

**From:** [McBurney, Joanne](#)  
**To:** [TEO HOCS](#)  
**Cc:** [McConnell, Stephen](#); [Brennan, Mike](#); [Morelli, Emer](#)  
**Subject:** RE: REQUEST FOR BRIEFING - HOCS ATTENDANCE AT DEPARTMENTAL BOARD MEETINGS  
**Date:** 28 July 2016 10:32:38  
**Attachments:** [Budget 2016.docx](#)

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Aimee

Please see attached return from PSD.

Joanne

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**From:** TEO HOCS  
**Sent:** 28 July 2016 09:33  
**To:** Godfrey, Katrina (TEO); Brennan, Mike; McBurney, Joanne; Baker, Derek  
**Cc:** McConnell, Stephen  
**Subject:** RE: REQUEST FOR BRIEFING - HOCS ATTENDANCE AT DEPARTMENTAL BOARD MEETINGS

All

A gentle reminder that briefing on the issues below are due back with HOCS Office today.

Kind regards

Aimee

Aimee Morrow  
HOCS Office  
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BT4 3TT  
028 90 378131 ext 88131

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**From:** TEO HOCS  
**Sent:** 21 July 2016 16:29  
**To:** Godfrey, Katrina (TEO); Hannam, Brett; McCormick, Andrew (DFE); McMahon, Denis; Sterling, David; Brennan, Mike  
**Cc:** Morrow, Aimee; McConnell, Stephen  
**Subject:** REQUEST FOR BRIEFING - HOCS ATTENDANCE AT DEPARTMENTAL BOARD MEETINGS

## 1. All

Malcolm will shortly be embarking on a round of attendances at Departmental Board meetings the first of which is on Tuesday 2 August.

He has asked for a short report on each of the following strategies including progress to date; an

indication of whether the programmes are still on track; any emerging issues/risks including the implications of Brexit; and if there are any specific departmental issues that he needs to be aware of:

- PfG – Katrina,
- Budget – Mike/David,
- Refresh of the Economic Strategy – Andrew,
- Investment Strategy – Brett,
- Social Strategy – Denis,
- NICS of the Future – Katrina.

I would be grateful for a response by close of play Thursday 28 July. As the Board meetings are spread over a number of weeks/months I may have to ask you for updates on a rolling basis.

- 2. Andrew/David – he will also wish to be briefed on Brexit but as it is a moving feast it probably is best if I touch base with you towards the end of next week for the most up to date position.**

Kind regards

Olive

**Olive Maybin**

**Head of the Civil Service Office**

**Room FD34, Stormont Castle, Belfast BT4 3TT**

**Tel: 028 9037 8209**

**Mobile:** Personal information redacted by the RHI Inquiry

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**From:** [McGuinness, Jeff](#)  
**To:** [McBurney, Joanne](#)  
**Cc:** [Morelli, Emer](#); [Barrett, Stephen](#)  
**Subject:** FW: REQUEST FOR BRIEFING - HOCS ATTENDANCE AT DEPARTMENTAL BOARD MEETINGS  
**Date:** 25 July 2016 09:38:24  
**Attachments:** [image003.jpg](#)  
[Budget 2016.docx](#)

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Joanne,

Some more updates. I have also amended the real and cash percentages as the ones quoted related to 2015-16. The revised ones (related to 2016-17) now agree with the tables at the back.

Jeff

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**From:** Barrett, Stephen  
**Sent:** 25 July 2016 09:13  
**To:** McBurney, Joanne  
**Cc:** Morelli, Emer; McGuinness, Jeff  
**Subject:** FW: REQUEST FOR BRIEFING - HOCS ATTENDANCE AT DEPARTMENTAL BOARD MEETINGS

Joanne

Only a couple of minor changes for typo's tracked, otherwise seems comprehensive. I note that the real and cash terms percentage increases in the text differ from the table in the background note – this may need corrected or a footnote to explain.

Stephen

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**From:** McBurney, Joanne  
**Sent:** 22 July 2016 16:32  
**To:** Morelli, Emer; McGuinness, Jeff; Barrett, Stephen  
**Subject:** FW: REQUEST FOR BRIEFING - HOCS ATTENDANCE AT DEPARTMENTAL BOARD MEETINGS

Emer, Jeff, Stephen

Grateful for any comments/amendments/additions (especially in relation to departmental specific issues).

Thanks

Joanne

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**From:** Downie, Jill **On Behalf Of** Brennan, Mike  
**Sent:** 22 July 2016 10:22  
**To:** Maybin, Olive  
**Cc:** McBurney, Joanne; McGuinness, Jeff  
**Subject:** FW: REQUEST FOR BRIEFING - HOCS ATTENDANCE AT DEPARTMENTAL BOARD MEETINGS

Olive

Just to let you know that Mike is on leave until 2 August, but in his absence Joanne McBurney will provide input on Budget.

Many thanks.

Jill



**JILL DOWNIE**

*SPS to the Budget Director*

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## **BUDGET**

### **Progress to date**

In the June Monitoring Executive paper it was agreed that Budget 2016 would set Departmental Resource DEL budgets up to 2019-20 with Capital DEL budgets extending to 2020-21. The proposed timetable would have seen a Draft Budget presented to the Assembly in early October to allow for 8 weeks consultation before publishing a Final Budget in early January.

Since then the referendum decision that the UK leave the EU has cast great uncertainty on a number of issues, not least the level of resources that will be available to the Executive over the current Spending Review period.

Treasury has indicated that there will be a 'fiscal adjustment' Budget sometime in the Autumn. As a result there would appear to be little point in announcing a Draft Budget to the Assembly in October which would almost immediately be subject to considerable revision.

Therefore it is now proposed that there is a one stage Budget, agreed by the Executive and presented to the Assembly in December/ January.

In view of the significant uncertainties and the abridged timescale it is also proposed that the Executive should agree a one year Budget for both Resource and Capital DEL. This will also give additional time to reflect upon the emerging impacts of UK referendum outcome (including decisions on the UK rate of corporation tax).

To provide some degree of confidence and certainty to departments in formulating Capital spending plans it is proposed that the Executive commitment to existing 'Flagship' projects be reaffirmed and updated profiles up to 2020-21 be agreed. Proposals from departments for other significant capital projects that could be added to the list of 'Flagship' projects will also be considered.

A letter from the Finance Minister to Executive colleagues has been drafted along these lines. However, this has not yet issued (as at 27/07/2016). Finance Directors have been informed that this is the approach now being proposed.

DoF Supply teams are currently engaging with departments to form a view on their Capital DEL requirements and the minimum level of Resource DEL funding each department requires to fulfil their statutory functions and also to deliver the key Executive priorities as set out in the emerging Programme for Government.

## **Issues/Risks**

Following the 2015 Spending Review and the Chancellor's March Budget 2016 the Executive's Resource DEL will increase by 1.6% in cash terms between 2016-17 and 2019-20, but that equates to a real terms decline of 4.1%.

The Capital DEL position is more benign with a 16.0% cash increase between 2016-17 and 2020-21 for conventional Capital DEL. That equates to a real terms increase of 7.4%.

The then Chancellor George Osborne, advised in his March Budget that the Government would be seeking to reduce Resource DEL spending by £3.5 billion in 2019-20 and the then Chief Secretary advised in writing that the Barnett formula would apply in the normal way once the review of Westminster departmental budgets was complete.

In the wake of the referendum result, the then Chancellor announced that the Government would abandon its target to deliver a budget surplus by 2020. It is unclear what this will mean for public expenditure with some commentators believing this will only delay achievement of this target, lengthening the time over which austerity is implemented.

We will not have clarity on the level of funding available to the Executive until the Chancellor's Autumn Statement. No date has yet been given for this.

Even before any additional public expenditure reductions the potential pressures in areas such as Health, as well as the funding required for Corporation Tax, mean that it is anticipated that most departments will be facing significant year-on-year cuts to Resource DEL Budgets.

In addition, departments are likely to be facing increased pension costs from April 2019 when a revision to the discount rate is expected to trigger increased employer contribution costs. The exact size of pressures for the Northern Ireland Executive will not be known until the valuations are complete and new contribution rates from 2019 are set. However initial GAD estimates suggest that this could be between 3% and 5% of pensionable pay bills. For the NI civil service scheme alone this would be between £25 million and £43 million.

As well as budgetary uncertainty, the referendum result will also impact on future EU funding drawdown, Agri Food sectors and other economically important sectors. It may also impact on the operational status of the North/South Bodies. There will be potentially significant implications for international trade flows and foreign direct investment, while the regularity environment for both the public and private sector could change considerably.

With nearly 40 per cent of the EU Commission budget being allocated to the Common Agricultural Policy (CAP), the referendum result has potentially considerable implications for the local agricultural sector. The full effect of the referendum result on this sector, and public sector funding, will not be fully understood until agreement is reached at a UK level on how CAP will be managed.

## **Departmental Specific Issues**

### **Department for Communities**

#### **NIHE Corporation Tax Pressure**

DFC will be seeking funding of £13m/£12m/£10m over the period to 2019-20 to cover Corporation tax costs emerging after an HMRC review. There is also an in-year pressure in 2016-17 which was not covered in June Monitoring.



## Social Housing Rents

The Chancellor's Budget 2015 announced a reduction in social rents in England of 1% per annum for 4 years. Treasury indicated that the devolved administrations would need to make proportionate savings and that if we failed to deliver the expected savings in Housing Benefit then it would be a cost to the NI DEL. The inability to raise rents would have a detrimental effect on the Social Housing Reform Programme. A case has been made to Treasury based on the fact that rents are considerably lower in NI, something which is largely due to policy decisions. Discussions are ongoing. In the interim social rents for Housing Executive tenants have been frozen.

## ONS Classification of Housing Associations

The Office for National Statistics is reviewing the classification of registered providers of social housing (Housing Associations) in the three devolved administrations. This follows the reclassification of Housing Associations (HAs) in England from the private to the public sector in October 2015.

A decision is expected from ONS in August. DfC officials have indicated that this is likely to reflect a public sector classification. This will have a significant impact on Housing policy – not least that future borrowing of HAs would be a cost to DfCs Capital DEL.

In England the implementation of the associated change in budget treatment has been delayed to allow for legislative changes to take place which would result in a private sector classification.

DfC officials are currently considering the legislative changes that would be necessary to secure a private sector classification here. We are proposing to seek a derogation on the budgeting rules (similar to DCLG) to allow time to change legislation to allow HAs to revert to private sector. Treasury are likely to look favourably on such a request but we would need to provide evidence that changes are being progressed at pace.

## DfE

### Renewable Heat Incentive

The latest indications are that the ongoing pressure in respect of RHI is around £32 million per annum. This inescapable commitment may increase in future years if Combined Heat and Power plants with preliminary accreditation proceed.

### **University Funding**

DfE will be seeking additional funding for higher education to prepare for a lower corporation tax environment. As part of Budget 2015, DfE highlighted an annual funding deficit of £55.1m in the higher education sector. If existing provision were to be expanded in response to a reduction in corporation tax, the additional funding requirements would increase to £68.2m. Both scenarios assume no change in existing fee structures.

### Apprenticeship Levy

The Apprenticeship Levy, scheduled for introduction in April 2017, will be set at 0.5% of an employer's pay bill. It will apply to both public and private sector employers with a paybill in excess of £3 million.

HMRC/HMT have not yet provided figures for how much the levy is expected to raise from NI employers. However, our estimates indicate it will be in the region of £55/60 million.

The Executive receives a share of the funding raised by the levy – this was applied through the Barnett formula in SR2015.

However, discussions with Treasury have confirmed that the additional funding provided as a result of the levy is offset by the cessation of existing spending on apprenticeships. As a result the additional funding provided to the Executive was considerably less than expected.

**Spending Review 2015 Barnett Consequentials**

£million

	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
Apprenticeships funded by levy	+66	+74	+80
Other apprenticeships	-52	-52	-52
<b>Net impact on NI Resource DEL</b>	<b>+14</b>	<b>+22</b>	<b>+28</b>

The introduction of the Levy has not only created a burden on the public sector paybill but will also give rise to an expectation from NI employers that they will be able to access an equal amount of funding for apprenticeships.

**DoH**

It is expected that the Bengoa Review of Health and Social Services will make a number of recommendations regarding the reconfiguration of the existing health service estate and propose new ways of working to ensure the future delivery of an effective and high quality health service in Northern Ireland. It is likely that the implementation of the findings will require significant upfront investment to deliver savings at a later date. The profile of any investment and attendant savings is not yet known.

## BACKGROUND

1. The following tables set out our Resource and Capital DEL allocations for the Spending Review period.

## Non Ring-fenced Resource DEL

Emillion	2016-17	2017-18	2018-19	2019-20	Growth Rate
Spending Review 2015	9,745.0	9,821.0	9,827.5	9,853.8	
PSNI Security Funding	32.2	34.3	33.7	31.1	
Open University & Immigration Health Surcharge	3.3	2.5	2.5	2.5	
Assembly Election Costs	-5.3				
Tampon Tax Allocation	0.1				
UK Budget - Barnett	5.8	64.9	69.3	70.2	
UK Budget - NI Air Ambulance	2.0	1.5	1.0	0.0	
Agreed Outcome after UK Budget	9,783.2	9,924.2	9,934.0	9,957.6	
Not Yet Agreed/Finalised					2016-17 to 2019-20
R&D Reclassification	-11.7	-11.7	-11.7	-11.7	1.6% (Cash)
Fresh Start					-4.1% (Real)
Fraud and Error	25.0	25.0	25.0	25.0	
Return of Welfare Reductions	20.0	20.0			
Dealing with the Past	30.0	30.0	30.0	30.0	
Dealing with Paramilitary Activity	5.0	5.0	5.0	5.0	
Dealing with Paramilitary Activity - Monitoring	0.8	0.8	0.8	0.8	
Shared Future	12.0	12.0	12.0	12.0	
Total	9,864.3	10,005.3	9,995.1	10,018.7	

## Capital DEL

£ million	2016-17	2017-18	2018-19	2019-20	2020-21	Growth Rate
Spending Review 2016	1,009.6	1,036.0	1,073.2	1,126.3	1,184.7	
UK Budget	3.0	1.2	3.8	5.1	0.0	
Agreed Outcome after UK Budget	1,012.6	1,037.2	1,077.0	1,131.4	1,184.7	
Not Yet Agreed/Finalised						2016-17 to 2020-21
R&D Reclassification	11.7	11.7	11.7	11.7	11.7	16.0% (Cash)
Shared Housing and Education	50.0	50.0	50.0	50.0	50.0	7.4% (Real)
Total	1,074.3	1,098.9	1,138.6	1,193.1	1,246.4	

**SCENARIO: ZERO REDUCTIONS**

Resource DEL (Non Ring-fenced)	£m
<b>RTM</b>	<b>2017-18</b>
	-140.928
<b>Rates</b>	
Rates (Inflation)	-17.117
Rates 5% over inflation	0.000
<b>Other Items</b>	
Atlantic Philanthropies	-8.000
APD Costs	-0.166
Change Fund	-7.100
<b>Starting RTM</b>	<b>-173.311</b>
Renewable Heat Incentive	32.000
Corporation Tax	
£20m Return of WR Penalty in 2016-17 Baseline	
Welfare - Evason Pressure	44.000
Skills Baseline	20.000
Education Baseline	20.000
PPS - Work for Public Bodies	1.500
Welfare - Advice Centres	2.000
NIHE Corporation Tax Pressure	13.000
DfC Restoration of Social Fund	4.318
EU Match Funding	7.000
RRI Interest Rate Payments	1.414
RRI Principal Repayments	24.374
<b>Total Net Pressure</b>	<b>-3.705</b>
Scenario:	
Give Health and Social Care Real Terms	0.000
Education Real Terms	0.000
Economic Stimulus Package	
<b>Total Pressures</b>	<b>-3.705</b>

Note: RTM is -ve

**% Reductions Required**

Non Protected depts % Reduction	0.0%
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