

The Public Finances of Northern Ireland

Background

1. The public finances of Northern Ireland were originally established on a revenue basis so that the region was expected to provide for its own public expenditure as well as making a contribution towards the cost of "national services" from revenues raised in, or attributable to, the North. However, on account of the inadequacy of the tax base, this arrangement quickly proved to be incapable of maintaining parity of social provision with Britain. From 1926 onwards a series of special financial arrangements were made between Stormont and Westminster which - in reality if not in name - converted the North's public finances to an expenditure basis (i.e. a system whereby its public expenditure was effectively determined by central government taking account of the particular needs of the region and providing sufficient funding from the British Exchequer to provide the appropriate level of expenditure.)
2. By the time of the establishment of Direct Rule in 1972 public expenditure was effectively being determined by negotiation between the local Ministry of Finance and the British Treasury and the necessary funds were subsequently being made available through ad hoc channels. The 1973 Constitution Act finally synchronised the de jure and de facto situations by formally placing the North's public finance on an expenditure basis.

Public Expenditure

3. Since 1981 public expenditure in Northern Ireland has been treated as a single "Block" within the Public Expenditure Survey (PES) for the UK. With the exception of social security, the resources for programmes within Northern Ireland are largely determined by comparability

with similar programmes in Britain. As a starting point, Northern Ireland will receive 2.75% (broadly the region's proportion of the overall British population) of any change in expenditure on comparable programmes in Britain. The British Government state, however, that:

"While the principle of comparability is a key determinant of any change to the NI Block total in the annual Survey, Ministers may also take account of other factors reflecting the particular circumstances in NI, as well as the public expenditure climate nationally".

4. The NI Block includes:

(a) central government expenditure comprising:

- (i) expenditure on law and order by the NIO;
- (ii) expenditure by NI Departments and their agencies (IDB, LEDU, NITB, NIES, Housing Executive etc.); **and**

(b) central government grants to District Councils

The Secretary of State for Northern Ireland has discretion to allocate resources within the NI Block (with the exception of expenditure on social security benefits, which is largely determined by the level of demand) in accordance with "local needs and priorities within the framework of national policy".

5. The NI Block excludes one component of expenditure for which the Secretary of State is formally responsible; expenditure on national agriculture and fisheries support is not part of the Block because it is deemed to be

"influenced to a greater extent than others by national and EC policies". The NI programme also excludes expenditure incurred in the North by "UK departments for which other Ministers have responsibility"; this includes expenditure on the Army (including the UDR) which is the responsibility of the Ministry of Defence and the Northern Ireland Court Service which is under the control of the Lord Chancellor.

6. It is noteworthy that in the period between 1968/69 and 1987/88 total public expenditure in Northern Ireland approximately doubled. Within this global increase, however, there were considerable variations between the different spending programmes. While there were significant increases in spending in the areas of law and order and social provision (Education, Health and Social Services, Housing, and Social Security), there were - in real terms - decreases in expenditure on Agriculture and Industry/Energy/Trade and Employment. (The attached annex provides an indication of the scale of the British Government's Northern Ireland expenditure in recent years.)

Public Revenue

7. Northern Ireland has three main sources of revenue:
- (a) Its share of British taxes, called the "attributable share";
 - (b) Northern Ireland non-tax revenue (includes rates, land annuities and other miscellaneous receipts);
and
 - (c) Transfers from the British central government.

Relative to the total expenditure programme in Northern Ireland, it has been estimated that the revenue generated in the region has only been sufficient to finance somewhere between 60 and 70% of that spending.

British "Subvention"

8. The gap between the revenue yield attributable to Northern Ireland and its level of public expenditure is often called the "UK subvention". Between 1972/73 and 1987/88 the subvention increased from £181m to £1,630m. When account is taken of the expenditure on behalf of Northern Ireland which falls upon the budgets of external UK government departments (e.g. the Army and Court Service), the subvention is even greater; it has been estimated that, on this basis, the real level of subvention for 1987/88 was in fact £1,860m - equivalent to about £1,200 per head of population in Northern Ireland.

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ANNEX

	1988/89 (£million)	1989/90 (£million)	1990/91 (planned) (£million)
<u>NIO</u>			
Law, order & protective services*	581	637	692

<u>NI Departments</u>			
National agriculture & fishery support	63	80	85
N. Ireland agriculture & fishery support	84	97	108
Industry/Energy/Trade/ Employment	724	690	418
Transport	131	148	151
Housing	334	268	247
Environmental & Miscellaneous Services	192	209	237
Fire Service	28	29	32
Education, arts & libraries	811	897	994
Health & Personal Social Services	879	948	1,033
Social Security	1,563	1,667	1,851
Other Public Services	46	54	63
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Total NI Departments	4,854	5,086	5,220
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Total NI Block	5,373	5,643	5,827
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*Includes expenditure on RUC, Prison Service and Compensation Schemes but excludes the cost of maintaining the Army in N. Ireland and the cost of the NI Courts.