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To: [McCay, Davina](#); [McBriar, Trevor](#)
Cc: [Willis, Adele](#)
Subject: FW: Budget 2016
Date: 17 August 2016 19:26:02
Attachments: [image001.png](#)
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[Minute from Mike Brennan to Finance Directors dated 17 August 2016 re Pl....docx](#)

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Cc: Cousins, Heather; Cromie, Philip; Camplisson, Michael; Daly, Conall; Carey, Mariesa; Quail, Andrea
Subject: Budget 2016

To see commissioning note from DoF on Budget 2016 exercise, I will discuss at SMT tomorrow morning

Stephen

Stephen McMurray

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FROM: Mike Brennan *cc: Copy distribution list below*
DATE: 17 August 2016
TO: Finance Directors

NI BUDGET – INFORMATION GATHERING EXERCISE

Introduction

1. This note provides guidance on an information gathering exercise to support the Executive's approach to the 2017-18 Budget.

Background

2. Since my note of 17 June, which set out the proposed Budget approach, the financial context has been considerably changed by the UK's decision to leave the EU.
3. This decision has led the UK Government to revisit its economic and fiscal outlook and the Chancellor of the Exchequer will outline the initial implications for public spending at his Autumn Statement which is expected to be delivered in early December.
4. Given this uncertainty, the Executive has agreed to defer agreement on a Budget until after the Chancellor's Autumn Statement. As a result there will be a 'one stage' Budget which will be agreed by the Executive and presented to the Assembly in December/January.
5. Given the significant uncertainties going forward it has been decided that while the Budget will provide a definitive Resource DEL position for 2017-18 there will be no published, definitive Resource allocations for 2018-19 and 2019-20. Ministers will be advised of the scale of challenges that lie ahead, particularly in the context of addressing strategic issues such as the impact of BREXIT.

6. With the Capital DEL budget being less volatile than Resource DEL, the Executive will agree departmental Capital DEL allocations for each of the four years to 2020-21. These will be based on the total level of capital funding available to the Executive at that time.
7. Given this context I am now formally commissioning an exercise to gather information on departments' Capital DEL and Resource DEL budget position to assist in budget planning.

Capital DEL

8. Departments will already have had some engagement with DoF on Capital profiles and the continuation and conclusion of this work is now required. Departments should liaise with Supply to build up a meaningful picture of Capital DEL profiles for 2017-18 to 2020-21. This will include updated profiles for existing flagship projects.

Resource DEL

9. As you will be aware, following the 2015 Spending Review and the Chancellor's March Budget 2016 the Executive's Resource DEL budget is set to decrease by 4.1% in real terms between 2016-17 and 2019-20.
10. In the March Budget the Chancellor also announced that the Government would be seeking to reduce Resource DEL spending by further £3.5 billion in 2019-20. The Executive would face a Barnett share of this reduction, should it continue to be applied to Whitehall departments.
11. As I have outlined above, the referendum result has led to some degree of uncertainty over the level of funding that will be available to the Executive going forward. Further clarity will not be available until after the Chancellor's Autumn Statement. However, even before any additional public expenditure reductions the potential pressures facing the Executive mean that it is anticipated that most departments will be facing significant year-on-year cuts to Resource DEL Budgets, at least in later years.
12. In the context of this work departments will therefore need to consider two aspects. Firstly the more immediate impact should any reductions be required in 2017-18 and secondly the need to plan now for possible public expenditure reductions in the future years. Departments will be aware of the pressures facing the Executive including the cost of devolving Corporation Tax, as well as local pressures such as pay costs, increased pension contributions and apprenticeship levy costs. Decisions made in 2017-18 will impact on the availability of future resources and therefore it is prudent that departments take these longer term issues into account when planning for 2017-18.
13. In order to inform Budget deliberations this information gathering exercise will focus on three stages.

Stage One

14. In line with the approach agreed by the Executive in June Monitoring, DoF will need to form a view on the level of funding each department requires to fulfil its statutory obligations and deliver the Executive's priorities as set out in the emerging Programme for Government. To facilitate this, departments should provide an indicative view of how their non ring-fenced Resource DEL budget would be attributed to each statutory function, PfG commitment, enabling spend etc.
15. As a starting point for this analysis it is to be assumed that no additional funding will be provided and each department will have to live within its Budget 2017-18 baseline position in each of the three years (i.e. opening 2016-17 position less reclassifications and any ring-fenced/time bound allocations).
16. Planned expenditure attributed to each area should take account of pay/price inflation, apprenticeship levy etc. as no additional funds will be provided centrally to cover these increased costs.
17. An indication should be given of the level of service provided by the level of expenditure permitted by the baseline funding position and how this relates to the statutory requirement, PfG commitment etc.
18. Details may be provided of any pressures resulting from having to live within this baseline position. However, the working assumption must be that resulting pressures will mean that lower priority areas within the department remain unfunded.

Stage Two

19. The likelihood is that the majority of departments are likely to be facing some level of budget reduction at least in later years. Therefore the next stage will be to identify the impact of reductions of:
 - 3% and 6% from the baseline for 2017-18
 - 3%, 6% and 10% from the 2017-18 baseline for 2018-19 and
 - 6%, 10% and 15% from the 2017-18 baseline for 2019-20.

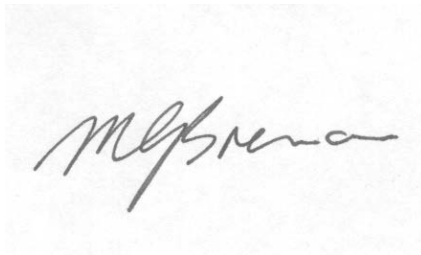
Again this should be shown in terms of impact on statutory functions, PfG commitments and lower priority areas.

Stage Three

20. As a final stage departments may provide details of any additional funding requirements they would like to be considered along with the positive impacts associated with these. This may cover any, or all, of the three years.
21. Should departments determine that further staff reduction is necessary, they should raise this with Supply teams as early as possible. PSRD should also be notified of any potential requirement for voluntary exits as they are responsible for managing the Public Sector Transformation Fund. PSRD are also commissioning an exercise to consider the utilisation of the Transformation

Fund by Arm's Length Bodies. Departments should be cognisant of potential future pressures and the need to access any future VES Fund when considering this exercise.

22. Departments, in providing assessments of the impact on services, should restrict their information to assessments of which of their lowest priority services would be curtailed or stopped.
23. CED will shortly issue proformas which cover the three stages and Supply officials will initiate meetings to commence this process. Supply will have concluded their engagement and collated finalised departmental returns by **10 October 2016**.
24. Again, many thanks for your assistance in taking forward these challenging tasks.



MIKE BRENNAN

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