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FROM: JOANNE McBURNEY

DATE: 25 JANUARY 2016

**TO: 1. ANDREW CRAWFORD
2. MERVYN STOREY MLA**

COR/0024/2016: CHIEF SECRETARY TO THE TREASURY – SPENDING REVIEW

Summary

Issue: The Chief Secretary to the Treasury (CST) has written to you informing you of the implications of the Spending Review recently announced by the Chancellor.

Timescale: Routine.

Presentational Issues: None

Need for Referral to the Executive: No.

Freedom of Information: In the event of a request for disclosure of information contained in this submission under the FOI Act, the request would be considered in the context of the relevant provisions of the legislation including any relevant exemptions that may be applicable.

Recommendations: That you note the letter and background information and agree to issue the draft reply attached at Annex B.

Background

1. On 25 November Chancellor Gorge Osborne announced the UK Government's 2015 Spending Review
2. Greg Hands, the Chief Secretary to the Treasury (CST) has now written to you to confirm the Executive's revised budgetary control totals and to set out a number of issues relating to Northern Ireland.
3. A copy of this letter is attached at **Annex A**.

Detail

4. As well as formal notification of the Spending Review outcome for Northern Ireland, the Chief Secretary's letter also outlines a number of announcements that have implications for the Executive. Not all of the issues mentioned will require a response to the Chief Secretary. However, some detail on the points covered is provided below for your information.

Spending Review Outcome

5. DFP officials can reconcile the Spending Review outcome notified in the CST's letter to the Executive's Budget position for 2016-17. However, the Resource DEL outcome in the letter is higher than the previously quoted Spending Review outcome due to the inclusion of the additional security funding provided for PSNI. This funding is ring-fenced and, as such, was treated separately in the Executive's Budget 2016-17.

Long-Haul Air Passenger Duty (APD)

6. The letter sets out the adjustment in respect of Air Passenger Duty over the Spending Review period. At £2.166 million in 2016-17 this is slightly lower than the £2.390 set aside in Budget 2016-17. The costs in future years will be addressed as part of the next Budget process.

Corporation Tax

7. The CST has commented on the MOU that has just been agreed which will allow HMRC to update IT systems and signals that he is content for officials to engage further on the arrangements for the block grant adjustment. This work will be taken forward by officials in Strategic Policy Division with input from Public Spending Directorate.

Temporary Accommodation Management Fee

8. These costs which were previously funded from AME will transfer to DEL from 2017-18. DEL funding was provided to the Department for Communities and Local Government as part of their Spending Review settlement. Northern Ireland will have received a Barnett consequential on this. However, this consequential simply formed part of the Executive's overall Spending Review outcome and was not separately identified.
9. This area is the responsibility of DSD who have been made aware of this change. DFP officials are currently engaging with their counterparts in DSD to

determine the quantum of the potential pressure. However, it will be for the new Department for Communities to manage any resulting pressure within their overall Budget settlement.

Coastal Communities Fund

10. While the Coastal Communities Fund will continue to be funded annually from the Reserve the letter indicates that from 2017-18 onwards the allocation for Northern Ireland will be 33% of the gross marine revenues of the Crown Estate in Northern Ireland two years previously.
11. This is a change from previous years where the funding provided was 50% of the Crown Estate Marine Revenues. However, it is expected that the revised percentage will be the same for all jurisdictions. In addition, the funding provided under the Coastal Communities Fund is relatively small, some £0.6 million in 2015-16. In addition the funding must be used for specific purposes and is therefore provided directly to DOE.

Renewable Heat Incentive (RHI)

12. The settlement letter clarifies that, as in the previous Spending Review period, the AME cover provided to the NI Executive for the Renewable Heat Incentive will be a population-based share of the budget in Great Britain. This is not unexpected given recent engagement with HM Treasury on this matter. However, this does give rise to a significant pressure in DETI as the projected costs from the scheme far exceed the AME budget provided. DFP officials are currently engaging with DETI on this matter.

National Cyber Security Programme

13. As part of this programme the Executive will be able to bid to the Cabinet Office for transformational projects to effect significant improvements in the UK's cyber security. The programme will not fund business as usual. The Cabinet Office is to provide more detail so no action is required at this point in time.

Apprenticeship Levy

14. The Apprenticeship Levy was announced in the Chancellor's Summer Budget without any prior consultation with the devolved administrations. It applies a levy to all large UK employers including those in the devolved administrations. However, the voucher scheme which will be introduced may only be accessed by English firms. Although the devolved administrations will receive a share of the levy, the specifics have still to be agreed. There is significant concern that the introduction of this levy will have an impact on local policies, particularly those which may seek a contribution from employers. The CST letter simply refers to the ongoing engagement on this subject and reiterates that there is no intention to undermine the Executive's flexibility. Therefore, a detailed response is not considered necessary until the engagement at official level is further progressed.

Housing Benefit / Social Sector Rents

15. The settlement letter reiterates the HM Treasury position, set out in the Summer Budget, that the Northern Ireland Executive will be expected to

deliver savings proportionate to those generated from the down-rating in rents in the Social Rented Sector in England. This policy is of concern to the three devolved administrations and there has already been some engagement at official level. The letter accepts that this engagement should continue. This is a matter of significant concern for Northern Ireland given the work currently being taken forward by DSD on Social Housing Reform. Given that this letter appears to represent a strengthening of the HM Treasury position, DFP has advised DSD to freeze rents at the current level for the incoming year pending further discussions with HM Treasury.

Donations Charities

16. Following the announcement in the Spending Review of a fund women's health and support charities, the previous Finance Minister wrote to the CST requesting £1 million to support a local charity, Angels of Hope, which focuses specifically on ovarian cancer. This letter indicates that HM Treasury will be in touch as regards the bidding process for the fund.

Spectrum Changes

17. The letter sets out the annual charge on the Executive of £188,632 for the electromagnetic spectrum. This fee may be abated if the Executive clears the spectrum for release or enters into sharing arrangements.

Northern Ireland Air Ambulance

18. The previous Finance Minister corresponded with the Chief Secretary on seeking access to funding for a Northern Ireland Air Ambulance Scheme. Other UK regions have availed of funding made available from LIBOR banking fines. The draft reply reminds the Chief Secretary of the need to progress this issue before the March Budget.

Finance Ministers' Quadrilateral

19. The CST has suggested that a Finance Ministers' Quadrilateral (FMQ) meeting takes place alongside the forthcoming Joint Ministerial Committee (Plenary) meeting. Previous attempts by the devolved administrations to convene a FMQ have proved unsuccessful over the last 18 months. While the offer to convene the meeting is to be welcomed, it needs to be made clear that it should not become part of the formal JMC process.

Setting the Executive's 2016-17 Budget

20. The CST letter expresses disappointment that the Executive agreed a Budget 2016-17 and put it into the public domain without clear agreement from the Treasury. It states the expectation that HM Treasury should be given the opportunity to consent to the treatment of each element of the Stormont House/Fresh Start Agreements before it is presented to the Assembly.
21. The requirement for HM Treasury/NIO approval in relation to specific elements of the Stormont House/Fresh Start Agreements is accepted. However, while it is recognised that there should not be a repeat of the 2015-16 position an approval role in respect of the Executive's Budget as a whole would seem to be contrary to one of the key cornerstones of devolution ie the ability to set budgets.

22. The draft reply (attached at **Annex B**) outlines your commitment to an open and constructive relationship and provides responses to Mr Hands on a number of the issues raised above.

Recommendation

23. That you note the background information and agree to issue the draft reply attached at **Annex B**.

A handwritten signature in dark ink, reading "Joanne McBurney". The signature is written in a cursive style with a large initial 'J'.

JOANNE McBURNEY

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HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Mervyn Storey MLA
 Minister for Finance and Personnel
 Clare House
 303 Airport Road West
 Belfast BT3 9ED

13th January 2016

Dear Mervyn,

SPENDING REVIEW AND AUTUMN STATEMENT 2015 – NORTHERN IRELAND EXECUTIVE

Congratulations on your appointment as Minister for Finance and Personnel. I look forward to working closely with you and continuing the open and constructive relationship that Arlene and I have enjoyed. I would be very happy to have an early meeting, and if you have any plans to be in London please do contact my office.

2. This letter records the settlement for the Northern Ireland Executive following the outcome of the combined Spending Review and Autumn Statement which the Chancellor delivered on 25 November 2015

3. I am also grateful for the constructive nature of the engagement with the Treasury by your predecessor and your officials in advance of the Chancellor's announcements.

Resource DEL, capital DEL and financial transactions capital DEL allocations

4. The Barnett Formula was applied to changes in UK Government departmental allocations in the usual way, reflecting the updated comparability factors, which were shared in advance, and the latest mid-year estimates of population. The outcomes of these calculations on the Northern Ireland Executive's allocations for Resource DEL, Capital DEL and within CDEL ring-fenced financial transactions are set out in Annex A.

5. You will have noted that RDEL allocations have been set for 4 years, through to 2019-20. In order to provide some additional security for longer-term planning for investment, CDEL allocations have been set for one additional year.

Block grant adjustment – Long-Haul Air Passenger Duty (APD)

6. As agreed between the previous Chief Secretary and the then-Minister for Finance and Personnel Sammy Wilson, it is necessary to adjust the Executive's block grant to adjust for the impact of the devolution of long-haul Air Passenger Duty (APD).

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7. The following table sets out the RDEL block grant adjustment over the SR period, based on forecast growth rates for UK long-haul passengers. The 2015-16 figure does not reflect the adjustment made for this financial year, but instead sets a new baseline for the Spending Review period.

£ million	2015-16	2016-17	2017-18	2018-19	2019-20
Standard rate adjustment	0.309	0.319	0.329	0.338	0.346
Reduced rate adjustment	1.830	1.847	1.896	1.945	1.997
Total adjustment	-	2.166	2.224	2.283	2.343

Corporation Tax

8. As set out in the 'Fresh Start' agreement, the UK Government remains committed to the devolution of corporation tax rate-setting powers if the Northern Ireland parties meet their commitments in the Stormont House Agreement. This includes demonstrating that the Executive's finances are on a sustainable footing for the long-term.

9. There are two further areas that we need to progress so that we are in a position to proceed if these commitments are met. I am pleased that on the first of these, a Memorandum of Understanding has been agreed that will allow HMRC to start work to update IT systems. I am content for officials to take forward further discussions on the second area on arrangements for a block grant adjustment to deal with the direct and behavioural effects of devolution, over coming months.

Temporary accommodation management fee

10. The existing fee paid to local authorities in Great Britain for the costs associated with managing temporary accommodation is due to end in April 2017. Currently an AME cost managed by the Department for Work and Pensions in Great Britain, the Executive has in the past received AME cover sufficient to cover the costs generated in Northern Ireland.

11. In England, from 2017-18 funding will be provided to the Department for Communities and Local Government through DEL. The Barnett formula has been applied to the overall DCLG settlement in the usual way. Decisions on the mechanisms and levels of funding to support the relevant bodies in Northern Ireland for their responsibilities in similar areas are now for the Executive to take from within available resources.

Coastal Communities Fund

12. The Coastal Communities Fund will continue to be funded annually from the Reserve. For allocations in 2017-18 and beyond, the annual allocation for Northern Ireland will be set at 33

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per cent of the gross marine revenues of the Crown Estate in Northern Ireland two years previously.

Renewable Heat Incentive (RHI)

13. As in the previous Spending Review period, AME cover based on a population-proportionate share of the budget which has been set for the Renewable Heat Incentive in Great Britain will continue to be made available to the Northern Ireland Executive. The level of cover available is therefore £18.3, £22.3, £25.7 and £28.9 million from 2016-17 to 2019-20. Any spending on RHI above this level will need to be funded from the Executive's DEL budgets or other sources of income.

Ring-fenced PSNI Additional Security Funding

14. The PSNI bid for Additional Security Funding for this Spending Review period has been met in full. Ring-fenced sums of £32.24, £34.26, £33.71 and £31.14 million will be added to the NI Executive block grant from 2016-17 to 2019-20, to be used specifically for the purposes set out in the PSNI bid. This funding is made available on the understanding that the commitments entered into in relation to police funding to be provided from the Executive's overall block grant in both the Stormont House and the Fresh Start agreements are honoured.

National Cyber Security Programme

15. The National Cyber Security Programme will support cyber security across the UK, according to the objectives set out in the National Cyber Security Strategy, to be revised in 2016. Where the devolved administrations are responsible for the delivery of specific cyber objectives, they will be able to bid to the Cabinet Office for programme funding for transformational projects to effect significant improvements to the UK's cyber security. The National Cyber Security Programme will not fund routine or 'business as usual' cyber security activity which would otherwise be funded from within existing devolved administration budgets. Further details will be set out by the Cabinet Office in due course.

Apprenticeship Levy

16. I am pleased that our officials are engaging on the Apprenticeship Levy, as they work to ensure that Northern Ireland, Scotland and Wales all receive their fair share of the levy. As I have previously highlighted, we have no intention to undermine your flexibility over skills and apprenticeship policy within your responsibilities, and we aim to develop a system which as far as possible complements your policies. It remains a priority to ensure the Levy will have transparent and fair funding flows for employers right across the UK.

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Changes to Housing Benefit and interactions with rents in the Social Rented Sector

17. Following the Summer Budget, I set out that the devolved administrations would be expected to identify proportionate savings in relation to Housing Benefit to those which will be delivered from the down-rating in rents in the Social Rented Sector in England. The Spending Review and Autumn Statement introduced further reforms to Housing Benefit. It is clear from the discussions officials have had to date that there are complex interactions between the AME costs of Housing Benefit, and the role of the devolved administrations in relation to general housing policy. I cannot accept that it is fair to taxpayers across the UK to permit costs generated by Housing Benefit in Northern Ireland to continue to rise, as a direct result of policy decisions on rents in the social rented sector taken by Northern Ireland Executive Ministers, a position I trust you will understand. Officials should continue to explore these issues in order to provide further advice on the options available to move forward.

Donations to women's charities

18. Your predecessor wrote to me on 27 November regarding the Chancellor's Spending Review announcement of a fund for women's health and support charities. Details of the bidding process will be set out in due course, and we will follow this up with you in the New Year.

Spectrum charges

19. The Northern Ireland Executive is the holder of electromagnetic spectrum, for which it has to pay an annual charge. This is to ensure that publically held spectrum is used efficiently. The RDEL charge on the Executive will be £188,632. This fee should be paid to Ofcom. Where the Executive clears spectrum for full release or enters into sharing arrangements that have the effect of freeing up high-value bandwidth for productive civil use, charges for that spectrum will be abated accordingly.

Finance Ministers' Quadrilateral meeting

20. I recognise the value of the Finance Ministers' Quadrilateral (FMQ) meeting to discuss financial issues of mutual interest, alongside the bilateral conversations that I have recently been prioritising. I therefore suggest that an FMQ meeting takes place alongside the forthcoming Joint Ministerial Committee (Plenary) meeting.

Setting the Executive's 2016-17 Budget – accessing ring-fenced funding and borrowing.

21. Our officials have had useful initial discussions on the process for constructing the Executive's 2016-17 budget. However, I was disappointed that the Executive decided to agree a budget for next year and put the substance of this budget into the public domain without clear agreement from the Treasury. As the Secretary of State set out in her letter of 17 December,

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the Government's clear expectation was that further discussions would take place before this happened.

22. Whilst I understand the compressed timescales within which you are working, I trust that engagement will continue at each stage of the budgetary process. I expect to be provided the opportunity to give consent to the proposed budgetary treatment of each element of Stormont House or Fresh Start agreement support before it is presented to the Assembly, to ensure that the capacity for misunderstanding is minimised.

23. We must avoid a repeat of the Executive's decision to adopt a draft budget for 2015-16 which implied spending which exceeded the established control totals set by the Treasury. We must also be clear that where proposals in the Fresh Start and Stormont House Agreements state that Government agreement is required, then this could involve an active role in ensuring any proposals meet our expectations.

24. I am copying this letter to the Prime Minister, the Chancellor, and the Secretary of State for Northern Ireland.

Your ever,

A handwritten signature in black ink, appearing to read 'GREG HANDS', with a long horizontal line extending to the right.

GREG HANDS

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Annex A

Table 1 sets out the Northern Ireland Executive's Barnett-formula determined DEL outcomes from Spending Review 2015, covering the years 2016-17 to 2020-21.

All figures are in £million and include VAT. These control totals are set inclusive of all tax liabilities arising from your department's activities.

These figures exclude any additions arising from the Stormont House Agreement or previous / subsequent individual arrangements. Officials will be liaising separately to ensure that an understanding of the working control totals which should be used to inform the NI Executive's 2016-17 draft Budget is reached.

Table 1: Northern Ireland Executive SR outcomes: RDEL and CDEL (£million)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Baseline	Plans	Plans	Plans	Plans	Plans
Resource DEL (excl Depreciation)	9,661	9,777	9,855	9,861	9,885	***
Capital DEL	1,062	1,123	1,137	1,150	1,192	1,239
<i>o/w CDEL in PSGI</i>	<i>957</i>	<i>1,010</i>	<i>1,036</i>	<i>1,073</i>	<i>1,126</i>	<i>1,185</i>
<i>o/w Financial Transactions Capital</i>	<i>104</i>	<i>114</i>	<i>101</i>	<i>76</i>	<i>66</i>	<i>54</i>

*** Resource DEL budgets were only set for the years to 2019-20 at SR15.

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Greg Hands MP
Chief Secretary to the Treasury
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Your reference:

Our reference: COR/0024/2016

[] January 2016

Thank you for your letter of 17th January 2016 confirming the Spending Review outcome and the subsequent control totals for the Northern Ireland Executive.

Firstly, I look forward to working with you and continuing the constructive engagement that my predecessor enjoyed. In that regard, I look forward to an early meeting with you as well as the Finance Ministers' Quadrilateral in the coming months.

In relation to Corporation Tax I welcome the agreement to date and have tasked my officials to work closely with their counterparts to progress this important area of work.

I also welcome the additional funding for PSNI security funding, agreed as part of the Fresh Start Agreement and can confirm it will be ring-fenced for that purpose within the Department of Justice budget. You will also be aware that the Executive has now provided a level of protection for the policing budget within its Budget 2016-17.

I echo your sentiments on the need to find a fair and equitable method of applying the Apprenticeship Levy to UK employers, and I welcome your commitment to find a way to implement that across the UK without undermining the discretion of the Devolved Administrations in this policy. My officials will continue to liaise with their BIS and HMT counterparts on seeking a solution to this issue.

Turning to social housing rent policy, while I appreciate your position, I feel it does not take into account fully the significantly lower rents in this sector in Northern Ireland that are a direct result of policy decisions by Executive Ministers. I welcome the offer to continuing to explore the issue at official level. In recognition of this ongoing work I have now recommend to the Minister for Social Development that the proposed rent increase should be delayed and that a freeze should be adopted for NI Housing Executive rents in 2016-17. (You will be aware that the Executive does not control the rents charged by Housing Associations.) I hope the adoption of this neutral position will allow further time for our officials to explore this matter further.

In relation to the Executive's 2016-17 Budget, I appreciate your recognition of the difficult timescales placed upon the Executive with the late announcement of the Spending Review and your subsequent confirmation of the Executive's control totals. That combined with the commitment placed upon the Executive to have an agreed Budget through the Assembly by the end of January has been extremely challenging. You will, no doubt, appreciate the political complexity for securing that agreement.

Whilst I appreciate your concerns about the 2015-16 budgetary position, I would point out that the 2015-16 Budget was predicated on the outworking of the Stormont House Agreement and whilst I acknowledge the subsequent difficulties, I would contend that at the time of publication the Budget did not exceed the proposed Budget for 2015-16. There was no concern expressed by your officials at that time and indeed, the Executive has not breached HM Treasury control totals.

In addition, whilst the 2016-17 Budget is predicated on the Stormont Agreement and Implementation Plan, it has been made explicitly clear to departments that funding is only available once the appropriate agreements are in place. That is why a

substantial amount of funding is held centrally and not placed in departmental Budgets. My officials will continue to work with their HMT counterparts on the substance of those agreements and will continue to plan for the period beyond 2016-17. The timing of the Executive's Budget for 2017-18 and beyond will allow more engagement with HMT officials and I expect that process to provide the reassurances that both sides require on the certainty of funding and the requisite controls for that funding.

Furthermore, I look forward to working with you on the legislative proposals for the Budget process that will preserve the key principles of devolution and that will be acceptable to the Assembly, as set out in the Stormont Agreement and Implementation Plan.

Finally I would like to conclude by reminding you of the commitment to consider favourably the funding sought for a Northern Ireland Air Ambulance. I hope that our officials can provide all the material necessary in advance of the forthcoming UK Budget exercise.

Once again, thank you for your words of welcome in my new role and I look forward to working with you in the future.

Yours sincerely

**MERVYN STOREY MLA
MINISTER FOR FINANCE AND PERSONNEL**