH ARTICLE BY JOHN SIMPSON, 28 JULY 1998

Thank you for your submission dated 28 July 1998.

This is to confirm that the Minister has read your submission and authorised the DFP Press Officer to write to the Belfast Telegraph today in terms of the draft attached to your submission.

Alison Ross
ALISON ROSS
PS/MR MURPHY
Minister of State

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PC99/98ALISON

Tuesday, 28 July 1998

Blurred financial vision

By John Simpson

NORTHERN Ireland may have lost out in the Government's recently concluded Comprehensive Spending Review.

Although there has been no formal confirmation, it seems that the somewhat misleading message is that, because there is to be an increase in public sector spending in the next three years of £1.4bn, this is a fair share of the total.

This is a welcome boost, but suspicion starts with a simple comparison of the proposed increases when compared to Scotland and Wales.

Pro rata, compared to the starting levels of spending, the Scots and the Welsh get similar proportional increases - £4.1bn for Scotland, £2.2bn for Wales - but if Northern Ireland had a comparable increase on existing levels of spending it would be more than £300m more than the announced £1.4bn.

Five Percent off!

The difference can be calculated by a different route. Taking the total of Government spending within the Departmental Expenditure Limits, the increases from 1998/9 to 2001/2 are as follows:

Scotland ...... 15.3% Wales .... 16.5% N.Ireland 11.1%

The difference is even more dramatic if the comparison is made only for current spending, excluding the capital budget. The gap widens to a difference of over 5 percentage points -equivalent to an increase, in money terms, which is one third less than in Scotland and Wales. The difference is, of course, larger in real terms since the inflation adjustments will presumably be similar for each area.

Conversely, the capital budget for Northern Ireland, which must include some of the elements in the special package recently announced by the Chancellor of the Exchequer, is set to rise more here than in the other two areas.

However, the capital element of Government spending in Northern Ireland starts from a proportionately lower starting point. In 1998/9 the capital budget in Northern Ireland is expected to be only 12% of the Current Budget, while it is set at 14% for the other areas.

Barnett formula Although the allocation of the different elements of public spending in Northern Ireland has not yet been announced, and will be a subject for consideration by the Assembly when the Secretary of State publishes her proposals, a little arithmetic suggests that there may be some balancing to do.

If the Barnett formula is applied, as is suggested in the Government's document, then Northern Ireland might expect to receive an allocation proportionate to the population numbers for the overall UK budget on the services which fall within the Northern Ireland block, excluding social security which is allocated according to the actual claims which will be made.

An approximate calculation can be made of the possible increase in spending on health and education using the Barnett approach. On the projected overall figures for the UK, Northern Ireland might expect, by the year 2001/2, to be spending £280m more per annum on education - an increase of 20% and £250m more on health, before any addition is included for Social Services. These figures assume that the Northern Ireland allocation is used to maintain broad parity in the education and health services.

The significance of these estimates is that, by difference, the amount left to increase spending on other services can be derived. Since Government spending within departmental expenditure limits is expected to rise by £630m in 2001/2 compared to 1998/9, if education and health absorb £530m, only about £100m is left for other services.

The same calculation, excluding the main excepted or reserved services from the totals, suggests that using overall UK increases, Northern Ireland might have had a larger allocation: possibly as much as £400m more. Coincidentally, this would be higher than the value of the difference in the rate of increase of spending when compared to Scotland and Wales.

An explanation All the evidence in the Comprehensive Spending Review points to a slower rate of increase in public sector spending in Northern Ireland than in Scotland and Wales, or

the UK in total. This is acknowledged when the hard figures are converted into a real growth rate.
The official document says: "The new spending plans provide for underlying real growth of 1% over the three years (in Northern Ireland)" Contrast to an earlier summary statement: "(In the UK) current (public) expenditure will grow by 2.25% on average in real terms." For Wales and Scotland, the totals allow a real growth which is approximately the same as the UK average.
There is a possible explanation for these differences which is tucked inconspicuously in the written commentary. Alongside the admission of only a 1% real increase there is a further sentence.

"The programmes will also benefit from improved efficiency and organisational structures, better targeting of resources, asset disposals and savings in law and order budget with peace and stability."

This key sentence raises a much wider topic. How much will the law and order budget decrease in the three years? A subsidiary but no less important question is how much of the savings in the law and order budget will be left in the Northern Ireland block.
Arguably, the Treasury has accepted, by the wording used in the Review, that such savings would not be clawed back to London. Hence, a big saving would make the overall budget for Northern Ireland begin to look comparable with other areas.
A reduction of £300m in annual law and order spending is within the realms of possibilities but unlikely in such a short period.
Is Northern Ireland being set a challenge that, with peace and stability, the funds released will be available for constructive purposes? If they are not released, is the sanction that public sector spending will be more tightly constrained? A second feature of this critical sentence is the reference to "asset disposals". Does this suggest that there are other proposals over and above the sale of Belfast Harbour? If so, what? Is the question of water privatisation, or partial privatisatio n, now to be reconsidered? Are the transport services within Translink another candidate for private sector investment? Is the house sales policy to be enhanced? These questions point to the merit of an early statement by the Secretary of State to clarify the arithmetic and the policy intentions of the Northern Ireland Office.
All in all, the Comprehensive Spending Review has produced a series of difficult questions for the allocation of public spending in Northern Ireland. Who is going to willingly volunteer as the Minister for Finance in the new Assembly?

58 FROM:

TO:01232 526135 PAGE:01

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FROM: S. Quinn

DATE: 28-7-98

TO: Gerry Cosgrave

FAX NO: ~~26407~~ 26135

TOTAL NUMBER OF PAGES (INCLD THIS PAGE) 5

FURTHER COMMENTS:

This has been approved by the Minister
Mr Quinn has alerted the Press Office & they are issuing

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DESK IMMEDIATE

FROM: S QUINN

DATE: 28 JULY 1998

PS/MR MURPHY (DFP,B&L) **See Copy Distribution Below**

CSR: BELFAST TELEGRAPH ARTICLE BY JOHN SIMPSON, 28 JULY

Issue: **John Simpson's 28 July Belfast Telegraph article implying that NI may have done badly in the CSR.**

Timescale: **Urgent - response required immediately for its own sake; but mainly to coincide with the 29 July (Overview) and 30 July (Public Finance) components of the Assembly Transition Programme.**

Recommendation: **That the Minister authorise the DFP Press Officer to write to the Belfast Telegraph in terms of the attached draft.**

1. John Simpson's article raises a number of questions and criticisms:

   - a 'fair' outcome for Northern Ireland should be £300/400 million more than the £1.4 billion announced.

   - Northern Ireland's increase (11%) is well behind that for Scotland (15%) and for Wales (16%).

   - very little will be left for other programmes if Northern Ireland is to match the English settlements for health and education.

2. Mr Simpson had not consulted DFP officials before he wrote his article. However, by coincidence, we met him on 28 July and he gave us a copy of his text. We drew his attention to some omissions/flaws in his analysis.

3. While there is scope for debate about how well NI has done in the CSR, it would be damaging if the article were to go entirely unchallenged, particularly as it is being published on the eve of the Transition Programme and may be picked up by Assembly Members participating in it.

4. We have discussed handling with the Press Office and believe that the best option is for the DFP Press Officer to write **today** in factual terms to the Business Editor of Belfast Telegraph (we do not want to hype the article up) and to have copies of that letter available to Mr Carvill (for the 29 July Overview) and to me (for the 30 July Public Finance Seminar), for deployment if and only if an Assembly Member refers to the article.

5. The Minister is invited to:

(a) agree that we should write to the Business Editor of the Belfast Telegraph,

(b) agree that we should deploy the letter if necessary at the Transition Programme,

(c) agree the attached draft.

S QUINN
Tel: 21662/21863

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Mr Carvill
NI Permanent Secretaries
Mr Hewitt
Mr Cosgrave
Mr Kelly
Mr Murphy, Press Office
Mr Warner

DRAFT

BUSINESS EDITOR, BUSINESS TELEGRAPH

John Simpson's article (Business Telegraph, 28 July) makes some comparisons between the Northern Ireland outcome in the national Comprehensive Spending Review and the outcomes for Scotland and Wales. These comparisons are based on the global figures for Scotland, Wales and Northern Ireland as published in the CSR White Paper on 14 July. It may be helpful to provide some clarifications of the overall figures announced on 14 July, since the figures for Northern Ireland reflect a number of unique factors which make direct comparisons with the corresponding Scotland and Wales figures problematical. Given the level of aggregation of the figures in the CSR White Paper, these factors would not have been apparent to John Simpson when writing his article.

Firstly, the net totals for Northern Ireland include assumptions about receipts from asset sales (commercially sensitive and therefore confidential) arising from the Chancellor's economic package. These assumptions reduce the "headline" figures, uniquely for Northern Ireland. When, however, they are allowed for, Northern Ireland is significantly better off in terms of "spending power" than the net figures would suggest.

A further factor is that expenditure on the European Union's Peace and Reconciliation Programme is expected to peak next year and then taper off quite rapidly in the subsequent years as the programme comes to an end. This results in an apparent slow down in the growth of the total expenditure figures. Again the Peace and Reconciliation Programme is unique to Northern Ireland.

Changes in the Northern Ireland totals also reflect the influence of the 'Barnett formula', which gives Northern Ireland its population share of changes in comparable expenditure programmes in Great Britain. It is an arithmetic fact that the formula promotes convergence in expenditure per head across all parts of the United Kingdom. That convergence will be more marked in Northern Ireland because our per capita lead in public expenditure is significantly higher than in Scotland or Wales (in 1996/97 Northern Ireland's expenditure per

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head stood at 35% above the UK average, compared to 19% in Scotland and 14% in Wales). Inevitably this means that Northern Ireland's formula-driven expenditure will tend, other things being equal, to grow rather more slowly than in Scotland and Wales.

Finally, it is worth noting that the Departmental Expenditure Limits announced for Northern Ireland, Scotland and Wales do not contain any allowance for expenditure on Welfare to Work/the New Deal. These are treated as a single UK programme but the reality is that Northern Ireland's share, amounting to over £240 million, is significantly above our share of the UK population.

I hope that this information will help to put the broad figures in John Simpson's article in a rather fuller perspective.

PRESS OFFICER
DEPARTMENT OF FINANCE AND PERSONNEL
JULY 1998

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