

## **UK Government Financial Package to Northern Ireland**

### **Summary**

The UK Government has seriously considered the proposals put forward by the party leaders. It has tried to respond as positively as possible but this package reflects the difficult fiscal environment facing all governments and the need to be fair to all parts of the United Kingdom. This package of support has the full endorsement of the Prime Minister. The total value of the Government's package is additional spending power of almost £2 billion. This is made up of up to £650m of new and additional funding; flexibilities that protect £900m of resource spending (normally ring fenced for capital); and additional capital borrowing of up to £350m. These measures could also help to generate year on year savings of around £500m.

The specific measures include:

- up to £150m over 5 years to help fund the bodies to deal with the past;
- flexibility to use £700m of capital borrowing to fund a voluntary exit scheme over a period of 4 years with £200m in 2015-16, £200m in 2016-17, £200m in 2017-18 and £100m in 2018-19;
- a contribution of up to £500m over 10 years of new capital funding to support shared and integrated education subject to individual projects being agreed between the Executive and the Government;
- up to an additional £350m borrowing for infrastructure projects with a profile over four years with £100m in 2015-16, £100m in 2016-17, £100m in 2017-18 and £50m 2018-19;
- allowing the proceeds of specific agreed asset sales to be retained in their entirety and exceptionally consideration of these funds being used for a combination of both capital and resource spending;
- flexibility to repay both the £100m loan from the Treasury and £114m welfare deductions from asset sales and capital budgets; and
- if the implementation of welfare reform is completed during 2015-16 (including the relevant secondary legislation) the £114m deduction will be reduced to reflect the proportion of the year prior to implementation of the measures.

This represents a substantial package of support that ensures that the parties can deliver against all of their priorities. An implementation plan for the delivery of the commitments made must be agreed with the Government and this will include the efficiency measures needed to put Executive finances on a sustainable basis for the future. In the light of the importance placed by the Government on security, the Government expects Executive parties to protect PSNI budgets (and community policing in particular) from significant reductions.

### **Repayment of access to the Reserve**

Following agreement of a balanced budget the Government will allow the £100m loan from the Treasury to be repaid from asset sales. This means that the Executive will have a further £100m of resource spending available in 2015-16.

### **Funding for measures to address the past**

The Government recognises the unique circumstances that are faced in Northern Ireland due to issues related to the past. The paper from the party leaders estimates the potential costs of the new bodies to be higher than Government estimates. The Government recognises the burden that this work puts on the PSNI and that the costs could be higher and so will provide further funding. Therefore the Government will contribute up to £30m per year for five years to pay for the institutions to help deal with the past.

### **Restructuring - a voluntary exit scheme**

The Government will allow £700m of RRI capital borrowing to be used to help deliver a voluntary exit scheme. Whitehall departments have been expected to deliver equivalent schemes from their current expenditure. This offer protects £700m of resource spending that would be needed to fund the scheme. This would be £200m in 2015-16, £200m in 2016-17, £200m in 2017-18 and £100m in 2018-19. This flexibility is only available to fund a voluntary exit scheme. The Government believes that this remains an effective way to deliver the proposals. Each £100m of borrowing will cost between £3-4m a year in loan repayments, but will yield annual savings in excess of £50m. These are savings that could be used to deliver other priorities including investment in social outcomes projects. The Government has reflected on concerns that this approach would limit the access to borrowing for important capital projects. It therefore proposes that in addition to the borrowing for the voluntary exit scheme, from the existing RRI allocation, further capital borrowing will be made available. This will provide up to an additional £350m of borrowing to support important capital investment in projects to support economic growth. The spending profile is across 4 years with £100m in 2015-16, £100m in 2016-17, £100m in 2017-18 and £50m in 2018-19.

### **Peace and Investment Fund**

The Government recognises the need for investment in the future of Northern Ireland. That is why as part of the economic pact:

- we contributed an additional €50m towards PEACE IV funding. The Executive will be able to use PEACE IV funding in ways consistent with the programme, including to support the United Youth Programme;
- the Government provided an extra £100m of RRI borrowing which is being used to build shared schools and shared housing; and
- we are currently looking at the potential to gift surplus properties for the provision of shared housing.

The Government's existing contribution to these important aims should be recognised and any further contribution will be expected to deliver further progress. However, the Government recognises the need to progress this type of investment more quickly. It will, therefore, fund a programme of investment projects in shared and integrated education. It will contribute up to £50m of new capital funding per year for the next ten years (starting in 2015-16) subject to individual projects being agreed between the Executive and the Government. The Government also recognises the importance of social schemes but believes that these are best funded through:

- the resource budget protected by the flexibilities it has allowed elsewhere; and
- the savings made from the introduction of a voluntary exit scheme.

## **Welfare**

The Government welcomes the progress made by party leaders in developing proposals for a local welfare regime which meets local requirements. It also welcomes the fact that the party leaders recognise that the Executive will be responsible for the costs associated with the welfare regime where it differs from that in GB (including AME savings foregone, changes in claimant behaviour and further administrative costs). Consistent with this understanding the savings foregone will continue to accrue until welfare changes are implemented. This means the deduction from the block grant of £114m for 2015-16 remains due. To help ease the pressure on the resource budget, the Government is willing to provide flexibility on how this deduction is taken and will allow capital funds to be used, freeing up £114m of resource funding for the other priorities.

If the implementation of welfare reform is completed during 2015-16 (including the relevant secondary legislation) the £114m deduction will be reduced to reflect the proportion of the year prior to implementation of the measures.

This financial package is subject to the Welfare Bill being reintroduced in January, progressing through Consideration Stage by the end of February, and full implementation of Executive led measures by 2016-17.

## **Corporation Tax**

In view of the progress made in the talks, including agreement on measures to secure the long term sustainability of the finances of the Executive, legislation will be introduced as soon as Parliament returns to enable the devolution of corporation tax in April 2017.

This legislation will devolve the power for the Assembly to set a rate of corporation tax for trading profits with the responsibility for allowances and credits remaining at Westminster. The block grant will be adjusted to reflect the corporation tax revenues foregone by the UK Government due to both direct and behavioural effects but it will not take into account second round effects on other taxes.

Progress of the legislation through Parliament this session will proceed in parallel with implementation of key measures to deliver sustainable finances, including:

a) agreement in January 2015 on a final balanced budget for 2015-16 with a clear commitment to put the Executive's finances on a permanently sustainable footing for the future; and

b) progress on welfare reform in January with the Welfare Bill passing through Consideration Stage in the Assembly before the end of February.

The legislation to devolve corporation tax will also include a commencement clause. The powers will only be commenced from April 2017, subject to the Executive demonstrating that its finances are on a sustainable footing for the long term including successfully implementing measures in this agreement and subsequent reform measures.

An implementation plan for the delivery of the commitments made must also be agreed with the Government and this will include the efficiency measures needed to put Executive finances on a sustainable basis for the future.