NERI Research inBrief

September 2017 (no49)

Public Expenditure and Investment in Northern Ireland

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ISSN 2009-5848

SUMMARY

Northern Ireland along with the rest of the United Kingdom has seen substantial reductions in public expenditure since the financial crisis of 2008. The Northern Ireland Executive has seen its spending power decline through reductions in the block grant. The attempts it has made to safeguard expenditure in certain areas like Health has resulted in significant reductions in other areas.

In order to become more fiscally sustainable Northern Ireland needs public investment to build productivity enhancing growth. This requires significant investment the scale of which will only be met by public expenditure. Further reductions in public investment will only entrench Northern Ireland's already weakened position.

KEY POINTS

- Northern Ireland has faced significant reductions in all areas of public expenditure and investment over the last 7 years.
- Day-to-day spending will have fallen by 8.5% in the 10 years up to 2019/20. In cash terms, there will be £885m less in spending than there was in 2009/10.
- Capital spending is set to be 12.3% lower in 2019/20 than it was in 2009/10. In cash terms, capital expenditure will be £176m lower annually by 2019/20.
- Total public expenditure in Northern Ireland fell by 1.7% between 2009/10 and 2015/16, among the largest reductions experienced by any UK region.

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Introduction

Northern Ireland along with the rest of the United Kingdom has seen substantial reductions in public expenditure since the financial crisis of 2008. The programme of austerity introduced in 2010 saw large cuts in departmental budgets in real (inflation adjusted) and in some cases nominal terms. This programme has recently been adjusted, but the schedule of cuts is forecast to continue until at least 2019/20, with indicative plan up to 2025. As the public expenditure is responsible for a relatively larger proportion of economic activity in Northern Ireland, the economic impact of these policies is likely to be magnified.

This *Research inBrief* seeks to examine the make-up of public expenditure in Northern Ireland and how and where that money is spent. It will also examine how policy has impacted on expenditure in Northern Ireland to date and the forecast impact up to 2019/20. It is also possible to examine the scale of the reduction in public expenditure in Northern Ireland compared to other regions of the UK.

The division of Public Expenditure

The terms used to describe public expenditure in Northern Ireland are often conflated and confused. Funding is made available directly to Northern Ireland in three streams. Annually Managed Expenditure (AME) is the funding that is made available for pension and welfare payments and it accounts for 45% of Total Managed Expenditure (TME). Resource Departmental Expenditure Limits (R-DEL) are the funds apportioned to 'day-to day' expenditure or current spending on items such as nurse's salaries or the electricity bill for a school. It accounts for half of all managed expenditure. Capital Departmental Expenditure Limits (C-DEL), which accounts for 5% of TME, is the funding made available to build schools and maintain roads and other public infrastructure.

R-DEL and C-DEL together represent what is commonly known as the 'Block Grant'. These amounts are agreed by the UK government and dispatched to Northern Ireland. The Northern Ireland Executive can decide how this money will be disbursed, but not the overall level of expenditure.

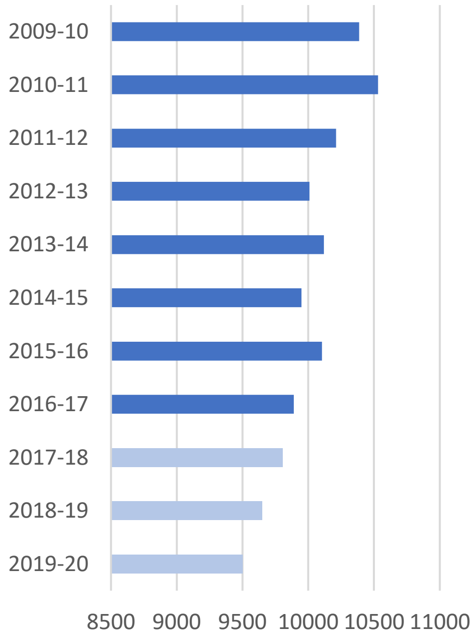
AME is different to R-DEL and C-DEL because it is not, technically, a pre-determined amount of money. The amount of money that will be required for social transfers such as pensions or child benefit will be a function of demographic and economic conditions as they emerge. The Northern Ireland Executive does not directly control how this money is apportioned as most social transfers are decided at national level. However, in some cases the Executive does have competency in terms of entitlements to social transfers and the welfare mitigations agreed in the Stormont House Agreement are an example of this.

Notwithstanding the importance of social transfers in creating a more sustainable and equitable distribution of income, the block grant represents the means by which the Northern Ireland Executive can invest in public services and infrastructure. The Executive choses how this money is spent and prioritises projects and service delivery in a budget process that is either decided an annual or multi-year basis. The most recent budget decided by the Northern Ireland Executive was published in January 2016 for the fiscal year 2016/17. Chart 2 sets out how the Executive apportioned block grant spending among departments for R-DEL in 2016/17.

Current Expenditure

In 2009/10, day to day funding for public services was £9.3bn and in 2016/17 it was £9.9bn. The resource budget is set to remain steady at £9.9bn all the way up to 2019/20. When adjusted for inflation, R-DEL has fallen substantially over the last six years and will continue to fall up to 2019/20. Day-to-day spending will have fallen by 8.5% in the 10 years up to 2019/20. In cash terms, there will be £885m less in spending than there was in 2009/10. Figure 1 shows inflation adjusted R-DEL as it has been from 2009/10 and forecasted up to 2019/20.

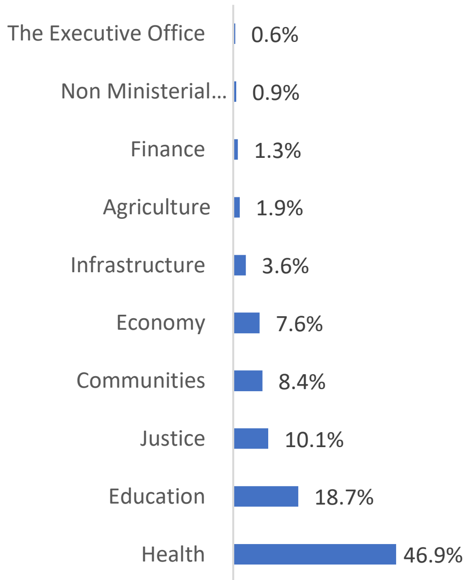
Figure 1: R-DEL Northern Ireland 2009/10 -2019/20 (2016/17 prices)



Source: Public Expenditure Statistical Analyses (HMT)

Resource spending was dominated by health which accounted for almost 47% of all current expenditure in 2016/17 compared to 41.7% in 2010. In cash terms, the current budget allocation for Health increased from £4.3bn in 2010/11 to £4.7bn in 2016/17.

Figure 2: R-DEL by department Northern Ireland 2016/17



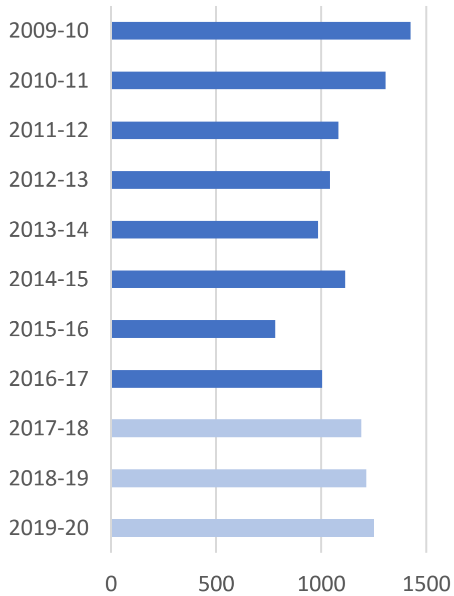
Source: Northern Ireland Budget 2016/17 (NIE)

As Figure 1 shows, while Health expenditure has increased in cash terms, it is the reduction in the total Resource budget which accounts for its increasing proportion of current expenditure. The Resource Budget in 2009/10 was £10.3bn, exactly the same as it was in 2016/17. Education spending forms the second largest portion of current expenditure. Resource Education spending was £1.91bn in 2009/10 and £1.95bn in 2016/17. Adjusted for inflation, current spending on Education fell by just under 9% between 2009/10 and 2016/17.

Capital Expenditure

In 2009/10 the capital budget for Northern Ireland in nominal terms was £1.27bn and in 2016/17 it was £1bn. It fell to a low of £766m in 2015/16 and is only set to rise to £1.31bn by 2019/20. These figures are not adjusted for inflation and as Figure 3 below shows, in real terms Northern Ireland's capital budget will be considerably smaller by 2019/20. Despite a significant projected increase over the next three years, capital spending is set to be 12.3% lower in 2019/20 than it was in 2009/10. In cash terms, capital expenditure will be £176m lower annually by 2019/20.

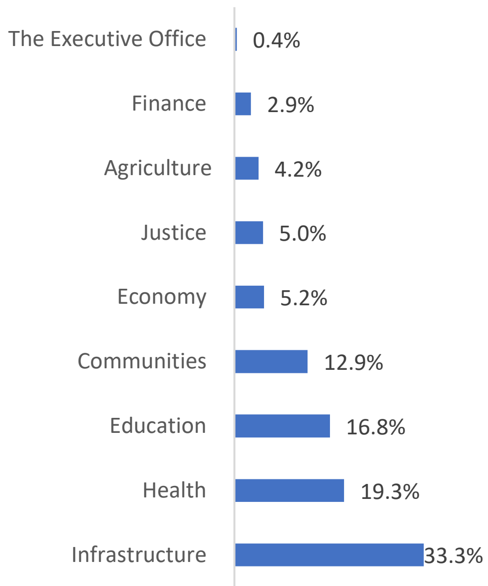
Figure 3: C-DEL Northern Ireland 2009/10 -2019/20 (2016/17 prices)



Source: Public Expenditure Statistical Analyses (HMT)

Figure 4 shows how C-DEL was distributed in the most recent budget agreed by the Northern Ireland Executive. The Department of Infrastructure accounts for one third of overall capital expenditure, with Health and Education consuming 19% and 17% of C-DEL respectively.

Figure 4: C-DEL by department Northern Ireland 2016/17



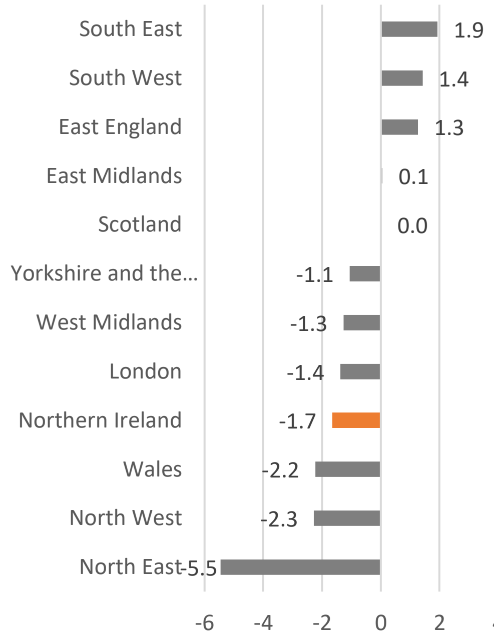
Source: Northern Ireland Budget 2016/17 (NIE)

As some departments had their responsibilities significantly altered in re-allocation in the Fresh Start Agreement of November 2015 it is not possible to make direct comparisons on the budget allocation for the Department for Regional Development as it was in 2009/10 and the Department for Infrastructure as it was in 2016/17. However, the new department did not lose any significant functions and actually gained additional responsibilities, particularly from the Department for the Environment. The Capital budget for the Department for Regional Development in 2010/11 was £556m, and the capital budget for the Department for Infrastructure was £384m in 2016/17. Even without adjusting for inflation, this represents a significant cut especially given the increased responsibility of the new department.

Regional Perspective

As set out in the introduction, the reductions in public expenditure in Northern Ireland are part of UK wide programme of fiscal consolidation. However, it does not follow that all regions have experienced these policies equally. In fact, the distribution of reductions in public expenditure amongst the regions of the UK has been quite wide. As Figure 5 shows, some regions experienced no reduction at all and some even saw increases in expenditure over the same period.

Figure: 5 Percentage Change in Identifiable Public Expenditure by UK region 2009/10-2015/16 (Real terms)



Source: Public Expenditure Statistical Analyses (HMT)

One point to note from Figure 5 is that only Scotland, Wales and Northern Ireland have defined spending channels of DEL and AME. Other regions are simply included in the UK total and so for this reason Total Identifiable Public Expenditure is examined by region. This is a measure which allocates UK public expenditure to regions on the basis of where the spending was meant for, rather than where it was actually carried out. This is not an uncontroversial way of attributing spending regionally but it provides the most accurate official estimate of the trend of regional expenditure across the UK.

Northern Ireland experienced amongst the largest reductions in total expenditure of any UK region. Whilst the reduction of 5.5% in the North East of England is striking, so too is the increase of almost 2% in the South East of England. Statistics regarding the make-up of regional expenditure are less reliable for the English regions and therefore comparisons of the sectors where increases or decreases have taken place is not possible. The analysis does show that the reductions in public expenditure in Northern Ireland have been amongst the largest of any UK region.

Policy Implications

As mentioned earlier, the Northern Ireland Executive does not control the level of public spending. The Executive does have limited powers of taxation, but this stream of revenue has never exceeded 3% of overall spending. It would not be fiscally prudent to expect the scale of recent reductions in public expenditure to be met from such a limited revenue base. Even if further fiscal powers were granted to Northern Ireland, it is unlikely this would provide a solution.

Whilst exact figures are disputed, the estimated total revenue from Northern Ireland does not meet total spending. Northern Ireland is a low value-added economy compared to the UK as a whole (Mac Flynn, 2016). Only when levels of productivity rise to UK averages will Northern Ireland ever hope to become fiscally independent. Even with that the cost of running public services will always be higher in Northern Ireland owing to its geographical isolation.

The implications for policy are clear though. Northern Ireland requires a more interventionist industrial policy to raise productivity and living standards and grow its revenue (Mac Flynn, 2017). This requires significant investment, the scale of which will only be met by public expenditure. This requires Capital DEL to build infrastructure and capacity amongst firms but it also requires increases in Resource DEL to promote skills, education and wellbeing.

Conclusion

Northern Ireland has seen large reductions in both current and capital expenditure. Attempting to safeguard expenditure in certain areas like Health has resulted in significant reductions on other areas. Northern Ireland experienced a disproportionately large reduction in public expenditure compared to other regions of the UK.

In order to become more fiscally sustainable Northern Ireland needs public investment to build productivity enhancing growth. Without such support, it is likely that the Northern Ireland economy will become more dependent on public expenditure and even more vulnerable to austerity policies in the future.

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