The Public Finances and Infrastructure in Northern Ireland

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January 2011

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Some Terminology

- Public expenditure can be divided up in many ways but two classifications are critical.
- Current spending (consumed here and now) and within this the administration budget.
- Capital spending (produces assets that deliver a stream of services over time)

Some Terminology

- Added to these are a two way classification for control purposes.
- DEL (Departmental Expenditure Limit) sets totals for spending that can be controlled over a number of years.
- AME (Annually Managed Expenditure) volatile expenditure that can change at short notice – e.g. benefits

Some Terminology

Putting these together gives a four way split

	Current	Capital
DEL	Departmental spending on wages and salaries and other purchases includes admin costs	Departmental spending on buildings and other assets such as roads and IT equipment
AME	Spending on welfare, pensions and other benefits	A miscellany including certain financial transactions

How Northern Ireland is Funded

- The Barnett formula plays a central role in adjusting the amount of public expenditure in NI
- The formula gives NI its population share of any change (up or down) in a comparable spending programme in England

How Northern Ireland is Funded

- Example: Health spending in England goes up by £1 billion. NI population as a proportion of England’s population is 3.4% and Health is 100% comparable.

- Calculation is:
- NI share = £1000 m X 0.034 X 1.0 = £34 m

- Note that the formula only adjusts the baseline it doesn’t create it. History has done that.

How Northern Ireland is Funded

The Barnett formula comes together with DEL and AME as follows

Assigned Budget

DEL	AME
Current and capital spending by departments under the control of the NI Executive	Social security and other benefits NHS & Teachers pensions RRI borrowing Local government self financed expenditure Regional rates

How Northern Ireland is Funded

Budget 2010: Current Expenditure
£million

Expenditure		**Financed By**	
Departmental Spending	9,053.3	UK Grant (Resource DEL)	8,623.9
EU Peace Programme	16.3	Regional Rates	542.4
Invest to Save Transfer to Capital	7.9	End Year Flexibility	30.0
UK Budget 2010	6.4		
Other Costs	112.3		
Total	**9,196.3**		**9,196.3**

How Northern Ireland is Funded

Budget 2010: Capital Expenditure
£million

Expenditure		**Financed By**	
Departmental Spending	1,407.9	UK Grant (Capital DEL)	1,142.6
UK Budget 2010	5.7	RRI Borrowing	241.3
Other Provisions	71.0	End Year Flexibility	92.7
		Invest to Save Transfer	7.9
Total	**1,484.6**		**1,484.6**

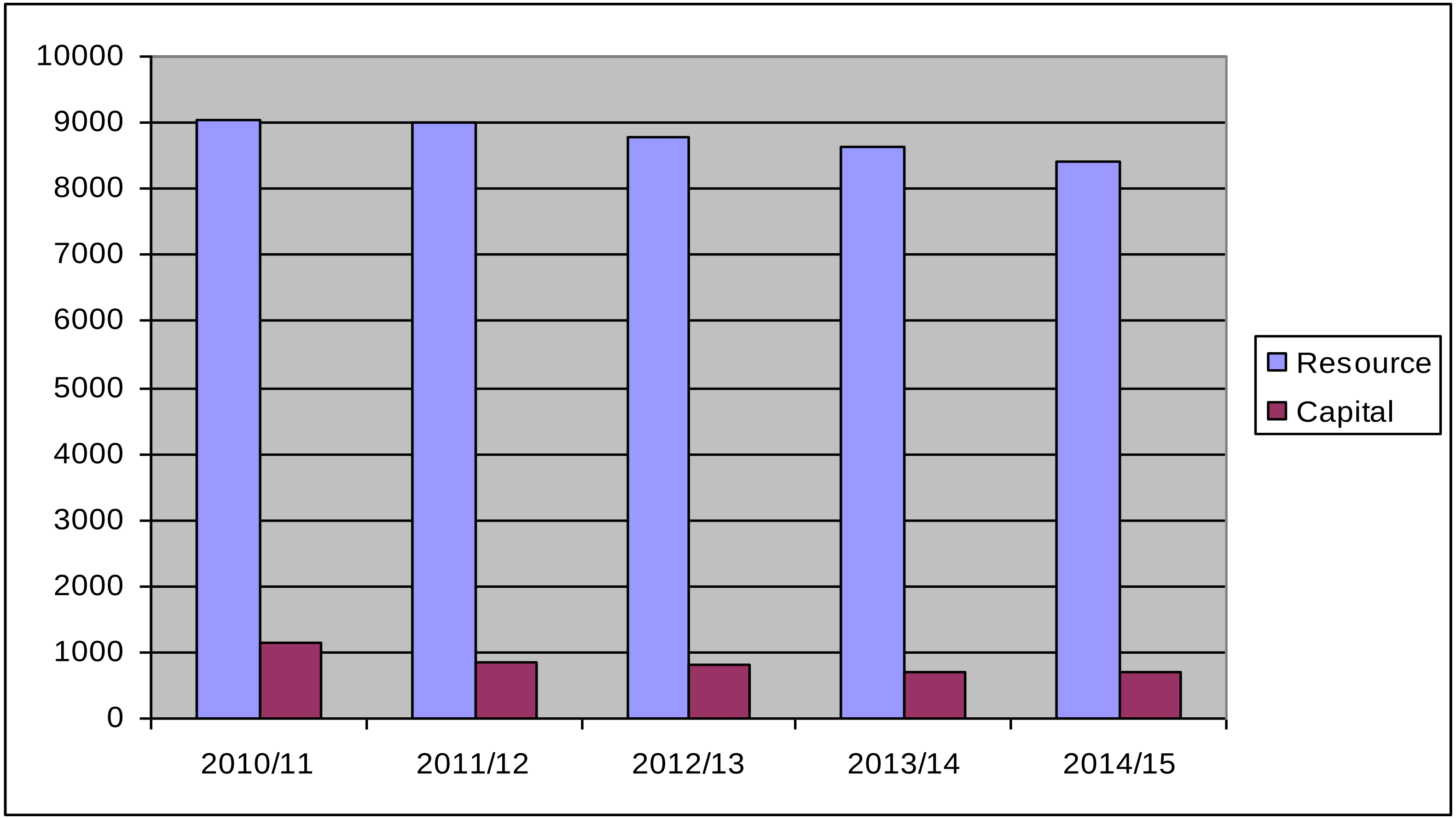
The Fiscal Balance

The Fiscal Balance across the UK 2007/08

£ Million	NI	Scotland	UK
Aggregate Expenditure	20,296	56,459	584,065
Aggregate Revenue	12,958	44,747	540,915
Net Fiscal Balance	-7,338	-11,712	-43,150
Net Fiscal Balance per capita (£)	-4,167	-2,280	-708
Net Fiscal Balance as a % of financial year GVA	-26.1%	-11.7%	-3.5%

The CSR Outcome

Figure (1): NI Executive's Resource and Capital DEL 2010/11 to 2014/15 at 2009/10 Prices



The CSR Outcome

- Current spending down by 7% in real terms over four years
- Capital spending down by 37% over four years
- Both of these structural breaks come from a previously increasing trend so a huge shock

The CSR Outcome

- Ending of the End Year Flexibility Scheme means we loose £312 million we had built up in the scheme.

- Cuts to English universities means we have £100 million less (Barnett formula works in reverse too!)

The CSR Outcome

- Cumulatively £4 billion will be taken from the Block over four years
- In addition welfare cuts (which are in AME remember) will take up to a further £1 billion out of the economy.

£million

	2011-12	2012-13	2013-14	2014-15
Total Current Expenditure	**10,242.9**	**10,311.9**	**10,369.6**	**10,440.4**
Regional Rates	-606.5	-606.8	-614.8	-639.6
Current to Capital Switch	7.0	40.0	40.0	40.0
Current to Capital Switch - Invest to Save	31.5	21.0	33.0	40.0
RRI Interest	44.9	51.4	57.5	63.4
EU Match Funding	2.8	2.3	2.7	2.2
Social Investment Fund	15.0	10.0	10.0	10.0
Social Protection Fund	20.0	-	-	-
Green New Deal	4.0	4.0	4.0	4.0
Presbyterian Mutual Society	50.0	-	-	-
Invest to Save	25.0	25.0	25.0	25.0
Total Resource DEL	**9,836.7**	**9,858.9**	**9,927.1**	**9,985.4**

Table Two: Reconciliation of Planned Spend to HM Treasury Control Totals – Capital Investment

£million

	2011-12	2012-13	2013-14	2014-15
Total Capital Investment	**1,183.9**	**1,124.9**	**1,078.6**	**1,373.8**
RRI Borrowing	-200.0	-200.0	-200.0	-200.0
Current to Capital Switch	-7.0	-40.0	-40.0	-40.0
Current to Capital Switch - Invest to Save	-31.5	-21.0	-33.0	-40.0
Additional Capital Receipts – Central Asset Management Unit	-10.0	-15.0	-25.0	-50.0
Social Investment Fund	5.0	10.0	10.0	10.0
RoI Contribution to A5/A8 Road Scheme	-14.0	-	-10.0	-250.0
Capital from 2010-11	-23.0	-	-	-
Total Capital DEL	**903.4**	**858.9**	**780.6**	**803.8**

Totals may not add due to roundings

Departmental Budgets

- DETI
  - Current £204.9/211.6/203.5/205.5million
    - % 2.7/3.3/-3.8/1.0

  - Capital £71.6/44.7/16.2/29.1million
    - % -2.6/-37.6/-63.8/79.6

    - Energy etc £1.6/1.3/1.0/15.5 million

Implications

- Capital cuts of this size will be very difficult to manage.
- Not much relief on the horizon from asset sales
- Appetite for PPPs and other exotic financing vehicles ?

Pillar and Sub-pillar	£m (Current prices)				
	Budget period: 2008 - 2011		Indicative for the period: 2011/12 - 2017/18		Total
	NI Executive Funds	Additional Funds	NI Executive Funds	Additional Funds	
Roads	611.8		2,083	400	3,095
Public Transport	195.3		530		725
Gateways	5.6				6
Telecoms	28.7		7		35
Energy	19.7		154		174
NETWORKS	**861.1**		**2,774**	**400**	**4,035**
Schools & Youth Services	718.0		2,792		3,510
FE & HE	141.5		366		507
Libraries	31.6		107		139
SKILLS	**891.1**		**3,265**		**4,156**
Primary Care	152.6		354	355	862
Public Safety & Technology	163.8		408		572
Hospitals Modernisation	412.1		1,813		2,225
HEALTH	**728.5**		**2,575**	**355**	**3,659**
Regeneration	426.7		203		630
Housing	924.9		892		1,817
Welfare Reform	71.2				71
Culture, Arts, Sport	201.1		318		519
SOCIAL	**1,623.9**		**1,413**		**3,037**
Water & Waste Water	646.5	391.9	717	780	2,535
Waste Management	197.0	58.6	3	177	436
Flood Risk Management	23.2		59		82
Environment	14.5		51		65
ENVIRONMENT	**881.2**	**450.5**	**830**	**957**	**3,118**
Enterprise & Innovation	192.9		477		670
Tourism	72.0		19		91
Rural & Primary Industries	172.1		240		412
Public Sector Reform	59.9		89		149
PRODUCTIVE	**496.9**		**825**		**1,322**
Other & Miscellaneous	6.8		10		17
GRAND TOTAL	**5,489.5**	**450.5**	**11,692**	**1,712**	**19,344**

(1) The figures for years one to three agree with the budget figures for 2008-2011 published along with the Programme for Government and this Investment Strategy.

(2) NI Executive Funds comprise Capital DEL, RRI borrowing, and receipts from value release from surplus assets.

(3) Additional funds relates to anticipated contributory funding from third party sources (e.g. a planned contribution of £400m for Roads development from the Irish Government). These funds are indicative and are outside public expenditure.

(4) Figures in the above table are quoted at current prices (i.e. reflecting the impact of forecast future inflation in capital DEL at levels advised by DFP).

Implications

- Some examples to be investigated.
  - PPP variants e.g. DBFO, BOT, BBO, LDO
  - Time bounded transfers
  - Additional value mechanisms e.g. TIF

The Mutual – Equity Debate

- The idea of mutualisation as opposed to privatization of public utilities has gained some support in recent times.

- The examples of Welsh Water and the NI Energy Holding Company are versions of the mutual form.

The Mutual-Equity Debate

- The mutual replaces equity with debt finance so is highly leveraged.
- Normally the company is committed to long term interest rates.
- Lack of shareholders means that the mutual will usually have to carry substantial reserves as a shock absorber

The Mutual-Equity Debate

- The equity model mixes equity and debt funding.
- Equity companies are highly sensitive to market incentives and aggressively hunt efficiency.
- The shareholders are the shock absorbers.

The Mutual-Equity Debate

- Mutuals seem to operate well where the business is not too complex e.g. pipelines and interconnectors.
- Equity companies may have the edge where the business is more complex and the market more dynamic.

The Mutual-Equity Debate

- Regulation of the equity company is well established and there is a good track record of extracting efficiency gains.
- Regulation of the mutual is more problematic since there are no shareholders to levy penalties upon.
- Regulation of a publicly financed mutual is anyone’s guess.