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Draft Budget 2011-15

This paper presents a critical evaluation of the Northern Ireland Executive's draft Budget 2011-15. Some procedural questions are highlighted and a number of issues for further clarification are presented.

Key points

- The consultation period for the draft Budget is right at the low end of the time period suggested by good practice, and has taken place over the Christmas and New Year holiday period. This reduces the ability of the Assembly and its statutory committees, stakeholders and the general public to scrutinise the proposals and to hold the Executive to account. In effect, the Assembly has been somewhat marginalised and it is not clear that the timetable could not be extended;
- The draft Budget document does not provide full details in relation to spending/savings plans for each department. At the time of writing (6 January 2011) only four Executive departments (DCAL, DETI, DFP and DOJ) have published their own spending plans. This compounds the difficulties raised by the brevity of the consultation period as stakeholders are being consulted on partial information;
- The draft Budget makes allocations for a four-year period, with no suggestion of a formal mechanism for annual review;
- The draft Budget proposes that revenue raising options will be evaluated over the “coming weeks” but does not provide details on what those options might be, except for the introduction of a plastic bag levy and no timescale for this is provided;
- A number of other initiatives are introduced (such as Social Investment and Protection Funds) without any detail on how they are intended to operate;
- The draft Budget imposes spending reductions on the Assembly itself - and on the Comptroller and Auditor General - which are in excess of the reductions faced by Executive departments and comparable bodies in Scotland and Wales. And yet, these are the bodies which constitutionally/statutorily provide checks and balances to the Executive; and,
- The Department of Health, Social Services and Public Safety has been protected relative to other Northern Ireland departments. It has a lower proposed real-terms reduction than health in Wales, but a greater real-terms reduction than in Scotland.

1. Introduction

The Minister of Finance introduced the Northern Ireland Executive's draft Budget for 2011/12 to 2014/15 to the Assembly on 15 December 2010.

The purpose of this note is to draw out some of the key messages and to highlight some issues which require further clarification.

Timetable for consultation

The closing date for the consultation is 9 February 2011. This is an eight-and-a-half week period for members of the public, interested bodies and the Assembly's statutory committees to consider and respond to the draft budget.

Good practice suggests that 12 weeks should be the standard period for formal consultation, with a minimum period of eight weeks.¹ Whilst the consultation on the draft Budget satisfies that eight-week minimum, it should be noted that this period is over the Christmas and New Year holidays. Consequently, it is likely that Assembly committees will have only two meetings at which to consider draft Budget 2010.

Good practice on legislative budgeting suggests that:

Parliament should be allowed 2–4 months to scrutinize, debate, and propose alternative budgetary policies (within limits of cost), prior to adopting and promulgating the annual budget before the new fiscal year begins.²

The Executive's timeline does just about meet the lower end of the time scale suggested by the Office of First and Deputy First Minister's guidance but it falls short of that suggested by International Monetary Fund (IMF) guidance. It should also be noted that the draft Budget 2011-15 document does not contain detailed spending proposals below the level of departmental allocation. The document states that:

Ministers have been asked to publish a more detailed breakdown of proposed expenditure on their departmental websites. This should be accompanied by details of their savings delivery plans which will provide more information on the savings measures required to enable the department to live within their budget allocation. The savings delivery plans will include details of any implications for frontline services.³

¹ OFMDFM (2003) 'A practical guide to policy making in Northern Ireland' available online at:

<http://www.ofmdfmi.gov.uk/practical-guide-policy-making.pdf> (accessed 20 December 2010) (see section 8.5)

² International Monetary Fund Technical Notes and Manuals (2010) 'Role of the Legislature in Budget Processes' available online at: <http://www.imf.org/external/pubs/ft/tnm/2010/tnm1004.pdf> (accessed 20 December 2010) (see page 5)

³ NI Executive (2010) 'Draft Budget 2011-15' available online at: http://www.northernireland.gov.uk/website - draft_budget.pdf (accessed 20 December 2010) (see page 30)

It goes on to state that each department's consultation will run concurrently with the consultation on the overall budget. At the time of writing (6 January 2011) **only four** of the Executive's departments have published a consultation document on their websites. Therefore, both the public and the Assembly are being consulted on only part of the information, albeit with a promise that more will be forthcoming. The more time that elapses before this detailed information is published the less likely it is that the consultation will comply with good practice guidelines.

In the Executive's Review of Spending Plans 2010/11 a similar process was used for consultation whereby departments were to publish information on their websites. The following extract from a previous Assembly Research paper is relevant here because it appears there is a danger of similar criticisms being made again.

The approach to consultation on that occasion was criticised by The Methodist Church in Ireland's Council on Social Responsibility which in correspondence with the Committee for Finance and Personnel raised general dissatisfaction with the process:⁴

...the consultation was at best flawed and at worst opaque. The process falls far short of good practice for consultations. It is not clear how a response could be made or what the deadline is for such responses [...] DFP has asked each department to publish more detailed information on its website. However, sometimes this information is not easy to locate on the websites (e.g. DHSSPS website), or when it can be located, does not contain information about what the focus of the consultation actually is or how a response can be effected (e.g. DCAL website).

The submission went on to cite a judgement by Weatherup J, handed down on 11 September 2007: "it is common ground that, whether or not consultation of interested parties and the public is a legal requirement, if it is embarked upon **it must be carried out properly**," (emphasis added)

In his judgement, Weatherup J cited another judgement^[2] in which the four requirements of consultation were stated:

To be proper, consultation must be undertaken at a time when proposals are still at a formative stage; it must include sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response; adequate time must be given for this purpose; and the product of consultation must be conscientiously taken into account when the ultimate decision is taken.

⁴ This section is extracted from Assembly Research paper 45/10 available online at: <http://www.niassembly.gov.uk/researchandlibrary/2010/4510.pdf> (accessed 5 January 2011) (see page 14)

^[2] Ex p Coughlan [2000] 3 All ER 850, [2001] QB 213, para 108

The Methodist Church in Ireland's Council on Social Responsibility wrote that "viewed against these requirements the current consultation falls far short [...] Northern Ireland deserves better of the Executive with respect to consultation."

DFP officials were asked about the effectiveness of the consultation process on the Review of Spending Plans on 21 April 2010 in an evidence session with the Committee for Finance and Personnel. In response, an official commented:

In the responses to the draft proposals, concerns were expressed by the health and social care sector about perceived cuts. However, there were no suggestions as to, for example, if we were to take resources and allocate them to area B, which other areas should have their budgets reduced to meet the pressure. That was not explored. The other issue was pro rata cuts across Departments, as opposed to the targeted approach which the Executive decided to pursue and implement. There was no great deal of analysis or response on that.^[3]

It may well be that consultees did not feel able to subject the proposals to detailed analysis simply because the information provided was in many cases insufficient for them to do so. Indeed, despite the descriptions of the documents that are available on departmental website as 'consultations' it was not clear exactly what the public was being consulted on - as noted above. It is difficult to frame a response when the question is not clearly defined."

It should be noted that at least some of the criticisms previously levelled at the approach to consultation are less valid in relation to the draft Budget. The DCAL and DFP documents do contain a closing date for comments, for example.

Legislative requirements in relation to the Budget

There is a requirement in section 64(1) of the Northern Ireland Act 1998⁵ that a draft Budget must be laid before the Assembly prior to the commencement of the following financial year:

The Minister of Finance and Personnel shall, before the beginning of each financial year, lay before the Assembly a draft budget, that is to say, a programme of expenditure proposals for that year which has been agreed by the Executive Committee in accordance with paragraph 20 of Strand One of the Belfast Agreement.

Paragraph 20 of Strand One of the Belfast Agreement states:

^[3] Official Report Committee for Finance and Personnel 21 April 2010, available online at:

<http://www.niassembly.gov.uk/record/committees2009/FinancePersonnel/100421Reviewof2010-11SpendingPlans.pdf>
(accessed 27 April 2010) (see page 5)

⁵ Available online at:

<http://www.statutelaw.gov.uk/content.aspx?LegType=All+Legislation&title=northern+ireland+act&Year=1998&searchEnacted=0&extentMatchOnly=0&confersPower=0&blanketAmendment=0&sortAlpha=0&TYPE=QS&PageNumber=1&NavFrom=0&parentActiveTextDocId=2045126&ActiveTextDocId=2045214&filesize=808> (accessed 5 January 2011)

The Executive Committee will seek to agree each year, and review as necessary, a programme incorporating an agreed budget linked to policies and programmes, subject to approval by the Assembly, after scrutiny in Assembly Committees, on a cross-community basis.⁶

It appears therefore (and this should not be construed as definitive legal advice) that the draft Budget document that was presented to the Assembly on 15 December does not discharge the Minister's duty under section 64(1) but that rather a further document that has been agreed **following** consultation is required. The effect of this may be to constrain any additional time available to the Executive if the Minister is to comply with his statutory obligation.

It is not immediately clear however why the Executive has chosen 9 February 2011 as the closing date for the consultation and why more time could not be given to the Assembly and other stakeholders. Considering that the draft Budget covers a four-year period, it is presumably even more important that the Assembly and other stakeholders are able to scrutinise the proposals fully than if it were a one-year plan.

An additional time constraint, however, is the coming Assembly election. The last sitting prior to the election is scheduled for 22 March 2011, so for the Minister to discharge his duty under section 64(1) a finalised Budget must be laid before the Assembly before that date.

It *may* be possible that there is another legislative mechanism through which more time could be sought.

For example, the Vote on Account mechanism allows the Assembly to approve a proportion of the current year's allocation to be used by departments for the following year. The Introduction to the Vote on Account 2010-11 explains:

The Vote on Account is normally calculated as a proportion (45 per cent) of the preceding year's total voted provision. Generally this should be sufficient to ensure that the provision made for each service is not exhausted before the Main Estimates can be approved in the summer, but not so high as to prejudice the Northern Ireland Assembly's consideration of the Main Estimates.⁷

The Vote on Account is usually taken at the same time as the Spring Supplementary Estimates are considered in February. It might be possible to increase the provision in the Vote on Account to a greater proportion than 45% to allow a longer consultation period. This is because the Budget itself does not confer authority on departments to spend money – that requires an Appropriation Act which accompanies the Main Estimates, usually around June.

⁶Available online at <http://www.nio.gov.uk/agreement.pdf> (accessed 5 January 2011)

⁷<http://www.dfpni.gov.uk/ni-estimates-vote-on-account-2010-2011.pdf>

Such an approach would not appear to solve the requirement on the Minister under section 64(1). The Committee may wish to seek legal advice on this matter.

A budget review mechanism?

The Executive has presented a four-year budget. There are some advantages in such an approach, not least that it provides certainty for departments and other stakeholders over the medium term. On the other hand, it could be argued that the approach also limits the flexibility of the incoming Executive (following the Assembly election in May) to address changing circumstances.

In its second report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure, the Committee for Finance and Personnel recommended that:

Whilst it considers that the setting of a clear timetable to include key milestones at the start of each budget process is of vital importance, the Committee believes that clarity is required on the shape, frequency and duration of future budget cycles. In noting that the Budget 2010 process will develop departmental spending plans for the four-year period from 2011-12 to 2014-15, the Committee recommends that a regularised annual budgetary review process is established within this framework, with a pre-determined timetable, to enable the Executive and Assembly to make interim reappraisals of departmental allocations against progress in delivering PfG priorities and savings.⁸

The Budget document does not refer to any mechanism for an annual formalised review.

⁸ CFP (2010) 'Second Report on the Inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure' available online at http://www.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html#3 (accessed 22 December 2010) (see Recommendation 4)

2. Departmental allocations – current expenditure

The allocations in the draft Budget for each Executive department's current expenditure are shown below in Table 1.

It should be noted that, unlike the Executive's allocation in the UK Government's recent Spending Review 2010, the figures are presented in cash terms. This means that the assumed impact of inflation for future years is ignored.

Table 1: draft allocations to Executive departments for current expenditure, in cash terms

	£million									
	2010-11		2011-12		2012-13		2013-14		2014-15	
Agriculture and Rural Development	224.9	224.9	0.0%	236.0	4.9%	222.6	-5.7%	219.0	-1.6%	
Culture, Arts and Leisure	113.3	112.5	-0.7%	113.2	0.6%	110.0	-2.9%	103.0	-6.3%	
Education	1,914.8	1,852.2	-3.3%	1,857.3	0.3%	1,861.6	0.2%	1,847.7	-0.7%	
Employment and Learning	798.9	775.4	-2.9%	767.4	-1.0%	785.6	2.4%	813.8	3.6%	
Enterprise, Trade and Investment	199.5	204.9	2.7%	211.6	3.2%	203.5	-3.8%	205.5	1.0%	
Finance and Personnel	182.9	190.5	4.2%	187.1	-1.8%	179.9	-3.9%	180.9	0.6%	
Health, Social Services and Public Safety	4,302.9	4,348.1	1.0%	4,427.7	1.8%	4,543.2	2.6%	4,629.2	1.9%	
Environment	129.6	121.8	-6.0%	123.6	1.4%	121.0	-2.1%	121.5	0.4%	
Justice	1,223.7	1,213.1	-0.9%	1,189.0	-2.0%	1,166.7	-1.9%	1,176.4	0.8%	
Regional Development	517.3	500.3	-3.3%	487.2	-2.6%	459.6	-5.7%	454.0	-1.2%	
Social Development	521.1	516.7	-0.8%	532.0	3.0%	543.0	2.1%	523.4	-3.6%	
Office of the First Minister and Deputy First Minister	80.2	79.0	-1.4%	80.2	1.6%	77.0	-4.1%	73.7	-4.3%	

Source: Draft Budget 2011-15

In Table 2 below, the draft allocations are shown in real terms through the application of HM Treasury deflators.⁹ It shows that the total planned real-term decreases for departments' current expenditure from the 2010/11 base year to 2014/15 range from 2.6% (DHSSPS) to 20.6% (DRD).

It should be noted that there are difficulties associated with considering these allocations in real terms:

⁹ Available online at http://www.hm-treasury.gov.uk/data_gdp_fig.htm (accessed 20 December 2010)

- It is the **cash** limits that departments will have to manage; and,
- Real-terms figures are subject to the uncertainty of the future rate of inflation. For example, at the time of the Spending Review 2010, the rate of inflation for 2011/12 was forecast at 1.9%. In November, this was revised up to 2.5% (the latest deflators have been used in the calculations presented in the tables in this paper). The effect of this to **reduce** the assumed spending power of the Executive in future years. For example, DARD's allocation of £224.9m for 2011/12 is 'worth' £219.4m at a projected rate of inflation of 2.5% for that year. But on the basis of the forecast rate at the time of the Spending Review 2010 it would have been 'worth' £220.3m. If, on the other hand, the rate of inflation is lower than forecast, the effect would be an increase in spending power in real terms.

Table 2: draft allocations to Executive departments for current expenditure, in real terms (10/11 prices)

£m	10/11	11/12 real	12/13 real	13/14 real	14/15 real	total real change 10/11 to 14/15 £m	total real 10/11 to 14/15 % change
DARD	224.9	219.4	225.3	206.9	198.2	-26.7	-11.9
DCAL	113.3	109.8	108.1	102.2	93.2	-20.1	-17.7
DED	1914.8	1807.0	1773.0	1730.4	1672.3	-242.5	-12.7
DEL	798.9	756.5	732.6	730.2	736.5	-62.4	-7.8
DETI	199.5	199.9	202.0	189.2	186.0	-13.5	-6.8
DFP	182.9	185.9	178.6	167.2	163.7	-19.2	-10.5
DHSSPS	4302.9	4242.0	4226.7	4223.0	4189.8	-113.1	-2.6
DOE	129.6	118.8	118.0	112.5	110.0	-19.6	-15.1
DOJ	1223.7	1183.5	1135.0	1084.5	1064.7	-159.0	-13.0
DRD	517.3	488.1	465.1	427.2	410.9	-106.4	-20.6
DSD	521.1	504.1	507.9	504.7	473.7	-47.4	-9.1
OFMDFM	80.2	77.1	76.6	71.6	66.7	-13.5	-16.8

Source: Assembly Research calculations based on Draft Budget 2011-15

3. Departmental allocations – capital expenditure

The allocations in the draft Budget for each Executive department's current expenditure are shown below in Table 3.

It should be noted that, unlike the Executive's allocation in the UK Government's recent Spending Review 2010, the figures are presented in cash terms. This means that the assumed impact of inflation for future years is ignored.

Table 3: draft allocations to Executive departments for capital expenditure, in cash terms, net of capital receipts

	£million				
	2010-11	2011-12	2012-13	2013-14	2014-15
Agriculture and Rural Development	-173.5	16.4	13.9	20.0	29.3
Culture, Arts and Leisure	59.9	11.8	21.9	22.2	85.8
Education	169.3	127.4	100.4	101.5	139.4
Employment and Learning	37.6	41.2	32.3	18.5	28.3
Enterprise, Trade and Investment	73.5	71.7	44.9	16.0	28.8
Finance and Personnel	15.2	16.5	12.1	10.6	28.4
Health, Social Services and Public Safety	201.7	214.8	278.8	184.9	163.3
Environment	182.4	6.1	5.9	4.0	7.6
Justice	80.0	78.3	64.5	51.8	82.0
Regional Development	556.2	438.3	425.3	540.9	558.8
Social Development	269.6	150.3	120.6	99.0	190.3
Office of the First Minister and Deputy First Minister	12.0	9.1	3.8	8.8	25.6

Source: Draft Budget 2011-15

In Table 4 below, the draft allocations are shown in real terms through the application of HM Treasury deflators.¹⁰ It shows that the total planned real-term decreases for departments' capital expenditure from the 2010/11 base year to 2014/15 range from +93.1% (OFMDFM) to -96.2% (DOE).

As above, it should be noted that there are difficulties associated with considering these allocations in real terms:

- It is the **cash** limits that departments will have to manage; and,
- Real-terms figures are subject to the uncertainty of the future rate of inflation.

¹⁰ Available online at http://www.hm-treasury.gov.uk/data_gdp_fig.htm (accessed 20 December 2010)

Table 4: draft allocations to Executive departments for capital expenditure, in real terms (10/11 prices), net of capital receipts

£m	10/11	11/12 real	12/13 real	13/14 real	14/15 real	total real change 10/11 to 14/15 £m	total real 10/11 to 14/15 % change [#]
DARD	-173.5	16.0	13.3	18.6	26.5	200.0	*
DCAL	59.9	11.5	20.9	20.6	77.7	17.8	29.6
DED	169.3	124.3	95.8	94.3	126.2	-43.1	-25.5
DEL	37.6	40.2	30.8	17.2	25.6	-12.0	-31.9
DETI	73.5	70.0	42.9	14.9	26.1	-47.4	-64.5
DFP	15.2	16.1	11.6	9.9	25.7	10.5	69.1
DHSSPS	201.7	209.6	266.1	171.9	147.8	-53.9	-26.7
DOE	182.4	6.0	5.6	3.7	6.9	-175.5	-96.2
DOJ	80	76.4	61.6	48.1	74.2	-5.8	-7.2
DRD	556.2	427.6	406.0	502.8	505.8	-50.4	-9.1
DSD	269.6	146.6	115.1	92.0	172.2	-97.4	-36.1
OFMDFM	12	8.9	3.6	8.2	23.2	11.2	93.1

Source: Assembly Research calculations based on Draft Budget 2011-15

*Note – Calculation of a percentage change figure is meaningless where the base year (2010/11) is equal to or less than zero.

[#] Note – Percentage changes in allocations are presented over the four-year period for illustrative purposes. These should be interpreted with caution: the percentage change over four years can mask year-on-year fluctuations. For example, the OFMDFM allocation drops considerably for 2011/12 and 2012/13 before increasing by large amounts for 2013/14 and 2014/15.

4. Key points and issues for further clarification

4.1 Revenue raising measures – key points

- Domestic regional rate to increase in line with inflation;
- Non-domestic regional rate increase in line with inflation (with manufacturing rates to apply at 30% liability until 31 March 2015);
- Introduction of domestic water charges deferred;
- Plastic bag levy to be introduced;
- Free prescriptions retained; and,
- Free public transport for over 60s retained.

4.2 Revenue raising measures – issues for further clarification

Plastic bag levy

In his statement to the Assembly the Minister announced that the Executive has “commissioned the Environment Minister to take forward the introduction of a plastic bags levy in Northern Ireland.”¹¹ The draft Budget 2011-15 does not provide details of the revenue-raising potential of this measure, although the Minister did refer to a figure of £4m per annum in his statement.

No timescale for the introduction of the levy was outlined.

Other revenue-raising options

The draft Budget 2011-15 refers to “other possible revenue sources that Ministers have been tasked to evaluate over the coming weeks” and then suggests that if these options are viable they will be “factored into the final budget allocations.”¹² Unfortunately the document itself does not provide any further detail on what these options might be.

In his statement, the Minister did refer to “reserves held by other bodies such as housing associations, which hold reserves of over £250 million, and the Harbour Commissioners, who hold reserves of nearly £60 million.”¹³ He also later noted that to

¹¹ Official Report 15 December 2010 available online at: <http://www.niassembly.gov.uk/record/reports2010/101215.pdf> (see pages 180-181)

¹² NI Executive (2010) 'Draft Budget 2011-15' available online at: http://www.northernireland.gov.uk/website - draft_budget.pdf (accessed 20 December 2010) (see page 23)

¹³ Official Report 15 December 2010 available online at: <http://www.niassembly.gov.uk/record/reports2010/101215.pdf> (see pages 187)

realise revenue from the reserves of these bodies would require legislation and that “we have not yet built into the Budget the additional money that might be available.”¹⁴

Again, no timescale was outlined for the introduction of such measures.

This raises a further issue about the consultation process. The public and the Assembly’s committees are being asked to provide views on prospective taxation measures about which they do not have any detailed information.

4.3 Reinvestment and Reform Initiative (RRI) Borrowing – key points

- The draft Budget envisages full usage of the £200m RRI borrowing facility in each of the four years; and,
- An additional £175m will be borrowed in 2011/12 if the EU approves the proposed solution to the collapse of the Presbyterian Mutual Society (PMS).

4.4 Reinvestment and Reform Initiative (RRI) Borrowing – issues for further clarification

The UK Government’s Spending Review 2010 increased the cost of the Northern Ireland Executive’s borrowing. Previously, the Executive was able to borrow from the Public Works Loans Board (PWLB) at 0.5% above the rate of UK Government Gilts (i.e. the rate at which HM Treasury borrows). The Spending Review however announced that the premium on PWLB loans was to increase to 1%.¹⁵ This means that the cost of borrowing has risen at a time when the Executive is planning to rely on it more. Actual drawdown of RRI borrowing in previous years is shown in the Table below:

¹⁴ Official Report 15 December 2010 available online at: <http://www.niassembly.gov.uk/record/reports2010/101215.pdf> (see pages 189)

¹⁵ HM Treasury (2010) ‘Spending Review 2010’ available online at: http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf (accessed 22 December 2010) (see page 50)

Table 5: draw down of RRI borrowing 03/04 to 09/10¹⁶

Year	Borrowing drawn down
2003/04	£79.4m
2004/05	£168.7m
2005/06	£162.9m
2006/07	£214.6m
2007/08	£97.6m
2008/09	£16.6m (plus £243.4 m of borrowing power used to offset on balance sheet PFI projects)
2009/10	£185.3m (plus £60.7 m of borrowing power used to offset on balance sheet PFI projects)

RRI interest repayments are to rise from £44.9m in 2011/12 to £63.4m in 2014/15 in cash terms¹⁷ – **an increase over the budget period of 41.2%**. It is assumed that these interest payments are only related to the borrowing associated with capital investment and do **not** include any repayments that may be due for borrowing related to the collapse of the PMS as the details for the proposed scheme are as yet not finalised.

In a letter to the Committee for Finance and Personnel on 10 December 2010, the Department for Finance and Personnel (DFP) confirmed that the PMS administrator will make both the principal and the interest repayments on the loan. It is therefore anticipated that there would be no net cost to the Northern Ireland block – although this presumably assumes that the administrator is indeed able to make the repayments on time and in full.

4.5 Civil service pay – key points

- The draft Budget proposes a pay freeze for all NI Civil Servants earning more than £21K per annum; and,
- Those earning less than £21K will receive an annual uplift of £250.

4.6 Civil service pay – issues for further clarification

The draft Budget document states:

¹⁶ Source: communication with DFP

¹⁷ NI Executive (2010) 'Draft Budget 2011-15' available online at: http://www.northernireland.gov.uk/website - draft_budget.pdf (accessed 20 December 2010) (see page 51)

...civil servants obtaining pre-existing contractual entitlements to scale progression with those employees earning less than £21,000 also receiving a further annual award of £250.¹⁸

This seems to imply that only **pay scales** will be frozen above the £21K level and that civil servants will continue to receive incremental pay progression on those existing scales. It is not, however, absolutely clear that this is indeed what the Executive has proposed: the document does not state whether **all** civil servants have pre-existing contractual entitlements or just some.

4.7 Protection for Health – key points

- DHSSPS current expenditure allocation to rise by 7.58% in cash terms over the budget period; and,
- This provides “protection for the ‘health’ element of the DHSSPS”.¹⁹

4.8 Protection for Health - issues for further clarification

In his statement the Minister said:

...the health budget will, I think, increase by 7% over that period. That compares favourably with the situation in Wales, where there was a 2.5% real reduction, and in Scotland, where there was a 3.03% real reduction.²⁰

However, a number of points should be noted in regard to this assertion:

- The Minister was comparing a cash increase in current expenditure over a four-year period in Northern Ireland with real-terms decreases over a one-year period in Scotland and Wales;
- There is a planned reduction in DHSSPS capital expenditure of 19% in cash terms over the four-year period (see Table 3) which translates to a 26.7% reduction in real terms over the period (see Table 4) and these figures should also be factored in when considering how the proposals affect health spending;
- The planned reduction in the health budget for Scotland in real terms from 2010/11 to 2011/12 is £11,181.9m to £11,148.0m or 0.303%;²¹

¹⁸ NI Executive (2010) ‘Draft Budget 2011-15’ available online at: http://www.northernireland.gov.uk/website_-_draft_budget.pdf (accessed 20 December 2010) (see page 24)

¹⁹ NI Executive (2010) ‘Draft Budget 2011-15’ available online at: http://www.northernireland.gov.uk/website_-_draft_budget.pdf (accessed 20 December 2010) (see page 51)

²⁰ Official Report 15 December 2010 available online at: <http://www.niassembly.gov.uk/record/reports2010/101215.pdf> (see pages 187)

²¹ Scottish Executive (2010) ‘Scotland’s Spending Plans and Draft Budget 2011-12’ available online at: <http://www.scotland.gov.uk/Publications/2010/11/17091127/9> (accessed 20 December 2010) (see Table 8.02)

- The 0.303% real-terms reduction for health in Scotland for 2011/12 includes **both** current and capital expenditure so this is not a like-for-like comparison with a cash increase on the current side only; and,
- If the current and capital allocations for DHSSPS are considered together (see Tables 2 and 4 above) there is a **real-terms reduction** from 2010/11 to 2011/12 of **1.18%** - which is **greater** than the reduction in Scotland. It should be noted, however, that if one compares total current spending over the four-year period with the previous four-year period, there is no change in real terms.²²

4.9 Social Investment and Social Protections Funds – key points

- Social Investment Fund of £20m established for each year of the budget period;
- This £20m is split 75/25 current/capital in 2011/12 and 50/50 in the remaining three years; and,
- Social Protection Fund established with £20m current funding for 2011/12 and unfunded thereafter.

4.10 Social Investment and Social Protections Funds - issues for further clarification

The draft Budget document provides scant detail on what either of the new Funds is designed to achieve or how they will do so. It is therefore difficult for members of the public or other interested parties to judge whether the proposals are sound or not.

4.11 Administrative cost controls – key points

- The administrative cost control regime has been abolished; and,
- The administrative cost control total within departments' Resource Departmental Expenditure Limit (DEL) will still be monitored by DFP²³ but the need for formal approval to switch resources from Programme to Administration DEL is removed.²⁴

4.12 Administrative cost controls - issues for further clarification

The following extract from the Treasury's guidance explains the concept of an administration budget concisely:

²² Source: Assembly Research calculations

²³ Communication with DFP official

²⁴ For more information on the Administrative Cost control regime, see Assembly Research Briefing Note 192/10, available online at: <http://www.niassembly.gov.uk/researchandlibrary/2010/19210.pdf>

Administration Budgets cover the costs of all central government administration other than the costs of direct frontline service provision or support activities that are directly associated with frontline service delivery. In practice Administration Budgets include activities such as provision of policy advice, business support services, back-office administration of benefits, advice on and administration of grant programmes, technical or scientific support, and the work of the Government's Regional Offices.²⁵

The draft Budget 2011-15 document argues that:

[Abolition of administrative cost controls] will give Ministers greater flexibility to effectively and efficiently manage the resources at their disposal, with a view to maximising the outcomes achieved with such resources.²⁶

It could be considered, however, that a time of public expenditure restraint is not necessarily the most appropriate time for controls on expenditure on back office functions rather than service delivery to be removed. The Budget document does not provide any detail on how the Executive proposes to ensure that departments do not unnecessarily shift resources from the front line to the back line (or indeed, the other way around).

4.13 Current to Capital switch – key points

- £252.5m switched from current expenditure to capital investment over the four-year period; and,
- Capital investment to total £1,373.8m in 2014/15 in cash terms.

4.14 Current to Capital switch- issues for further clarification

The stated aim of the Executive in relation to switching from current to capital is to protect construction jobs.²⁷ In evidence to the Committee for Finance and Personnel on 1 December 2010, Victor Hewitt, Director of the Economic Research Institute of Northern Ireland, made the following observation:

Be cautious on transfer — there are no free lunches in economics. You may transfer money from current to capital to preserve construction jobs, for example. However, you should not fool yourselves that removing current expenditure to help the construction industry will not have job

²⁵ Treasury (2010) „Consolidated budgeting guidance from 2010-11" available online at http://www.hm-treasury.gov.uk/d/consolidated_budgeting_guidance201011.pdf (accessed 29 November 2010) (see page 55)

²⁶ NI Executive (2010) 'Draft Budget 2011-15' available online at: http://www.northernireland.gov.uk/website - draft_budget.pdf (accessed 20 December 2010) (see page 29)

²⁷ NI Executive (2010) 'Draft Budget 2011-15' available online at: http://www.northernireland.gov.uk/website - draft_budget.pdf (accessed 20 December 2010) (see page 28)

implications: you may kill off jobs that were either directly or indirectly supported by that money.

Some construction is specialised. If you put money into road building, you may have to import labour from across the water because we do not have those skills here. It is a very delicate balance and it must be looked at in the round. An economist should never look at things in isolation; there are always implications.²⁸

Colm McCarthy, University College, Dublin, also made the point in evidence on 24 November 2010 that it is possible to ‘overdo’ capital infrastructure investment:

It is fine to build a motorway from Dublin to Cork, but it need only be done once. There is no need to over-design and over-build roads, which we did a little bit. Some parts of the motorway network in the South were over-specified. That happened here in the 1960s, the M1 to Dungannon being a case in point.²⁹

On the other hand, Professor David Heald, University of Aberdeen, made the following comments on 3 November 2010:

It is very important to protect capital expenditure as much as possible. Obviously, one does not want bad capital projects — the quality of capital projects is important — but Northern Ireland is heavily dependent on the public sector and the construction sector. My understanding is that the construction sector is quite localised, so the regional multipliers in Northern Ireland will be quite high from capital spending. Therefore, one ought to think about the question of whether room can be found to move money from resource into capital.³⁰

Expert opinion, therefore, seems a little divided. The Budget document doesn’t contain any detail to justify the level of current to capital switch. It might be helpful to know why the Executive settled on the level of switching that it did for the draft allocations.

4.15 Invest to save – key points

- £25m per year of current expenditure set aside for invest-to-save projects; and,

²⁸ Official report available online at:

<http://www.niassembly.gov.uk/record/committees2010/FinancePersonnel/101201SpendingReviewandBudget.pdf>
(accessed 21 December 2010) (see page 7)

²⁹ Official report available online at:

<http://www.niassembly.gov.uk/record/committees2010/FinancePersonnel/101124SpendingReviewandBudget2011-15.pdf>
(accessed 21 December 2010) (see page 40)

³⁰ Official report available online at:

<http://www.niassembly.gov.uk/record/committees2010/FinancePersonnel/101103Spending%20Review%20and%20Budget.pdf>
(accessed 21 December 2010) (see page 3)

- Invest-to-save funds to be allocated to departments on a 'ring-fenced' basis so they cannot be used for any purpose beyond the specified scheme.

4.16 Invest to save - issues for further clarification

The Executive established a £26m invest-to-save fund as part of its Review of Spending Plans 2010/11. In the Budget document it is asserted that projects that received allocations from this fund were successful, but no evidence is produced to support that claim. It might provide reassurance to members of the public and other interested parties if an analysis or evaluation of the 2010/11 invest-to-save funding were available to inform consideration of allocations in the draft budget: these amount to £100m in cash terms over the four-year period.

4.17 Assets realisation – issues for further clarification

There are two references in the Budget document to assets disposal. Table Two in Annex B contains a line 'Additional Capital Receipts – Central Asset Management Unit' which indicates capital receipts of £100m over the budget period. There is no further mention of the Central Asset Management Unit in the document, so it is difficult to know what these assets might be or to challenge whether the figures provided for receipts are realistic.

The second mention of assets disposal is in Table Four of Annex B which includes projections for capital receipts by departments over the budget period. There is no detail provided on what assets these forecasted receipts relate to.

5. Non-Ministerial departments

The draft Budget 2011-15 includes proposed allocations for other public bodies in addition to Executive departments. It is perhaps worth noting that the use of the phrase 'Non-Ministerial Departments' in the draft Budget is something of a misnomer. The Assembly is constitutionally separate from the Executive, not a department of it. The Comptroller and Auditor General (and so therefore the NIAO) and the other bodies listed also have separate statutory roles and independence from the Executive.

Table 6: draft allocations to Non-Ministerial departments for current expenditure, in cash terms

Non Ministerial Departments									
Assembly Ombudsman / Commissioner for Complaints	1.6	1.6	-1.0%	1.6	-1.0%	1.6	-1.0%	1.5	-1.0%
Food Standards Agency	9.6	9.4	-1.3%	9.3	-1.0%	9.2	-1.0%	9.2	-1.0%
NI Assembly	48.4	46.0	-5.0%	43.7	-5.0%	41.5	-5.0%	39.4	-5.0%
NI Audit Office	9.5	9.0	-5.0%	8.6	-5.0%	8.2	-5.0%	7.8	-5.0%
NI Authority for Utility Regulation	0.5	0.5	-1.0%	0.5	-1.0%	0.5	-1.0%	0.5	-1.0%
Public Prosecution Service	37.4	37.0	-1.0%	36.0	-2.6%	35.2	-2.3%	33.9	-3.6%

Source: Draft Budget 2011-15

In Table 7 below, the draft allocations are shown in real terms through the application of HM Treasury deflators.³¹ It should be noted that there are difficulties associated with considering these allocations in real terms:

- It is the **cash** limits that departments will have to manage; and,
- Real-terms figures are subject to the uncertainty of the future rate of inflation.

³¹ Available online at http://www.hm-treasury.gov.uk/data_gdp_fig.htm (accessed 20 December 2010)

Table 7: draft allocations to Non-Ministerial departments for current expenditure, in real terms (10/11 prices)

£m	10/11	11/12 real	12/13 real	13/14 real	14/15 real	total real change 10/11 to 14/15 £m	total real 10/11 to 14/15 % change
Assembly Ombudsman/commissioner for complaints	1.6	1.56	1.53	1.49	1.36	-0.24	-15.1
Food standards agency	9.6	9.17	8.88	8.55	8.33	-1.27	-13.3
NI Assembly	48.4	44.88	41.72	38.57	35.66	-12.74	-26.3
NI Audit Office	9.5	8.78	8.21	7.62	7.06	-2.44	-25.7
NI Authority for Utility Regulation	0.5	0.49	0.48	0.46	0.45	-0.05	-9.5
Public Prosecution Service	37.4	36.10	34.37	32.72	30.68	-6.72	-18.0

Source: Assembly Research calculations based on Draft Budget 2011-15

The Table shows that the total planned real-term decreases for Non-Ministerial departments' current expenditure from the 2010/11 base year to 2014/15 range from 9.5% (NI Authority for Utility Regulation) to 26.3% (NI Assembly).

The largest reduction in real terms for current expenditure of the Ministerial departments is 20.6% (DRD) (see Table 2 above) – a smaller reduction than that indicated for the NI Assembly.

Yet on 8 November 2010 the Assembly resolved:

That this Assembly notes with concern the likely reduction in the block grant that will be brought about by the comprehensive spending review; and calls on the Assembly Commission to reduce its running costs in line with the level of reduction faced by Executive Departments.³²

On an initial reading it appears that the Executive has gone against the wishes of the Assembly as expressed in the resolution and decreased the NI Assembly allocation **in excess** of that faced by Executive departments, rather than in line with them.

A very similar level of real-terms reduction (25.9%) has also been proposed for the NI Audit Office (NIAO). It should be noted, however, that section 65(3) of the Northern Ireland Act 1998 (c.47) provides that:

³² Official Report available online at: <http://www.niassembly.gov.uk/record/reports2010/101108.pdf> (accessed 21 December 2010) (see page 197)

The Comptroller and Auditor General for Northern Ireland shall not, in the exercise of any of his functions, be subject to the direction or control of any Minister or Northern Ireland department or of the Assembly³³

The role of Executive departments in relation to the NIAO is limited under section 66(3) of that Act to the provision of advice by DFP to the Assembly's Audit Committee.

Under Article 6(2) of the Audit (Northern Ireland) Order 1987³⁴ it is the Assembly's Audit Committee which has the statutory role of approving (with or without modification) the Comptroller and Auditor General's resource requirements for a given financial year. This estimate must then be laid by the Audit Committee before the Assembly.

For the purposes of comparison, the proposed allocations for equivalent bodies in Scotland and Wales may be of interest:

Table 8: proposed allocations for Scottish Parliament, Welsh Assembly and Northern Ireland Assembly and associated audit bodies, in cash and real terms (10/11 prices).

£m	2010/11 allocation	2011/12 proposal	2011/12 real terms	cash terms % change	real terms % change
Scottish Parliament and Audit Scotland	98.7	95.9	93.6	-2.84%	-5.17%
Welsh Assembly Commission and Auditor General	54.0	54.2	52.9	+0.0037%	-2.04%
Northern Ireland Assembly and NIAO	57.9	55.0	53.66	-5%	-7.32%

Sources: Assembly Research calculations based on Draft Budget 2011-15, Welsh Assembly Government final budget 2010/11³⁵ and draft Budget 2011/12³⁶, Scotland's Spending Plans and draft Budget 2011/12³⁷

One final point which is relevant to consideration of the Northern Ireland Assembly Commission's budget allocation is that Commission agreed a real-terms reduction of 13.3% over the four years.³⁸ The Scottish Parliament Corporate Body's proposal for the period is to achieve a 12% real-terms reduction over the period.³⁹ The National

³³ <http://www.statutelaw.gov.uk/content.aspx?LegType=All+Legislation&title=northern+ireland+act&Year=1998&searchEnacted=0&extentMatchOnly=0&confersPower=0&blanketAmendment=0&sortAlpha=0&TYPE=QS&PageNumber=1&NavFrom=0&parentActiveTextDocId=2045126&ActiveTextDocId=2045215&filesize=4440> (accessed 21 December 2010)

³⁴ [http://www.statutelaw.gov.uk/content.aspx?LegType=All+Legislation&title=audit+\(northern+ireland\)+order&Year=1987&searchEnacted=0&extentMatchOnly=0&confersPower=0&blanketAmendment=0&sortAlpha=0&TYPE=QS&PageNumber=1&NavFrom=0&parentActiveTextDocId=2910280&ActiveTextDocId=2910291&filesize=5136](http://www.statutelaw.gov.uk/content.aspx?LegType=All+Legislation&title=audit+(northern+ireland)+order&Year=1987&searchEnacted=0&extentMatchOnly=0&confersPower=0&blanketAmendment=0&sortAlpha=0&TYPE=QS&PageNumber=1&NavFrom=0&parentActiveTextDocId=2910280&ActiveTextDocId=2910291&filesize=5136) (accessed 4 January 2011)

³⁵ <http://wales.gov.uk/docs/finance/report/091201finalbudgeteng.pdf> (accessed 5 January 2011)

³⁶ <http://wales.gov.uk/docs/finance/report/101117gowamotionen.pdf> (accessed 5 January 2011)

³⁷ <http://www.scotland.gov.uk/Publications/2010/11/17091127/18> (accessed 5 January 2011)

³⁸ Source: communication from NI Assembly Clerk/Director General 9 December 2010.

³⁹ Source: letter from the Presiding Officer to the Convenor, Finance Committee 16 November 2010, available online at: <http://www.scottish.parliament.uk/corporate/anrep-accts/spcb/20101116OUTSPCBBudgetSubmission2011-12.pdf> (accessed 6 January 2011) (see page 3)

Assembly for Wales Commission has similarly proposed a real-terms reduction of 12% over the period.⁴⁰

⁴⁰ National Assembly for Wales (2010) 'Assembly Commission Budget 2011-12' available online at: <http://www.assemblywales.org/bus-home/bus-guide-docs-pub/bus-business-documents/bus-business-documents-doc-laid/gen-ld8316-e.pdf?langoption=3&ttl=GEN-LD8316%20-%20National%20Assembly%20for%20Wales%20Assembly%20Commission%20Budget%20Proposals%202011-12> (accessed 6 January 2011) (see page 8)