

Department of Finance presentation to the Northern Ireland Fiscal Commission

11 June 2021



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NI DEVOLUTION SETTLEMENT AND CURRENT FISCAL POWERS



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NORTHERN IRELAND ACT 1998 – DEVOLVED POWERS

- The **Northern Ireland Act 1998** provides the basis of the constitutional structure in NI.
- Sets out the respective responsibilities of the UKG and NI Executive in relation to **transferred**, **excepted** and **reserved** matters:
 - ***Transferred*** - NI Assembly has full legislative competence.
 - ***Excepted*** - matters of national importance which remain the sole responsibility of UKG. **This includes UK-wide taxation.**
 - ***Reserved*** - UK-wide issues where legislative authority rests with UKG but where the NI could legislate with the consent of the SoS.

CURRENT FISCAL POWERS AVAILABLE TO THE EXECUTIVE

	Devolved Taxes	Future Considerations
NI	<ul style="list-style-type: none">• Regional Rates• Long Haul Air Passenger Duty• Carrier Bag Levy• Corporation Tax (commencement clause in legislation not yet triggered by HM Treasury)	<ul style="list-style-type: none">• To be determined following consideration by Executive of Fiscal Commission report & recommendations

NI CURRENTLY HAS A MORE LIMITED SUITE OF FISCAL LEVERS IN COMPARISON TO SCOTLAND AND WALES

	Devolved Taxes	Future Considerations
Scotland	<ul style="list-style-type: none"> • Scottish Income Tax (partial) • Scottish Land and Buildings Transaction Tax and Scottish Landfill Tax • Council Tax and Non-Domestic Rates 	<p><i>SG has the power to introduce two further taxes - not yet implemented:</i></p> <ul style="list-style-type: none"> • Aggregates Levy • Air Departure Tax • Assigned VAT revenues delay.
Wales	<ul style="list-style-type: none"> • Land Transaction Tax • Landfills Disposals Tax • Income Tax (partial) • Council Tax & Non-domestic Rates 	<ul style="list-style-type: none"> • Aggregates Levy <p><i>Public call for ideas for new taxes:</i></p> <ul style="list-style-type: none"> • Vacant Land Tax planned • Other suggestions

LEGAL POSITION WITH REGARDS TO RECEIVING MORE POWERS

- ***Further devolution:*** devolution of taxation requires primary legislation at Westminster.
- ***Introducing new taxes:*** Section 63 of the NI Act 1998 provides for a tax to be imposed or increased BUT Schedule 2 constrains this significantly - essentially can't be similar to existing UK tax.
- Experience elsewhere (Wales) – a challenging and protracted process.
- ***Derogations:*** benefit of a differential tax treatment without an accompanying reduction in the Block Grant BUT:
 - requires evidence of negative impacts the national policy change would have in NI; and
 - needs to comply with State Aid rules.

PUBLIC EXPENDITURE IN NORTHERN IRELAND



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UK Spending Review Process:

- Generally - Spending reviews set out funding allocations for 3 year period
- Spending Review 2020 only set firm plans for **2021-22**



BARNETT FORMULA

$$\begin{array}{ccccccc} \text{Change in} & & & & & & \\ \text{Comparable} & & & & & & \\ \text{English} & \times & \text{Comparability} & \times & \text{NI} & \times & \text{VAT} \\ \text{Programme} & & \%* & & \text{Population} & & \text{Adjustment} \\ & & & & \% & & \end{array}$$

Example: Department of Health

$$\begin{array}{ccccccc} - \text{£100 million} & \times & 0.993 & \times & 0.0345 & \times & 0.975 \\ & & & & & & \\ & & & & & & = -\text{£3.34 million} \end{array}$$

* Comparability differs for each English programme, e.g MOD = 0 because it is a UK wide programme.



BARNETT FORMULA ADVANTAGES

- It is formula-based which promotes transparency
- It provides greater certainty in terms of the quantum of resources available
- It reflects population changes
- It avoids lengthy negotiations with HM Treasury on budget allocations



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BARNETT FORMULA DISADVANTAGES

- The mechanism cannot account for regional variations in need.
- Setting of comparability factors, used alongside population figures to determine allocations, could be more transparent.



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NI PUBLIC EXPENDITURE SYSTEM



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COMPOSITION OF EXPENDITURE

- Our Total Managed Expenditure (TME) is comprised of:
 - Departmental Expenditure Limits (DEL)
 - Annually Managed Expenditure (AME)



COMPOSITION OF EXPENDITURE

- Departmental Expenditure Limits (DEL)
 - Set out at SRs and related to expenditure that is subject to firm forward year projections (e.g. salaries)
- Annually Managed Expenditure (AME)
 - Related to expenditure that is subject to fluctuation (e.g. Pensions, benefits)



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OTHER SOURCES OF FUNDING

- Regional Rates
- RRI Borrowing
- Income Streams (EU, general)
- City and Growth Deals
- EU Replacement Funding
- NI Protocol
- New Decade New Approach
- Confidence and Supply
- Shared Education
- Security Funding



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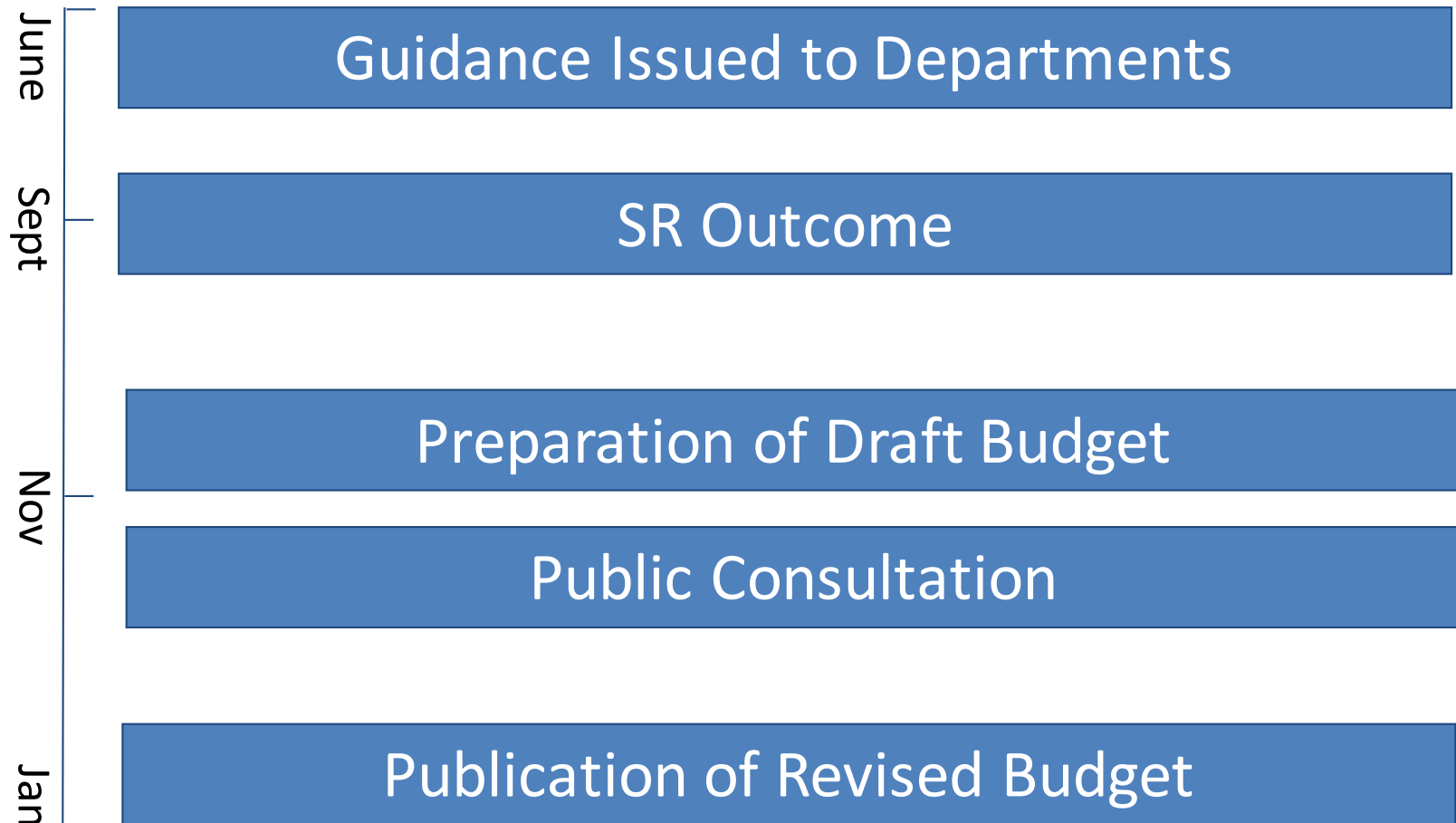
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PREPARATION OF BUDGET – “NORMAL” CYCLE

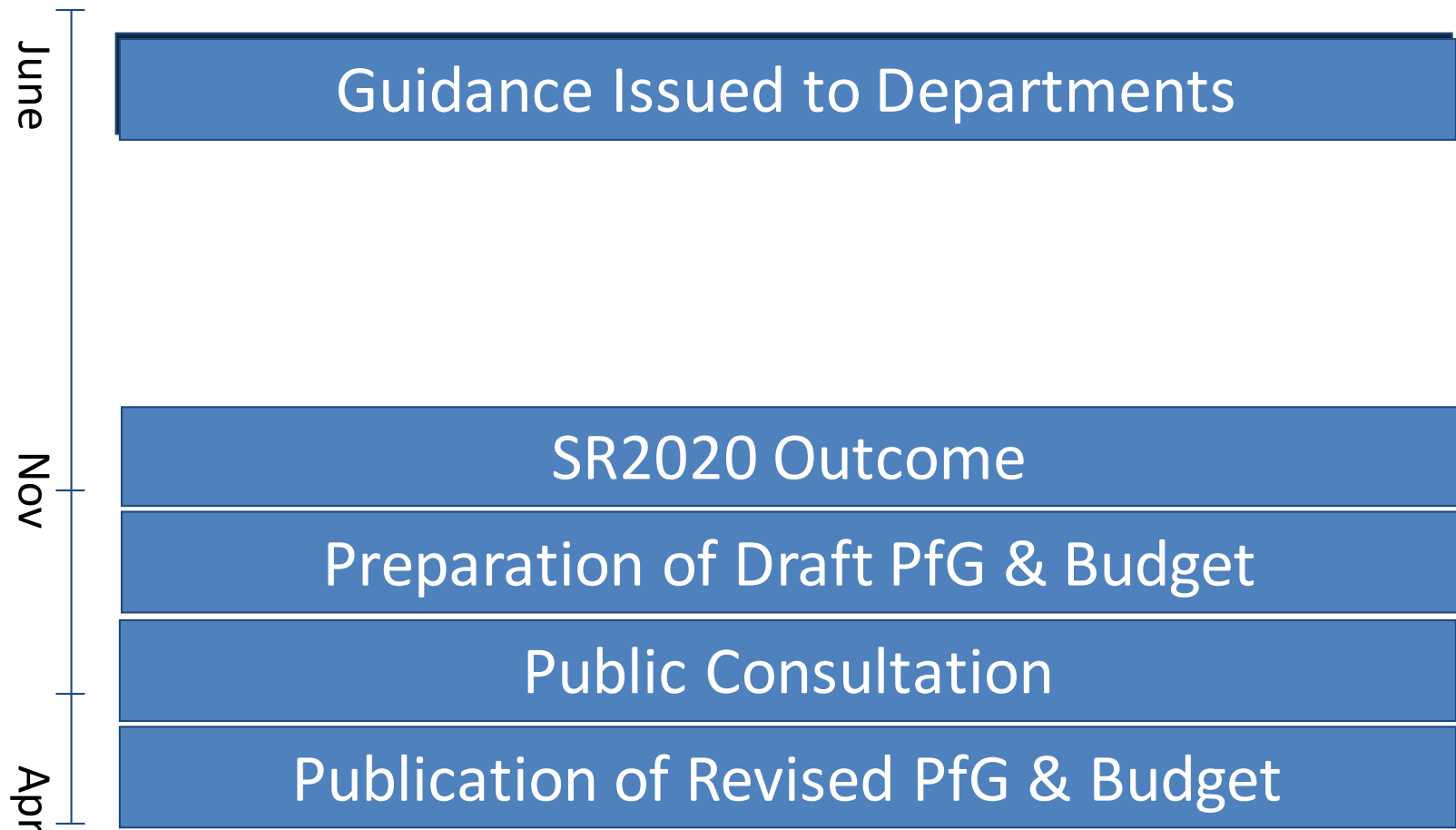


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PREPARATION OF BUDGET – 2021-22



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2021-22 SPECIFIC ISSUES

- Single Year Budget
- COVID-19 Funding
- Transitioning EU Replacement Funding
- NI Protocol Funding
- Timing of HMT Announcements – confirmed in-year allocations



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IN-YEAR MONITORING

- Formal process that allows departments to address in-year financial pressures
- It provides the Northern Ireland Executive with a mechanism to flexibly address unforeseen financial issues
- 3 monitoring rounds each year: June, September and January



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IN-YEAR MONITORING

Benefits

- Improved financial management
- Responsive to changes

Problems

- De-risks departments
- Level of resources available
- Assembly Accountability



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BUDGET EXCHANGE SCHEME

- Limited to 0.6% of Resource DEL (0.75% of RDEL for 2021-22 onwards)
- 1.5% Capital DEL
- Excludes ring-fenced programmes (Fresh Start etc)



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PUBLIC FINANCE OVERVIEW

- Financial packages have boosted spend in specific areas in recent years
- But day-to-day services continue to come under pressure
- Transformation required



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SUPER PARITY



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