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Dr Andrew Murrison MP
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19 December 2018

Handwritten signature: "D. Andrew"

Thank you for your letter of 9 October in requesting further information on underspend of the cash grant reported in the NIO Annual Report and Accounts 2017-18. I apologise for the time that it has taken to respond as the letter was only received by my office on 14 November. Each of the points you raised are addressed below. As you are aware, financial management and decisions on how money is spent are the responsibility of the NI Executive and Accounting Officers in each Department. Colleagues from the Department of Finance have contributed to this response.

First, I should explain the crucial difference between the cash grant to the NI Executive, on which Parliament votes, and the budget controls set by HM Treasury which determine how much the Executive can spend.

The NI Executive's budget is determined by the Resource DEL and Capital DEL set by HM Treasury, plus the demand-led Annually Managed Expenditure. Against these budget controls, the NI Executive had an under-spend of £60million in non-ringfenced RDEL and £12 million CDEL (0.6% and 1.1% of the total non-ringfenced RDEL and CDEL budgets respectively). All of this unspent budget will be carried forward to next year.

The cash grant differs significantly from the budget controls because:

- The budget controls are determined and managed on an accruals basis, whereas the cash grant is a pure cash control;
- Demand-led elements of the budget - particularly, benefits - are subject to variances;
- The cash grant must be adequate to ensure the Executive can meet its payments and funding commitments at any time;
- The supplementary estimate is determined in December, when the precise timing of cashflows towards the end of the year is unknown.

The end result is that the cash grant must be set conservatively, to ensure the Executive can meet its payments, making it likely that there will always be a significant cash surplus at the end of the year - if there were not, a single significant payment moving its timing by a day or two could risk the Executive being unable to meet its commitments. But the surplus cash is not available to be spent without budget cover.

By contrast, the budget controls must be adhered to and managed robustly - as demonstrated by the budget underspend of just 0.6% non-ringfenced RDEL and 1.1% CDEL, which has been carried forward. Against this, turning to your specific questions:

1. To what extent is this underspend larger than usual?

The underspend of the cash grant in 2017-18 (£800.4m) was an increase on 2016-17 (£517m) after year on year reductions in previous years. The 2017-18 underspend represents 5.24% of the total grant approved in the Supplementary Estimate (£15.29m). This is comparable to the average underspend over the previous 4 years (2013-14 to 2016-17) which is 5.44%. However, this cash underspend is not available to be spent. By contrast, the budget underspend was only 0.6% non-ringfenced RDEL and 1.1% CDEL, in line with previous years.

2. Will any underspend be lost or are there circumstances in which departments could carry it forward into 2019-20?

The underspend relates to the cash grant paid to the Northern Ireland Executive. While this is used to fund the spending of the NI Executive the actual level of spending is determined by budgetary controls e.g. DEL, AME and not by the cash grant.

In terms of the Budget framework, for 2017-18 the Budget Exchange Scheme for Devolved Administrations provides for the carry forward of up to 0.6% of Resource DEL, 1.5% of capital DEL and 15% of Financial Transactions Capital DEL based on eligible items contained within the final budget allocation for the year. Based upon Provisional Outturn information it is envisaged that all underspend on non-ring-fenced Resource DEL and conventional Capital DEL incurred by the NI Executive will be carried forward into 2018-19 under the Budget Exchange Scheme, ensuring that all funding made available in these categories is used to support public services in Northern Ireland. The 2017-18 DEL underspend being carried forward equates to £60 million non-ring-fenced RDEL and £12 million CDEL.

3. What are the overall reasons underlying this underspend?

The three primary areas contributing to the level of cash underspend are variances in Non Budget expenditure, movement in working capital, and DEL Financial Transactions Capital.

Non Budget includes grant-in-aid payable to Arms' Length Bodies and this accounts for the largest proportion of the cash underspend. This is largely due to timing of cash requirements and does not translate into a DEL budget underspend as it is the expenditure of the bodies on an accruals basis which is included in departmental budgets.

Movement in working capital, includes changes in creditors and debtors that can be difficult to predict and impact significantly on the cash required by departments. The majority of DEL related underspend is associated with Financial Transactions Capital, which reflects the challenge associated with identifying suitable projects that can avail of this finance that can only be used for loans or equity investments in the private sector.

Further information on cash underspends for specific departments is included within published departmental resource accounts.

Details of departmental Provisional Outturn in 2017-18, including Health and Education is set out at the link below.

<https://www.finance-ni.gov.uk/publications/year-monitoring-public-expenditure-2017-18>

The overall underspend on non-ringfenced Resource DEL and conventional Capital DEL falls within Budget Exchange limits agreed with HM Treasury meaning underspend can be carried forward for use in 2018-19 and no funding has been lost to public services in Northern Ireland.

4. To what extent is the underspend related to there being no Executive and a lack of Ministerial direction?

It is the Department of Finance's view that the absence of Ministers has not had a material impact on the overall level of cash underspend.

5. Is there likely to be a reduction in the underspend once the figures are finalised?

As this underspend relates to cash transactions, it is accurate however analysis of the final 2017-18 outturn figures on an accruals basis is not yet complete. Only minimal changes are anticipated in reporting final numbers.

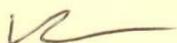
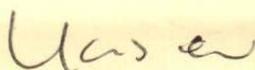
6. What is the likelihood of there being an underspend of similar magnitude in 2018-19 as well?

The local process to set the 2018-19 Supplementary Estimate and final position has not yet been carried out. In 2018-19, efforts are being made to improve cash management and forecasting, however, it is always likely that there will be a significant cash underspend given the inherent challenges in predicting cash needs, and the importance of ensuring the Executive can meet its commitments

7. Will the additional Confidence and Supply money and/or Fresh Start Agreement money be included in the baseline for the new spending review settlement?

For the current Spending Review period (2015-20), funding arising from the Stormont House and Fresh Start Agreements, and the Confidence and Supply Financial Annex are presented as additions to the DEL outcomes for the Northern Ireland Executive determined by the application of the Barnett formula. The calculation of the baseline for the Northern Ireland Executive will be confirmed at Spending Review 2019.

I hope this letter provides clarity on the specific issues sought by the Committee.



**RT HON KAREN BRADLEY MP
SECRETARY OF STATE FOR NORTHERN IRELAND**