

Barnett

Essentially all of the additional resources over which the Executive has complete discretion to allocate come through the working of the Barnett formula.

The formula gives Northern Ireland its population share of any change in spending on a comparable English programme. Some local expenditure programmes such as education and health are virtually 100% comparable with their English counterparts but, at the other extreme, public spending on water and sewerage has no English equivalent because the industry is privatised there.

Other things being equal, repeated application of the Barnett formula should over time, squeeze down per capita public expenditure in Northern Ireland towards English levels. The squeeze is greater the faster are the increases in English expenditure.

This convergence would be considerably accelerated under the new Resource Budgeting regime if the Barnett formula is applied to the calculation of changes in the capital charges that apply to capital assets in the public sector. This is because Northern Ireland's public asset base relative to England, is proportionately much larger than its population share.

The potential for convergence in the Barnett formula raises severe doubts about its suitability as a long term funding mechanism for the Executive. It is clearly desirable that funding should be on the basis of need but this is not necessarily well captured by population alone. However, the

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assessment of relative need is a complex subject which requires careful scrutiny and cannot entirely be divorced from subjective judgement.

The Executive is pursuing work on relative need with a view to mounting a robust case to the Treasury for reform of the Barnett formula. However, the timescale involved means that reform of Barnett cannot be an effective issue before the next UK Spending Review in 2002 and so is not directly relevant to the amounts that are available to the Executive for allocation in 2002/03.

Rates

There are two rates in Northern Ireland, a District Rate levied by local councils to help pay for the services they deliver and a Regional Rate set by the Executive and the Assembly. Since devolution, the product of the Regional Rate has been an integral part of the public expenditure resources available to the Executive in determining its budget allocations. Money from the Regional Rate is not tied to any particular service but may be deployed in line with the Executive's priorities.

The Executive's draft 2001/02 budget was planned on the basis of an 8% increase in the Domestic Regional Rate and a 6.2% increase in the non domestic Regional Rate for 2001/02 and 8/5.5% in each of the two subsequent years 2002/03 and 2003/04. The final budget approved by the Assembly in December 2000 amended the planned increase in the Regional Rate in 2001/02 to 7% for domestic ratepayers and 3.3% for non domestic ratepayers. However, indicative spending plans for 2002/03 and 2003/04 remain based on increases of 8% and 6.2% in the rates for those years relative to the original planned increase of 8% and 5.5% in 2001/02.

Thus reverting to the original plans for the rates in 2002/03 and 2003/04 would leave a shortfall in revenue relative to the planned spending for those years in the 2001/02 budget estimated at £ m and £ m respectively. The shortfall would of course be much worse if the actual rate increases in 2001/02 were now taken forward into 2002/03 and 2003/04 to replace the original plans. The estimated figures are £ m and £ m for 2002/03 and 2003/04 respectively. Alternatively bringing the Regional Rate revenue back to its original planned path would imply increases of % in the domestic rate and % in the non-domestic rate in 2002/03 and % and % respectively in 2003/04.

PFI/PPP

Devolution has focused attention on the deficiencies in public sector capital infrastructure in Northern Ireland that has developed over many years. In roads, the water and sewerage system, health and education estates and many other sectors there is evidence of a substantial backlog of investment that needs to be addressed.

Within the spending limits available to the Executive for the foreseeable future there is a limited scope to make good these deficiencies through conventional procurement without severely curtailing the development of services.

The Private Finance Initiative/Public Private Partnerships provide a means of helping to address infrastructure deficits in appropriate cases. By focusing on the acquisition of services rather than the underlying asset PFI/PPP can allow private sector resources to be mobilised for the benefit of public services. There is mounting evidence throughout the United

Kingdom and in Ireland that PFI/PPP solutions can deliver substantial improvements in infrastructure and deliver value for money to the public sector.

PFI/PPP may not be suitable in every case but it is a potentially important factor in helping the Executive to achieve its objectives. Recognising this the Executive have established a Working Group on PFI/PPP jointly chaired by the Economic Policy Unit and DFP with a remit to examine the opportunities for PFI/PPP solutions across all department and to explore the feasible options for the future funding of public infrastructure.

The Efficiency Agenda: Improving Public Sector Productivity

The resources available to the Executive have to meet the cost of administering public services as well as the cost of the services themselves. It is important that the right balance is struck between these expenditures.

The Executive is committed to efficiency improvements in public administration and is actively pursuing the agenda for Modernising Government and securing Best Value. Over the larger term a fundamental Review of Public Administration will also be pursued.

The structure of devolved government adopted in the Belfast Agreement is more complex than under direct rule and this has inevitably involved some expansion of administrative overheads. There is unlikely to be a substantial opportunity for efficiency savings in this environment in the period covered by the next budget. However, the discipline of a rigorous approach to securing efficiency gains as the system matures offers the

prospect of a significant contribution to the room-to-manoeuvre available to the Executive in the future.

Sale of Assets

The asset holdings of the public sector in Northern Ireland are very substantial. Surplus assets represent opportunities foregone since they could be disposed of and the proceeds used to boost the spending power available to the Executive. Moreover the move to full Resource Budgeting procedures means that from 2002/03 onwards the capital charge (comprising depreciation and an opportunity cost of capital) which applies to asset holdings will impact fully on the resources available for delivering public services. Surplus or under-performing assets will therefore impose a real penalty on the Executive's budget.

In light of these considerations it is extremely important that in the budget every opportunity is taken to identify and dispose of surplus assets that have not already been taken account of in existing spending plans.