CONTROL OF NORTHERN IRELAND EXPENDITURE: OBSCURITIES AND ILLUSIONS

Andrew Likierman*

> *"The financial relationship established between Northern Ireland and Great Britain suffers from an (additional) inherent defect. It is complicated. Neither its intentions nor its operation is understood by half the members of the Legislature, not to speak of the general public"* [Mansergh, 1936].

Nearly fifty years later, the situation has changed little. The first part of this article sets out the process of financial control between the administration in Northern Ireland and both Parliament in Westminster and central government in the UK, and the second part why that procedure is both obscure and anomalous. The third part indicates a possible reason for the present position and finally the article gives reasons why the obscurity and those anomalies need to be dealt with.

The Present Process of Financial Control

In common with the rest of the UK, expenditure control for Northern Ireland is based on two parallel, but linked, procedures and systems. One is based on the need to obtain Parliamentary approval for expenditure. The other is based on the need for the government to plan and control expenditure – plans which are announced in detail in the Public Expenditure White Paper.

The Parliamentary procedure for the approval of expenditure in Northern Ireland differs in detail, though not in principle, from that applied to the rest of the UK. In summary, the "Supply" element of expenditure in Northern Ireland is voted through Parliament in Westminster in one of three ways:

1. As part of those UK Supply Estimates which cover the whole of the UK – for example Class 2 (Defence).
2. In Class 17 of the UK Supply Estimates (Northern Ireland). This Class comprises two votes "Law, order, protective and miscellaneous

*The author is Senior Lecturer at the London Business School and Director of the School's Institute of Public Sector Management.

IBAR—Journal of Irish Business and Administrative Research, Volume 7, Number 2, Winter, 1985, pp 95-104.

services Northern Ireland" and "Transfers to the Northern Ireland Consolidated Fund" [H.M. Government, 1984a].
3. As the Northern Ireland Supply Estimates.

The main UK Supply Estimates are published in the Spring and voted on by Parliament in the Summer. As part of the "normal" procedures, Northern Ireland expenditure, whether under Class 17 or any other class — is voted on with the rest of the UK Supply Estimates.

The Northern Ireland (as opposed to UK) Supply Estimates set out the requests for expenditure by Northern Ireland departments and certain non-departmental bodies, such as the Fair Employment Agency or the Equal Opportunities Commission. The draft order for the Northern Ireland Supply Estimates is usually laid before Parliament in June, and debated and then "made" (agreed) in July. Authorisation to spend from the beginning of the financial year is on the same principle as the rest of the UK, with Sums on Account usually being voted in the early months of the year, at the same time as Spring Supplementary Estimates are debated. Under the Westminster Supply procedures, Appropriation Orders (normally three each year) are approved by Parliament and these authorise payments out of the Northern Ireland Consolidated Fund. The Parliamentary procedure is that the Appropriation Order is laid before both Houses of Parliament in draft before being debated. If approved, the Appropriation Order is made at a Privy Council meeting.

The structure of Votes in the Northern Ireland Estimates operates in the same way as the rest of the UK, with divisions chosen to reflect the basis of accountability. The procedure for Supplementary Estimates again follows the pattern of the rest of the UK, with Autumn and Spring Supplementaries as required. There are, nevertheless, some differences of practice in the treatment of Northern Ireland expenditure in parliamentary procedure from "normal" Supply procedures. First, because the Appropriation Orders are Statutory Instruments, unlike the normal Supply procedure, the sums voted on cannot be amended, but only accepted or rejected as a whole [House of Commons, 1983]. Second, the amount voted for the Northern Ireland Consolidated Fund in Class 17 of the Supply Estimates will be dependent on the decisions about taxation at Budget time. This does not mean that the fundamental principle of expenditure determining income has been breached, since the amount is amended automatically in the light of the Budget proposals. But it is unusual in being dependent at all on taxation proposals.

In the parallel administrative system for public expenditure control, Northern Ireland expenditure is classified as a programme (17 in the

Public Expenditure White Paper). Expenditure plans are announced in the Autumn Statement and then given in detail in the Public Expenditure White Paper in the Spring. Programme 17 covers both expenditure under the control of the Northern Ireland Office (mainly law, order and protective services) and also that covered by the Northern Ireland Departments.

Yet this outline of the current procedures barely hints at the problems of trying to reconcile the figures for public expenditure in Northern Ireland. The Introduction to the Northern Ireland Supply Estimates [H.M. Government, 1984b] gives only a part of the story, and there is no easy way of understanding which items are covered by which figures. Table 1 gives the different amounts for 1984/5 in the various documents in which they appear.

Table 1: *Supply Estimates*

	£ million
UK Supply Estimates 1984/5 Class 17 Includes Law, order protective and misc services (£404.051m) and transfers to the NICF (£815m)	1,219.051
Northern Ireland Supply Estimates 1984/5 12 Classes of which public expenditure element £2,524.583 which corresponds (approximately) to public expenditure in Cmnd 9143 of £2,556.5m	2,831.495
Financial Statement 1984/5 (Table 4) Includes Supply Services (£2,831.495m) and Consolidated Fund Standing Services (£190.124m)	3,021.619
Financial Statement 1984/5 (Table 5) Includes Supply Services (£2,831.495m), Consolidated Fund Standing Services (£190.124m) and provision for Surplus of £0.1m	3,021.719
Public Expenditure White Paper (Cmnd 9143) Includes Northern Ireland Office – Law, order and protective services/Other public services (£406m) and total for Northern Ireland Departments (£3,626m)	4,032

Notes:
1. National Accounts figures are not included.
2. Collection costs of £41.47m are identified in Table 2 of the Financial Statement, together with £86.13m as Northern Ireland share of UK payment to the European Community. This is not shown as expenditure, since it is netted off against income.

None of these figures can be taken as "Northern Ireland expenditure". For example the total of £4 billion in the Public Expenditure White Paper [H.M. Government, 1984c], excludes expenditure borne on programmes covering the whole of the UK. There are two categories here. First, those items which benefit Northern Ireland citizens but which cannot be separated from the rest of the UK, such as the activities of the Foreign and Commonwealth Office and the bulk of Ministry of Defence expenditure. Second, there are those items which are handled centrally, even though there may be direct benefit to Northern Ireland, including agricultural policy handled through the Ministry of Agriculture and the Intervention Board for Agricultural Produce. Expenditure in both these categories is borne in the main UK public expenditure programmes and Supply Estimates.

Taking the picture as a whole, 86% of planned public expenditure under the control of the Northern Ireland Departments represents direct expenditure by those departments and of this 80% is borne on Votes in the Northern Ireland Estimates. Thus public expenditure on the Votes is about 70% of the planning total.

There is an additional allocation of funds to Northern Ireland not included directly in the UK Supply Estimates. Payments from one public sector body to another do not count as public expenditure. Such items represented about 11% of the main Estimates in 1984/5. An example given in the guide to the Northern Ireland Supply Estimates [H.M. Government, 1984b] is that of the Education and Library Boards, financed by the Department of Education on Class VIII, vote 4 of the Estimates.

Individual items are also difficult to reconcile — the treatment of revenue from the European Community for example. This is an important item, since it offsets expenditure in the calculations of the net cost of a programme. The revenue appears in three different places in the documents presented to Parliament. Some is included in Class 17 of the UK Supply Estimates, and therefore reduces the amount which has to be voted by Parliament. This amounted to £82 million in 1984/5. Then there are amounts credited directly to the Northern Ireland Supply Estimates. These amounted to £49.1 million in 1984/5 and counted as a reduction in Northern Ireland expenditure. Finally there are the amounts credited to other UK expenditure programmes, notably agriculture, some of which relate to Northern Ireland but cannot be specifically attributed to it. The total revenue in the UK Supply Estimates as a whole (excluding Class 17) was £1590 million in 1984/5.

None of the above figures is easily reconcilable with the memorandum figure of £64 million in the Public Expenditure White Paper. To make matters even more confusing, a sum (£86 million in 1984/5) is deducted from the tax revenue credited to Northern Ireland in Table 2 of the Financial Statement as being "NI share of UK payment to the EC". This therefore means that this sum has notionally to be an *addition* to the amount voted in Class 17 of the UK Supply Estimates.

Table 2: *Reconciliation — Public Expenditure in Northern Ireland — White Paper and Supply Estimates*

			£ million
Total in 1984 Public Expenditure White Paper			4,031[1]
Less	–	Northern Ireland Office expenditure funded from UK Consolidated Fund	406[1]
	–	Less local authority expenditure funded by rates, internally generated resources and central government grants	306
	–	Less external financing of public corporations funded by borrowing	192
	–	Less expenditure on National Insurance type benefits funded from NI National Insurance Fund	566
	–	Less expenditure on Employment Protection funded from NI Redundancy and Maternity Pay Funds	6
	–	Less provision in Public Expenditure White Paper not taken up in Main Estimates	32
Equals public expenditure total in Northern Ireland Supply Estimates			2,534

Sources: [1]Public Expenditure White Paper 1984/5-1986/7; Northern Ireland Estimates 1984/5. Other figures from Department of Finance and Personnel, Northern Ireland.

Table 2 shows just how difficult it is to reconcile the figure (shown in Table 1) of the public expenditure total in the Public Expenditure White Paper with the figure for the total given in the Northern Ireland Estimates. Indeed it is impossible without the five linking figures given and these five figures are not available from published sources.

It should be emphasised that the difficulties of reconciling the figures in different documents is not peculiar to Northern Ireland. It is a general problem in the operation of separate Parliamentary and administrative systems and the general obscurity of public expenditure figures as a whole in the UK [Likierman and Vass, 1984]. But the Northern Ireland position is made very much more obscure than that of the rest of the UK because of a mechanism in the control of Northern Ireland expenditure which has no parallel in either financial and constitutional terms elsewhere in the UK – the Northern Ireland Consolidated Fund (NICF) which was set up under the 1920 Government of Ireland Act.

To put the Fund in context, the general principle is that government revenues from Northern Ireland are treated no differently from those gathered from other UK citizens. The imposition and administration of all taxes – on the income and capital gains of individuals, on the income of corporations, and for customs and excise duties and Vehicle Excise

Duty — as effected from Westminster. The taxes are collected either directly by UK central departments, or by Northern Ireland departments on their behalf. With a few minor exceptions, the proceeds are paid directly into the United Kingdom Consolidated Fund.

Yet the NICF exists as a separate account for Northern Ireland, as if this part of the UK was a separate financial entity. The Fund has income from a variety of sources, by far the most important of which is Northern Ireland's share of UK taxes which are hypothecated as income to the Fund. The bulk (but not all) of Northern Ireland expenditure is debited to the Fund. There are a variety of other items of income and expenditure and the balance is made up by an amount voted as part of Class 17 of the UK main Supply Estimates.

The case is even more artificial because it looks as if the transfer to the Fund through the UK Supply Estimates is the total amount transferred to Northern Ireland from the rest of the UK. Yet as can be seen, some expenditure is already voted through other Supply Estimates covering the whole of the UK and there are the additional amounts on Vote 17 of the UK Supply Estimates. The NICF itself includes a variety of items covering different types of expenditure and income other than those relating to central government, including local government, the European Community and income and expenditure arising from capital accounts. This mixture of current expenditure and interest received and paid makes the assessment of trends from one year to another very difficult indeed. Thus a decision to borrow rather than pay for items through current expenditure alters the balance between items in each year by both the amount borrowed and because of later interest payments. The basis on which the amount of borrowing is decided is not at all clear [Simpson, 1980]. The calculation for the hypothecation of tax income attributable to Northern Ireland from the whole of the UK mut also be difficult to make. While there has been little public complaint, it is difficult to know whether this is because the results are regarded as satisfactory, because nobody understands the calculations or, if they do, because the results are not seen as being of great importance.

The existence of the NICF adds a technical complication to the operation of cash limits. In general, the control mechanism of cash limits operates in the same way for Northern Ireland as the rest of the UK and about two-thirds of Northern Ireland expenditure in the Northern Ireland Estimates is subject to cash limits. There is a single block for all those Northern Ireland Supply Estimates which are cash limited (the others being demand-determined) and one for the item other than "Transfers to the NICF" in Class 17 of the main UK Supply Estimates. There is no cash limit for the transfers to the NICF, since it is merely a transfer from one public sector body to another. Furthermore, a cash limit could not be applied because the amount to be transferred depends on the tax revenue raised in the Budget and this amount is not known until after the Supply Estimates are produced.

The existence of the NICF also gives rise to an anomaly in Parliamentary procedures. The Northern Ireland Supply Estimates provide for the total amount to be spent (£2.8 billion in 1984/5). Yet because this sum is debited from the NICF and because credits are given for hypothecated taxes from the rest of the UK (£2.3 billion in 1984/5), the balance of £0.5 billion, after the relatively minor additional elements of income and expenditure, has then to be voted by Parliament to finance the expenditure as if Northern Ireland was a separate country. But it is not clear why this whole procedure is necessary. Parliament has already voted the whole amount of £2.8 billion and the vote to balance the NICF duplicates that part of the £2.8 billion which has already been voted.

There are a number of possible explanations for the existence of the NICF, of which two might be thought to be possible contenders. First that it is a legacy of history, based on the fact that there used to be a separate Northern Ireland Budget controlled from Stormont, and that to discontinue it would be a political act implying further integration of Northern Ireland into the rest of the UK. The second is that it has some role to play in the calculation of the amount of resources channelled to Northern Ireland from the rest of the UK. The second explanation can be dismissed, since expenditure on Northern Ireland is decided through the public expenditure (PESC) process in the same way as the rest of the UK. In any case, as has already been shown, the NICF is not an indicator of the flow of funds to and from the rest of the UK. On the face of it, therefore, it is role of history dominating current political considerations which explains the present arrangements.

Implications for the Future

The existence of the NICF and the present anomalies in the treatment of Northern Ireland might be dismissed as irrelevant if there were not the continuing danger that the figures could be misused. One such danger is in the belief that Northern Ireland could stand on its own feet economically. Calls to withhold the "Imperial Contribution" in the 1940s were one manifestation of this, the calls for a Unilateral Declaration of Independence in 1971 [Arthur, 1980] were another. There is no doubt that these illusions still exist in Northern Ireland and they can only be fed by the existence of separate accounts such as the NICF.

Another area of danger arising from the existence of a separate Fund lies in the way various attempts have been made to try to give a figure for the "cost" of Northern Ireland to the rest of the UK or to prove the degree of dependence of Northern Ireland on the rest of the UK (see for example the regular questions about the Northern Ireland "Subvention" by Lord Blease in the House of Lords, occasional questions and comments in the House of Commons, and the allegation by Simpson (1984) that "it is the only region where the net fiscal transfers from the central government can be measured in the published accounts of the two Exchequers"). While estimates of expenditure per head in any region are possible, the idea that the "total cost" of Northern Ireland to the rest of the UK can be calculated is fraught with dangers. Here too the existence of the NICF gives a spurious degree of credibility to figures of dependence, spurious because substantial parts of the flows of funds to and from Northern Ireland to and from the rest of the UK are not included, difficult to record or difficult to calculate. Year-by-year comparisons are made additionally difficult because of the possibilities of financing expenditure through either capital and current accounts. In summary, therefore, the amount of the "cost" of Northern Ireland cannot easily be found or calculated.

On the Parliamentary side, the present provisions for scrutinising Northern Ireland expenditure are also anomalous in a number of respects. First, the lack of a Northern Ireland Departmental Select Committee means that the three days of debate on the Northern Ireland Estimates, while a welcome feature of the control of Northern Ireland expenditure, are out of line with the procedures for the control of government expenditure in the rest of the UK. Second, there is the element of duplication in voting that element of the Northern Ireland Estimates which is covered by the NICF contribution. Finally there are the concerns expressed by the House of Commons Procedure (Finance) Committee in 1983 [House of Commons, 1983]. One was that the use of the Appropriation Order is a blunt instrument which is hardly suitable for this form of Parliamentary control. The other arises from the fact that Northern Ireland expenditure is voted in part in the Northern Ireland Estimates and in part in the main UK Supply Estimates, and that the total for Northern Ireland in the Public Expenditure White Paper includes some, but not all the expenditure on Northern Ireland. This arrangement was criticised [House of Commons, 1983] as dangerous in giving the illusion that Northern Ireland expenditure as a whole was being debated when the Northern Ireland Estimates were debated.

At a more detailed level, the structure of Class 17 of the UK Supply Estimates and the existence of separate Supply Estimates for Northern

Ireland are certainly anomalies when compared to the treatment of Scotland and Wales. Thus Scotland and Wales each has a UK Supply Estimate to cover a variety of services covered by the respective Secretaries of State although each also has services financed through Supply Estimates which cover the whole of the UK. But there are no separate Scottish or Welsh Supply Estimates. To bring Northern Ireland into line with practice for Wales and Scotland, it would not appear to be difficult technically to cover the Northern Ireland Supply Estimates as a whole in Class 17. The dividing line between what was covered in Class 17 and what was covered in other Classes would then be decided on the basis of administrative boundaries.

There can be three possible reasons for continuing the present procedures. One is that devolution is the current policy and to effect any change would be seen to be counter to that policy. The second is the understandable fear of political and other reaction to any change. Finally there could be the idea that the present arrangements could act as the basis of future financial arrangements with devolved arrangements of one kind or another.

Little can be said about the first two, since these are largely political and tactical issues. But if the final explanation is the reason, two questions need to be asked. First, is it likely that there will be a swift development in the constitutional position for Northern Ireland, perhaps building on the 1985 Anglo-Irish agreement? If there is, then there might be grounds for waiting to use the opportunity to settle all aspects of relations between the UK and Northern Ireland and not to tidy up in any piecemeal fashion. If lasting arrangements are unlikely to be agreed in the near future (and on the evidence it *does* seem unlikely) a second question which then arises is whether the NICF could be the basis for whatever is eventually decided? Assuming there will have to be a Consolidated Fund, the NICF and the present accounting arrangements seem far too obscure and cumbersome to be part of any conceivable set of future constitutional arrangements. They are certainly irrelevant in considering the amount of money required for Northern Ireland. This position is unaffected by Direct Rule from Westminster. Indeed Direct Rule did little to alter the substance of the financial relationship between Northern Ireland and the rest of the UK. It simply made more formal the relationship between the Treasury and the Department of Finance and Personnel in Northern Ireland which had previously been ad hoc, but no less close than at present.

The appropriate administrative, as opposed to political, steps to make the present procedures less illogical might involve two interlinked steps.

First, the creation of a Select Committee to handle the affairs of Northern Ireland in the same way as the affairs of Scotland and Wales are handled by their respective Departmental Select Committees. Second, the winding up of the NICF and the direct voting of Northern Ireland expenditure by Parliament in the same way as public expenditure for the rest of the UK is currently voted. With or without Direct Rule, the Northern Ireland Supply Estimates could be voted through without the need to engage in duplicate voting of "Transfers to the NICF" at Westminster or the transfer of funds into and out of a notional account.

The political dangers of any change are obvious enough. But these have to be set against the dangers of maintaining the status quo. In the case of financial arrangements the danger is that the impression of an arms length financial relationship will continue to foster economic and political illusions. The danger in Parliament is that the obscurity of the arrangements will mean that Northern Ireland will continue to occupy a dimly understood half-in-half-out position in Westminster and that there will be little understanding of the financial facts, either in Northern Ireland or in the rest of the UK. This cannot be healthy for a good financial working relationship between Northern Ireland and the rest of the UK or provide the basis for a significant Parliamentary contribution to the resolution of Northern Ireland consitutional issues.

REFERENCES

Arthur, P., 1980. *Government and Politics of Northern Ireland,* Longman.

Department of Finance and Personnel for Northern Ireland (1984a). *Financial Statement* 1984/5, HMSO.

Department of Finance and Personnel for Northern Ireland, 1984. *Public Income and Expenditure for the year ended 31 March 1984*, HMSO.

H.M. Government (1984a). *Supply Estimates 1984/5*, Class 17, Northern Ireland. HMSO.

H.M. Government, 1984b. "Guide to Estimates for Services under Government of NI", in *Estimates for Services under the Government of Northern Ireland for the year ending 31 March 1985*, HMSO.

H.M. Government, 1984c. *The Government's Expenditure Plans 1984/5 to 1986/7*, Cmnd 9143, HMSO.

House of Commons Select Committee on Procedure (Finance), 1983. *First Report Session 1982/3*, HC 24, HMSO.

Likierman, A. and Vass, P., 1984. *Structure and Form of Government Expenditure Reports: Proposals for Reform*, Certified Accountants Educational Trust.

Mansergh, P.N.S., 1936. *The Government of Ireland.* Allen and Unwin.

Simpson, J.V., 1980. "The finances of the public sector in Northern Ireland 1968-78", in *Journal of the Statistical and Social Inquiry Society of Ireland*, Vol. XXIV, Part 2.

Simpson, J.V., 1984. "Northern Ireland: The financing of devolution", in *Fiscal Decentralisation*, ed. T. Wilson, Anglo-German Foundation.