

NORTHERN IRELAND
NET FISCAL BALANCE REPORT
2007-08 (EXPERIMENTAL)

May 2010

CONTENTS

Section	Page
Executive Summary	4
Section 1: Introduction and Overview	5
Section 2: Fiscal Background	7
Section 3: Northern Ireland's Public Sector Accounts	9
Section 4: Public Sector Revenue	15
Section 5: Public Sector Expenditure	22
Section 6: Conclusion	42
Annex A: Revenue Methodology	43
Annex B: Expenditure Methodology	53
Annex C: Northern Ireland's Public Sector Accounts (Exc. Non-Id.)	56
Annex D: Northern Ireland's Public Sector Accounts (Inc. North Sea Oil)	58

LIST OF TABLES & FIGURES

Northern Ireland's Public Sector Accounts

Table 3.1: Net Fiscal Balance Estimates: NI, Scotland and the UK, 2007-08 (£m)	10
Table 3.2: Net Fiscal Balance Estimates (Exc. Non-Identifiable Expenditure and Accounting Adjustment): NI, Scotland and the UK, 2007-08 (£m)	10
Table 3.3: NI Fiscal Position 2003-04 to 2007-08	11
Figure 3.4: NI Trends in Aggregate Revenue and Aggregate Expenditure, 2003-04 to 2007-08	11
Figure 3.5: NI Fiscal Deficit Position, 2003-04 to 2007-08	12
Table 3.6: Summary of Total Public Sector Revenue in NI, 2003-04 to 2007-08 (£m)	13
Table 3.7: Summary of Total Public Sector Expenditure on Services (TES) in NI, 2003-04 to 2007-08 (£m)	14

Public Sector Revenue

Table 4.1: Current Revenue: NI and UK 2007-08	16
Table 4.2: Current Revenue in NI 2007-08	17
Figure 4.3: Trend of NI Largest Revenue Categories, 2003-04 to 2007-08	18
Figure 4.4: Trend of UK Largest Revenue Categories, 2003-04 to 2007-08	18
Table 4.5: Estimated Revenue Trend for UK and Northern Ireland 2003-04 to 2007-08	19
Table 4.6: % Growth in Revenue between 2003-04 and 2007-08	21

Public Sector Expenditure

Table 5.1: NI Total Expenditure on Services (TES), 2007-08	23
Table 5.2: Total Current and Capital Expenditure on Services (TES): NI and the UK 2003-04 to 2007-08 (£m)	23
Table 5.3: Current and Capital Expenditure (% of Total Expenditure): NI and the UK 2003-04 to 2007-08	24
Table 5.4: NI Total Expenditure on Services (TES), 2003-04 to 2007-08 (£m)	25
Table 5.5: UK Total Expenditure on Services (TES), 2003-04 to 2007-08 (£m)	26
Figure 5.6: Trend of NI Largest Expenditure Categories, 2003-04 to 2007-08	27
Figure 5.7: Trend of UK Largest Expenditure Categories, 2003-04 to 2007-08	27
Table 5.8: Total Expenditure on Services (TES) per capita: NI and UK, 2007-08	28
Table 5.9: NI Total Expenditure on Services (TES), Identifiable and Non-identifiable, 2003-04 to 2007-08 (£m)	30
Table 5.10: Identifiable Expenditure on Services: NI and UK, 2007-08	31
Table 5.11: Identifiable Expenditure per capita, 2007-08	32
Table 5.12: NI and UK Non-identifiable expenditure, 2003-04 to 2007-08 (£m)	34
Table 5.13: NI Non-identifiable expenditure, 2003-04 to 2007-08 (£m)	35
Table 5.14: UK Non-identifiable expenditure, 2003-04 to 2007-08 (£m)	36
Table 5.15: Non-identifiable expenditure: NI and the UK, 2007-08 (£m)	37
Table 5.16: Non-identifiable Expenditure per capita: NI and UK, 2007-08	38
Table 5.17: UK Accounting Adjustment, 2003-04 to 2007-08 (£m)	39
Table 5.18: NI Accounting Adjustment, 2003-04 to 2007-08 (£m)	40
Table 5.19: Expenditure in the UK and NI, 2007-08 (£m)	41

Conclusion

Table 6.1: Net Fiscal Balance Estimates: NI, Scotland and the UK, 2007-08 (£m)	42
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Annex A -Revenue Methodology

Table A.1: Apportionment methodologies and sources used to estimate Public Sector Revenues in NI	44
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Annex B -Expenditure Methodology

Table B1: Apportionment Methodologies for Non-identifiable Expenditure in NI 2003-04 to 2007-08	54
Table B2: Apportionment Methodologies for estimating the Accounting Adjustment in NI	55

Annex C- NI's Public Sector Accounts (Exc. Non-Id & Acc. Adjustment)

Table C1: NI Net Fiscal Balance Estimates (Exc. Non-Identifiable Expenditure and Accounting Adjustment), 2003-04 to 2007-08 (£m)	56
Figure C2: NI Fiscal Deficit Position shown by Aggregate Expenditure and Identifiable Expenditure Estimates, 2003-04 to 2007-08 (£m)	57

Annex D- NI's Public Sector Accounts (Inc. North Sea Oil)

Table D1: Net Fiscal Balance Estimates (Inc. North Sea oil): NI, Scotland and the UK, 2007-08 (£m)	58
Table D2: NI Fiscal Position (Inc. North Sea oil), 2003-04 to 2007-08	58

EXECUTIVE SUMMARY

- This report provides an analysis of the public finances in Northern Ireland, focusing on the expenditure and revenue generated within the region. The report concentrates on 2007-08, the latest financial year for which the complete series of relevant data is available.
- In 2007-08, the estimated fiscal balance in Northern Ireland was a deficit of £7.3 billion (26.1 per cent of GVA).
- Total (non-north Sea) public sector revenue collected in Northern Ireland was estimated to be £13.0 billion in 2007-08, or 2.4 per cent of the equivalent UK total.
- In 2007-08, total public sector expenditure in Northern Ireland was estimated to be £19.3 billion, or 3.5 per cent of the equivalent UK total.
- 'Identifiable' public sector expenditure in Northern Ireland was estimated to be £16.9 billion in 2007-08, or 3.6 per cent of the corresponding UK total.
- 'Non-identifiable' expenditure was estimated at £2.4 billion in 2007-08, or 2.8 per cent of the equivalent UK amount. Accounting adjustments amounted to a further £1.0 billion or 3.5 per cent of the UK figure for accounting adjustments. This brings the aggregate public expenditure figure to £20.3 billion.
- In 2007-08 the net fiscal balance or 'fiscal deficit' in Northern Ireland was equivalent to £4,167 per head. Applying the Northern Ireland methodology this compares to a per head figure of £2,280 in Scotland¹ and a per head figure of £708 in the UK. The Northern Ireland fiscal deficit as a percentage of the 2007-08 GVA was 26.1 per cent. This was higher than both the Scottish equivalent of 11.7 per cent and the UK equivalent of 3.5 per cent.
- Unless otherwise stated all estimates are net of North Sea oil revenue.
- The calculations employed to derive this net fiscal balance figure for Northern Ireland require the estimation of several expenditure and revenue items. Therefore, the net fiscal balance estimates presented in this report are subject to some statistical uncertainty.
- The estimations throughout this report are not National Statistics and are at this stage experimental in nature.

¹ The estimates presented for Scotland should be viewed as comparisons to the NI estimates as the official figures published by the Scottish Government are not directly comparable to these NI estimates, arising from variations in methodology (Annex A and B). Also, it is important to note that the figures presented here for Scotland will not be as accurate as the figures produced by the Scottish Government in the report, 'Government Expenditure & Revenue Scotland 2007-2008' (GERS).

SECTION 1: INTRODUCTION AND OVERVIEW

The aim of this report is to provide an estimate of public sector finances in Northern Ireland (NI) for the financial years 2003-04 to 2007-08. Particular focus is given to 2007-08, the latest fiscal year for which outturn data is available. The expenditure and revenue analysis determines the 'net fiscal balance' for NI, estimated as aggregate public revenue less aggregate public expenditure. In addition, the report contains a detailed disaggregation according to individual expenditure and revenue components.

The methodology applied within this report is generally consistent with that adopted by the Scottish Government in their annual publication 'Government Expenditure and Revenue in Scotland' (GERS).² Although actual data has been used where possible, it has been necessary to make a number of apportionments based on NI's share of United Kingdom (UK) Gross Value Added (GVA)³, population share, or alternative methods.

The figures within this report are estimates and should therefore be viewed as such. Variations in methodologies or the subsequent provision of more actual data could produce a more accurate reflection of the true fiscal balance.

The remainder of this section sets out the structure of the report.

Section 2: Fiscal Background

This section offers a brief background to the public sector fiscal framework in NI and the UK.

Section 3: Northern Ireland's Public Sector Accounts

This section derives estimates of overall net fiscal balances in NI based on aggregate public sector revenue and expenditure estimates contained in sections 4 and 5 of this report. This section also compares 2007-08 fiscal estimates between NI, Scotland, and the UK.

Section 4: Public Sector Revenue

Section 4 presents estimates of NI's public sector revenue raised over the financial years 2003-04 to 2007-08; with particular attention being paid to 2007-08 (the latest fiscal year for which outturn data is available).

² Scottish Government (2008) 'Government Expenditure and Revenue in Scotland 2007-08'

Available from: <http://www.scotland.gov.uk/Publications/2008/06/18170334/0>

³ Gross Domestic Product data is not available for Northern Ireland so Gross Value-Added (GVA) data is used instead. $GVA + \text{taxes on products} - \text{subsidies on products} = GDP$. Further note that the GVA figures used exclude Extra-Regio (off-shore contribution to GVA that cannot be assigned to any region).

The majority of public sector tax receipts are collected centrally by the UK Government and their detailed distribution by region is often unavailable. Details of other tax receipts, such as local authority revenues are readily available for NI. The methodologies used to allocate UK revenues to NI are discussed in Annex A.

The influence of North Sea oil revenue has been excluded from the main revenue analysis as the allocation of its revenues is a rather theoretical concept and there is no evidence to presume that Northern Ireland has some significant input to economic activity in the North Sea/ Continental Shelf. A hypothetical exercise allocating North Sea oil revenues to NI on a per capita basis is however attached in Annex C of this report.

Section 5: Public Sector Expenditure

Section 5 presents public sector expenditure estimates for NI over the financial years 2003-04 to 2007-08; with particular focus on 2007-08 (the latest fiscal year for which outturn data is available). In conformity with HM Treasury's, 'Public Expenditure Statistical Analyses 2009'⁴ (PESA 2009), data is divided into the following three categories: identifiable expenditure, non-identifiable expenditure and accounting adjustments. NI's identifiable expenditure data was taken directly from PESA 2009, whereas non-identifiable expenditure and accounting adjustments have been apportioned to NI using a variety of methods. Taken together, these three components form an estimate of NI's Total Managed Expenditure (TME). Details of the methodology employed in this section are presented in Annex B of this report.

Section 6: Conclusion

This section summarises the main results of the analysis.

Annex A : Methodology for Producing Estimates of Public Sector Revenue

Annex A provides details on the methodology employed to derive estimates of public sector revenue in NI.

Annex B : Methodology for Producing Estimates of Public Sector Expenditure

Annex B provides details on the methodology employed to derive estimates of public sector expenditure in NI.

⁴ HM Treasury, PESA 2009 [Available: http://www.hm-treasury.gov.uk/d/pesa_180609.pdf]

SECTION 2: FISCAL BACKGROUND

Total Managed Expenditure (TME) in the UK

In the current UK public finance framework TME is the key spending aggregate. This is a measure of public sector expenditure drawn from components in National Accounts produced by the Office for National Statistics (ONS). TME includes the current and capital expenditure of the whole public sector, including local government and public corporations (but excludes financial transactions).

TME comprises two components:

- Departmental Expenditure Limits (DEL) – DEL expenditure is planned on a multi-year basis, normally three years in successive Spending Reviews which apply to the UK as a whole. It is divided into Capital DEL, which is capital spending that adds to the government's fixed assets; and Resource DEL which reflects the ongoing costs of providing services, including pay, the cost of depreciation, grants paid to the private sector and so on.
- Annual Managed Expenditure (AME) – is spending that cannot be constrained within firm multi-year limits and is therefore adjusted and allocated annually by the UK central government. Components of AME include social protection and the capital costs relating to motorways, in other words this is spending that is 'demand-led' and cannot be planned far in advance. AME is also disaggregated into capital and resource components.

DEL makes up the majority of TME. The sum of DEL and AME plus an 'accounting adjustment' is equal to TME.

Public Expenditure Data

Detailed insight into the allocation of Government expenditure on services between the UK regions is provided annually in the HM Treasury PESA exercise. The expenditure data considered in this report is based primarily on the country and regional analysis provided within PESA 2009, which provides outturn data for the 2007-08 financial year.

Public Expenditure in Northern Ireland

HM Treasury is responsible for managing and implementing UK fiscal and macroeconomic policy, as well as determining public expenditure allocations across the UK regions. As a result, NI's Budget, along with that for Scotland and Wales, continues to be determined within the framework of public

expenditure control in the UK. However, once overall public expenditure budgets for the regions have been determined, the devolved administrations have freedom to make their own spending decisions on devolved programmes within that budget.

For programmes within the remit of DEL (for each of the devolved administrations) the block grant allocated by the UK government in Westminster is currently determined by application of the 'Barnett Formula'. Under this formula, budget allocations are determined by a population-based share of funding increases on comparative government spending programmes in Whitehall departments.

UK Public Sector Revenues

The majority of public sector revenue raised in NI is under the control of the UK government and is collected by HM Revenue and Customs. The largest sources of tax revenue are income tax, national insurance contributions, value added tax, and corporation tax.

Local government in NI can raise its own revenue from domestic rates, non-domestic rates (also known as business rates) and from other sources such as fees and fines.

Public Sector Net Borrowing

Public sector net borrowing (PSNB), Treasury's preferred measure of government borrowing, is the amount needed to finance current and capital spending over and above that raised by receipts. In this report, this estimation is referred to as NI's net fiscal balance rather than 'net borrowing'. For NI, the difference between public sector revenue and expenditure is part of the overall fiscal stance of the UK. The previous measure of borrowing – the public sector borrowing requirement (PSBR) is now known as the public sector net cash requirement (PSNCR).

SECTION 3: NORTHERN IRELAND'S PUBLIC SECTOR ACCOUNTS

Introduction

This section presents an overview of NI's public sector accounts for the period 2003-04 to 2007-08. Estimates of NI's net fiscal balance over this five year period are provided. NI's net fiscal balance is estimated as the difference between public sector revenue and expenditure. The figures set out in this report are estimates subject to a margin of error and should be treated accordingly.

Net Fiscal Balance 2007-08

The 'net fiscal balance' shows the difference between total public sector revenue and total public sector expenditure (including accounting adjustments).

In 2007-08, NI recorded a negative net fiscal balance of £7.3 billion (or 26.1 per cent of GVA).

In 2007-08, the total UK current budget deficit (including North Sea revenues) amounted to £35.4 billion.

The net fiscal balance or 'fiscal deficit' in Northern Ireland in 2007-08 was equivalent to £4,167 per head. Applying the Northern Ireland methodology, subject to data availability, this compares to a per head figure of £2,280 in Scotland and a per head figure of £708 in the UK. The Northern Ireland fiscal deficit as a percentage of the 2007-08 GVA was 26.1 per cent. This was higher than both the Scottish equivalent of 11.7 per cent and the UK equivalent of 3.5 per cent.

Table 3.1 contains headline public sector revenue and expenditure figures, relating to the estimates outlined in sections 4 and 5 of this report for NI, Scotland, and the UK. The estimates presented in table 3.1 for Scotland are estimates calculated using the methodologies set out in Annexes A and B. The Scottish estimates calculated here are comparisons to the NI estimates and not official figures published by the Scottish Government. It is also important to note that the figures presented here for Scotland will not be as accurate as the figures produced by the Scottish Government in the report, '*Government Expenditure & Revenue Scotland 2007-2008*' (GERS)⁵ because of some variation in the methodology assumptions.

⁵GERS Report, 2007-08 [Available: <http://www.scotland.gov.uk/Resource/Doc/933/0082969.pdf>]

Table 3.1: Net Fiscal Balance Estimates: NI, Scotland and the UK, 2007-08 (£m)

£ Million	NI	Scotland	UK
Aggregate Expenditure	20,296	56,459	584,065
Aggregate Revenue	12,958	44,747	540,915
Net Fiscal Balance	-7,338	-11,712	-43,150
Net Fiscal Balance per capita (£)	-4,167	-2,280	-708
Net Fiscal Balance as a % of financial year GVA	-26.1%	-11.7%	-3.5%

Table 3.2 has been included to illustrate the effect on the net fiscal balance of excluding expenditure that is considered to occur on behalf of the UK as a whole and cannot be apportioned on an individual country or regional basis.⁶ The exclusion of this 'non-identifiable' expenditure and an accounting adjustment revises downwards the NI deficit considerably from 26.1 per cent to 13.9 per cent of GVA. It is interesting to note that the Scottish fiscal deficit almost disappears and the UK figure moves into a surplus position. Note that if the accounting adjustment is included the estimates change to a net fiscal balance of -£4.9 bn, -£4.5 bn, and £44.1 bn respectively. Further analysis of the NI net fiscal balance as calculated using identifiable expenditure only is presented in Annex C of this report.

Table 3.2: Net Fiscal Balance Estimates (Exc. Non-Identifiable Expenditure and Accounting Adjustment): NI, Scotland and the UK, 2007-08 (£m)

£ Million	NI	Scotland	UK
Identifiable Expenditure	16,864	46,409	467,981
Aggregate Revenue	12,958	44,747	540,915
Net Fiscal Balance	-3,906	-1,662	72,934
Net Fiscal Balance per capita (£)	-2,218	-324	1,196
Net Fiscal Balance as a % of financial year GVA	-13.9%	-1.7%	5.9%

Net Fiscal Balance 2003-04 to 2007-08

This section profiles NI's fiscal position over the period 2003-04 to 2007-08, identifying trends in aggregate expenditure and revenue.

Table 3.3 shows how NI's fiscal deficit has increased by £1.3 billion over the period; from £6.0 billion in 2003-04 to £7.3 billion in 2007-08. However, it has remained relatively stable as a proportion of regional GVA over this period.

⁶ Refer to Section 5 of this report for more information on the expenditure analysis.

Table 3.3: NI Fiscal Position 2003-04 to 2007-08

£ Million	NI				
	2003-04	2004-05	2005-06	2006-07	2007-08
Aggregate Expenditure	15,814	17,064	17,791	18,649	20,296
Aggregate Revenue	9,839	10,556	11,282	12,322	12,958
Net Fiscal Balance	-5,976	-6,508	-6,509	-6,327	-7,338
Net Fiscal Balance per capita (£)	-3,509	-3,806	-3,776	-3,632	-4,167
Net Fiscal Balance as a % of financial year GVA	-26.1%	-26.8%	-25.6%	-23.6%	-26.1%

The information provided in this table is further illustrated in figures 3.4 and 3.5.

Figure 3.4 presents aggregate expenditure and aggregate revenue, highlighting NI's negative budget balance or 'deficit'- evident from aggregate expenditure lying above aggregate revenue on the chart. The gap between these two lines indicates the size of the NI deficit over the period 2003-04 to 2007-08.

Over the five year period, total spending increased by £4.5 billion (28.3 per cent), whereas estimated aggregate revenue increased by £3.2 billion (31.7 per cent), giving a net increase in the NI fiscal deficit of approximately £ 1.3 billion (22.8 per cent).

Figure 3.4: NI Trends in Aggregate Revenue and Aggregate Expenditure, 2003-04 to 2007-08

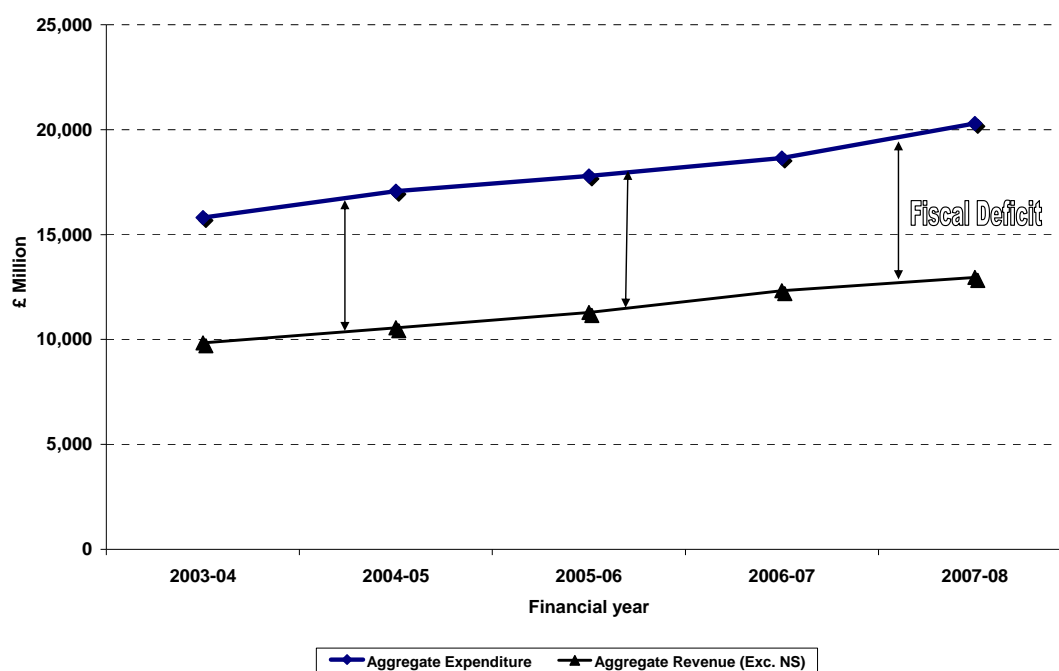
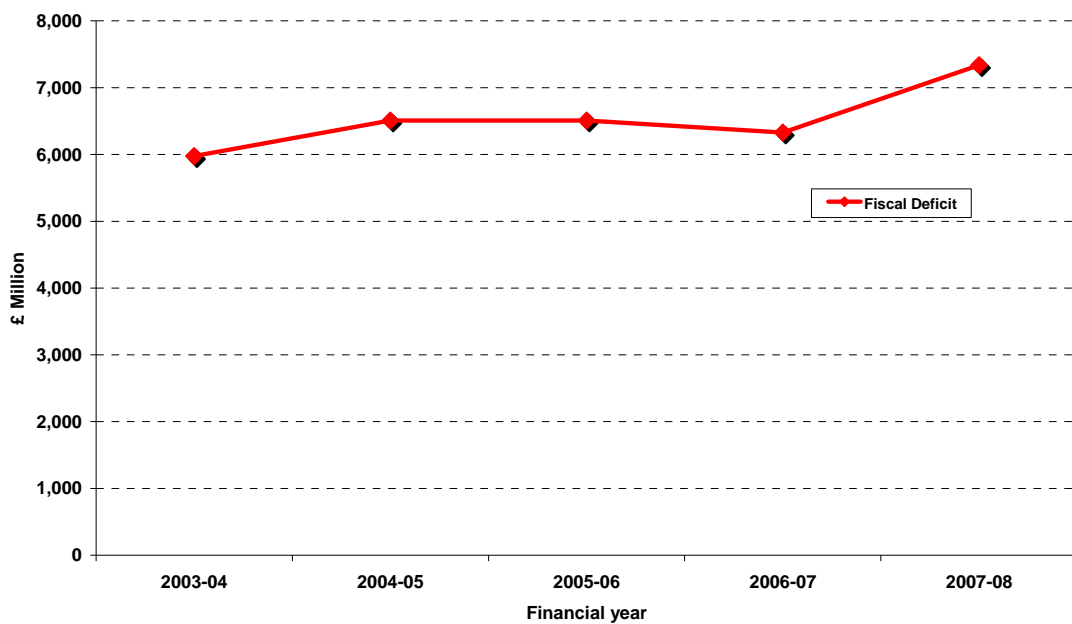


Figure 3.5 plots the growth of the 'fiscal deficit' over the five year period. From 2003-04 to 2004-05 there was an increase in the deficit of almost 9 per cent which can be attributed to expenditure growth. Between 2004-05 and 2005-06 the deficit remained unchanged. However, over 2005-06 to 2006-07 the deficit decreased by a modest 2.8 per cent; this was due to increased tax receipts in NI. The fiscal deficit increased by approximately 16 per cent over the latest period 2006-07 to 2007-08, which can mainly be attributed to increased expenditure growth. Overall, the period of 2003-04 to 2007-08 witnessed a significant increase in the fiscal deficit in the order of 22.8 per cent, or more than one fifth.

Figure 3.5: NI Fiscal Deficit Position, 2003-04 to 2007-08



Revenue

Table 3.6 details the main components of public sector revenue in NI over the period 2003-04 to 2007-08. A further disaggregation of revenue is presented in section 4.

In 2007-08, total estimated public sector revenue in NI was approximately £13.0 billion representing a nominal increase of 31.7 per cent from the £9.8 billion estimate for 2003-04. Increased revenue from income tax, NICs, and VAT contributed most in absolute terms to this significant increase in tax revenues.

Table 3.6: Summary of Total Public Sector Revenue in NI, 2003-04 to 2007-08 (£m)

Revenue Stream £ Million	NI				
	2003-04	2004-05	2005-06	2006-07	2007-08
Income tax (net of tax credits)	2,176	2,342	2,513	2,788	2,816
VAT	1,861	1,967	1,963	2,235	2,328
National Insurance Contributions (NICs)	1,530	1,674	1,822	1,866	2,069
Local Authority Revenue	669	747	816	901	903
Corporation tax (excluding NS revenues) ⁷	597	717	841	903	952
Fuel duties	753	780	852	865	926
Gross operating surplus & rent	625	597	679	705	704
Other Revenues	1,627	1,732	1,795	2,059	2,259
Current receipts (excluding NS revenues)	9,839	10,556	11,282	12,322	12,958

Expenditure

Table 3.7 presents a summary of Total Expenditure on Services (TES) for the main spending functions in NI over the period 2003-04 to 2007-08. A more detailed breakdown of expenditure is provided in section 5, including the estimation of the accounting adjustment required to bring TES in line with Total Managed Expenditure (TME) – the principle public sector expenditure aggregate used in UK Public Finance Accounts.

⁷ There may be an argument to adjust the Corporation Tax Revenue estimate as certain types of firms, such as banks, pay a larger proportion of Corporation Tax than small firms (which can avoid Corporation Tax by availing of tax credits to a greater extent).

Table 3.7: Summary of Total Public Sector Expenditure on Services (TES) in NI, 2003-04 to 2007-08 (£m)

Expenditure Category	NI				
	2003-04	2004-05	2005-06	2006-07	2007-08
Social protection	5,267	5,575	5,719	6,079	6,551
Health	2,313	2,465	2,645	2,881	3,099
Education	2,067	2,139	2,239	2,311	2,431
Public order and safety	1,227	1,297	1,302	1,331	1,368
Defence	820	848	883	922	967
General public services ⁽¹⁾	1,290	1,358	1,475	1,580	1,620
Other ⁽²⁾	2,261	2,610	2,721	2,625	3,245
Total	15,245	16,292	16,984	17,729	19,282

1. This category is comprised of EU transactions, Enterprise & economic development, Science & technology, Employment policies, Agriculture, fisheries & forestry, Transport, Environment protection, Housing & community amenities, and Recreation, culture & religion.

2. Note that this category comprises three groups; public and common services, international services, and debt interest

In 2007-08, TES was estimated at £19.3 billion which represents a 26.5 per cent increase from the £15.2 billion estimated in 2003-04. Other expenditure recorded the largest relative increase by a significant margin, increasing by 43.5 per cent over the five-year period. The next largest relative increase was health which experienced growth of 34.0 per cent. The subsequent largest category was general public services which grew by 25.6 per cent over the period. This was closely followed by social protection which grew at a rate of 24.4 per cent over the period 2003-04 to 2007-08.

SECTION 4: PUBLIC SECTOR REVENUE

Introduction

This section focuses on public sector revenues. As mentioned previously, there are a number of practical and theoretical difficulties which arise when allocating shares of UK tax revenue to each of its constituent countries as data on taxation is generally not available on a regional basis. Therefore, it has been necessary in some cases to estimate regional shares using reasoned assumptions. If more actual data was available this would lead to a more accurate reflection of total revenue raised in NI. This report makes best use of the data sources and methodologies that are currently available. Details of the methodology employed and the various sources of data used in estimating total public sector revenue in NI are provided in Annex A. In particular, table A1 provides a summary of the apportionment method applied and the source of data used to estimate each revenue stream. The table also highlights where the methodology has been revised from the previous publication.

North Sea oil revenues are excluded from this public sector revenue estimation. For a hypothetical exercise including a per capita share of North Sea revenues allocated to NI refer to Annex C.

Estimated Revenue 2007-08

The estimates of revenue generated in NI and the UK for 2007-08 are presented in Table 4.1. The table also shows the estimated contribution from each revenue stream and the proportion of UK revenue raised in NI. Based on the calculations; NI revenues are estimated at £13.0 billion in 2007-08 or 2.4 per cent of the UK total non-North Sea revenue.

Table 4.1: Current Revenue: NI and UK 2007-08

Revenue Stream	UK (£ million)	NI (£ million)	Share of UK
Income tax (net of tax credits)	147,326	2,816	1.9%
Corporation tax (excluding North Sea revenues)	40,288	952	2.4%
Capital gains tax	5,265	121	2.3%
Inheritance tax	3,890	52	1.3%
Stamp duties	14,123	435	3.1%
National Insurance Contributions (NICs)	100,411	2,069	2.1%
Total Inland Revenue	311,303	6,444	2.1%
VAT	80,601	2,328	2.9%
Fuel duties	24,905	926	3.7%
Tobacco duty	8094	350	4.3%
Alcohol Duties	8,302	222	2.7%
Betting & Gaming duties	1,481	41	2.8%
Air Passenger duty	1,994	58	2.9%
Insurance Premium tax	2,306	67	2.9%
Land fill tax	877	32	3.7%
Climate Change Levy	688	13	1.9%
Aggregates levy	339	8	2.3%
Customs Duties & levies	2,456	68	2.8%
Total HMRC	443,346	10,557	2.4%
VED	5,393	155	2.9%
Business rates (non-domestic rates)	21,413	461	2.2%
Council Tax (domestic rates)	23,469	443	1.9%
Other taxes & royalties ¹	14,684	403	2.7%
Net taxes & NICs conts²	508,305	12,019	2.4%
Interest & dividends	9,076	257	2.8%
Gross operating surplus & rent	24,452	704	2.9%
Other receipts & accounting adjustments ³	-918	-21	2.3%
Current Receipts (excluding North Sea Revenues)	540,915	12,958	2.4%
North Sea Revenues (NI on a per capita basis) ⁴	7,775	225	2.9%
Current Receipts (including North Sea Revenues)	548,690	13,183	2.4%
¹ Includes VAT refunds and money paid into the National Lottery Distribution Fund.			
² Includes VAT and 'traditional own resources' contributions to EC budget.			
³ Tax credits which are scored as a negative tax in the calculation of NTSSC but expenditure in the National accounts. Includes TV licences; net of oil royalties and business rate payments by Local Authorities			
⁴ Consists of North Sea corporation tax, petroleum revenue tax and royalties			

The main sources of NI estimated tax receipts were income tax (net of tax credits) amounting to £2.8 billion – over a fifth of all public sector revenue in NI (excluding revenues from North Sea), Value-Added Tax (VAT) amounting to £2.3 billion, and National Insurance Contributions (NICs) amounting to £2.1 billion. Collectively, these estimated receipts accounted for 56 per cent of NI public sector revenue.

Corporation tax revenue (excluding North Sea revenues) was estimated at £1.0 billion, equivalent to 7.3 per cent of the NI total. Fuel duties and gross operating surplus were the next largest categories, accounting for 7.1 percent and 5.4 percent of NI revenue respectively. The remaining eighteen categories each accounted for less than 5 per cent of the total NI public sector revenue estimate. Combined, domestic and business rates raised £0.9 billion; equivalent to 7.0 percent of NI estimated revenue.

Table 4.2 shows NI receipts and their respective proportion of total estimated NI public sector revenue.

Table 4.2: Current Revenue in NI 2007-08

Revenue Stream	NI (£ million)	Share of NI Total
Income tax (net of tax credits)	2,816	21.7%
Corporation tax (excluding North Sea revenues)	952	7.3%
Capital gains tax	121	0.9%
Inheritance tax	52	0.4%
Stamp duties	435	3.4%
National Insurance Contributions (NICs)	2,069	16.0%
VAT	2,328	18.0%
Fuel duties	926	7.1%
Tobacco duty	350	2.7%
Alcohol Duties	222	1.7%
Betting & Gaming duties	41	0.3%
Air Passenger duty	58	0.4%
Insurance Premium tax	67	0.5%
Land fill tax	32	0.2%
Climate Change Levy	13	0.1%
Aggregates levy	8	0.1%
Customs Duties & levies	68	0.5%
VED	155	1.2%
Business rates (non-domestic rates)	461	3.6%
Council Tax (domestic rates)	443	3.4%
Other taxes & royalties ¹	403	3.1%
Interest & dividends	257	2.0%
Gross operating surplus & rent	704	5.4%
Other receipts & accounting adjustments ²	-21	-0.2%
Current Receipts (excluding North Sea Revenues)	12,958	100.0%

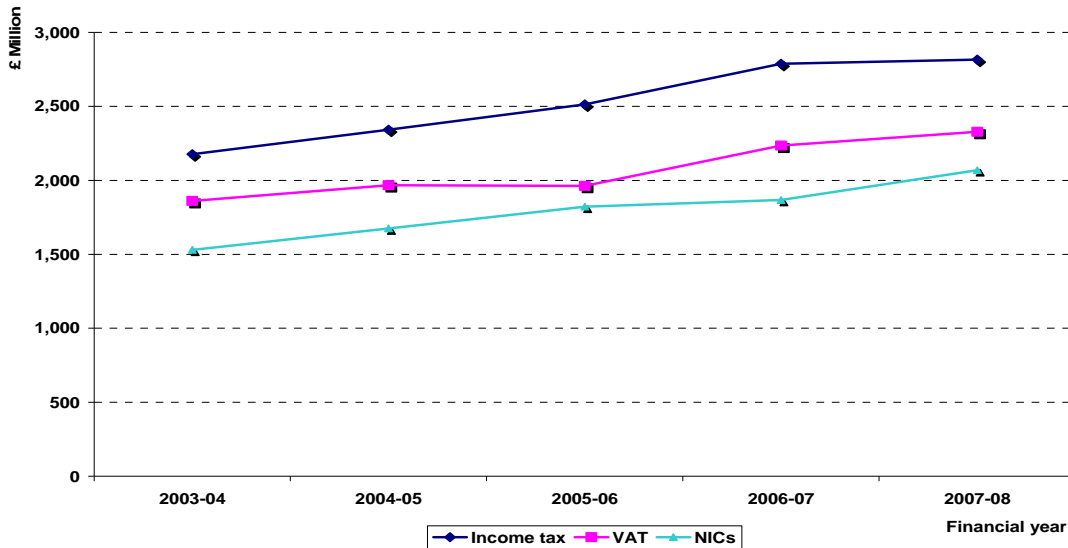
¹ Includes VAT refunds and money paid into the National Lottery Distribution Fund.

² Tax Credits which are scored as a negative tax in the calculation of NTSSC but expenditure in the National Accounts. Includes TV licences; net of oil royalties and business rate payments by Local Authorities.

Estimated Revenue 2003-04 to 2007-08

Figures 4.3 and 4.4 below chart the trends in NI and the UK respectively for each of the three largest revenue categories (namely income tax, VAT, and NICs). Together these categories comprise 61 per cent of UK aggregate revenue (exc. NS) and 56 per cent of NI aggregate revenue (exc. North Sea) in 2007-08.

Figure 4.3: Trend of NI Largest Revenue Categories, 2003-04 to 2007-08



In both NI and the UK each of these categories has experienced growth over the five year period 2003-04 to 2007-08. Figures 4.3 and 4.4 show that each region's income tax revenues are significantly higher than the preceding VAT revenues. However, the 'gap' between income tax revenue and VAT revenue appears to be much wider for the UK as a whole than in NI. Conversely, there is a smaller gap on average between VAT and NICs in the UK than in NI.

Figure 4.4: Trend of UK Largest Revenue Categories, 2003-04 to 2007-08

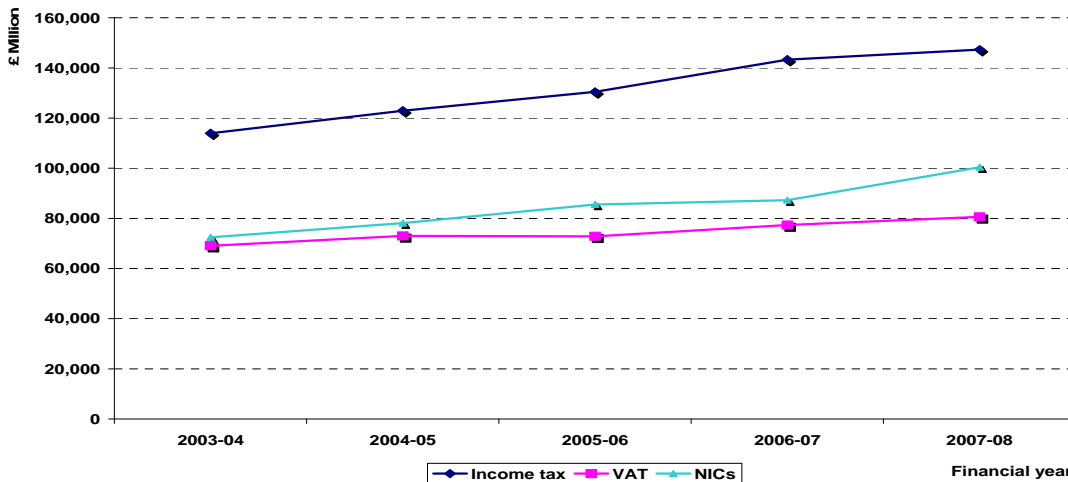


Table 4.5 below shows UK revenue and estimates of NI revenue for the period 2003-04 to 2007-08.

Table 4.5: Estimated Revenue Trend for UK and Northern Ireland 2003-04 to 2007-08

Revenue Stream £ Million	UK					NI				
	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
Income tax (net of tax credits)	113,969	122,924	130,478	143,322	147,326	2,176	2,342	2,513	2,788	2,816
Corporation tax (excluding NS revenues)	25,020	29,810	34,522	37,599	40,288	597	717	841	903	952
Capital gains tax	2,225	2,278	3,041	3,812	5,265	51	52	70	88	121
Inheritance tax	2,521	2,931	3,276	3,618	3,890	26	28	33	29	52
Stamp duties	7,544	8,966	10,918	13,393	14,123	220	263	247	365	435
National Insurance Contributions (NICs)	72,457	78,098	85,522	87,274	100,411	1,530	1,674	1,822	1,866	2,069
VAT	69,075	73,026	72,856	77,360	80,601	1,861	1,967	1,963	2,235	2,328
Fuel duties	22,786	23,313	23,438	23,585	24,905	753	780	852	865	926
Tobacco duty	8,091	8,100	7,959	8,149	8,094	349	349	343	352	350
Alcohol duties	7,565	7,876	7,861	7,913	8,302	186	190	190	196	222
Betting & Gaming duties	1,347	1,421	1,421	1,391	1,481	28	30	30	39	41
Air Passenger duty	791	864	905	971	1,994	23	25	26	28	58
Insurance Premium tax	2,294	2,359	2,343	2,314	2,306	66	67	67	67	67
Land fill tax	607	672	733	804	877	21	23	26	30	32
Climate Change Levy	832	764	744	712	688	15	13	13	13	13
Aggregates levy	339	334	326	321	339	8	9	8	8	8
Customs Duties & levies	1,941	2,195	2,258	2,325	2,456	53	60	62	65	68
VED	4,689	4,737	4,950	5,139	5,393	129	127	135	143	155
Business rates (non-domestic rates)	18,415	18,739	19,845	20,962	21,413	357	400	437	469	461
Council Tax (domestic rates)	18,747	20,017	20,884	22,208	23,469	312	347	379	432	443
Other taxes & royalties ¹	11,497	12,553	13,181	14,011	14,684	287	319	342	380	403
Interest & dividends	4,581	6,142	6,847	6,521	9,076	145	186	202	192	257
Gross operating surplus & rent	19,968	19,747	22,909	23,805	24,452	625	597	679	705	704
Other receipts & accounting adjustments ²	912	-427	43	2,789	-918	21	-10	1	64	-21
Current receipts (excluding NS revenues)	418,213	447,439	477,260	510,298	540,915	9,839	10,556	11,282	12,322	12,958
North Sea revenues (per capita basis) ³	4,294	5,195	9,641	9,015	7,775	123	148	276	259	225
Current Receipts (including NS revenues)	422,507	452,634	486,901	519,313	548,690	9,961	10,704	11,558	12,582	13,183

Note: See notes 1, 3, 4 Table 4.1

Table 4.6 identifies the growth rate of each revenue category over this period for both the UK and NI.

In nominal terms, revenues in NI and the UK for income tax, NICs and corporation tax are estimated to have grown at approximately the same rate as in the UK. Income tax grew by 29.4 per cent in NI between 2003-04 and 2007-08 in comparison to 29.3 per cent in the UK. NICs grew by 35.2 per cent in NI between 2003-04 and 2007-08 compared to 38.6 per cent in the UK. Also, corporation tax (excluding North Sea oil) increased by 61.0 per cent in the UK between 2003-04 and 2007-08 in comparison to 59.4 per cent in NI.

NI fuel duty revenue collected increased at a faster rate of growth than in the UK. It was estimated as 13.7 percentage points higher than UK growth; NI growth was 23.0 per cent in comparison to 9.3 per cent in the UK across 2003-04 to 2007-08. VAT collected increased at a faster rate in NI over this five year period than in the UK (by 8.4 per cent).

Some of the taxes that contribute little in absolute terms show considerable variation in growth between NI and UK figures. Most notably, inheritance tax revenue growth between NI and the UK varies by 44.8 per cent; NI growth between 2003-04 and 2007-08 was 99.1 per cent whereas UK growth was 54.3 per cent. However, inheritance tax revenue in NI amounts to less than one per cent of the total NI public sector revenue estimate, in other words, small nominal changes occurred over the period with large consequences in growth figures. Another notable variation in revenue growth between NI and the UK is highlighted by betting and gaming duty growth. NI growth in betting and gaming duty revenue was estimated as 36.5 per cent higher than UK growth; NI growth was 46.4 per cent in comparison to 9.9 per cent in the UK between 2003-04 and 2007-08.

Table 4.6: % Growth in Revenue between 2003-04 and 2007-08

£ Million	UK % Growth	NI % Growth
Income tax (net of tax credits)	29.3%	29.4%
Corporation tax (excluding NS revenues)	61.0%	59.4%
Capital gains tax	136.6%	138.7%
Inheritance tax	54.3%	99.1%
Stamp duties	87.2%	97.6%
National Insurance Contributions (NICs)	38.6%	35.2%
VAT	16.7%	25.1%
Fuel duties	9.3%	23.0%
Tobacco duty	0.0%	0.3%
Alcohol duties	9.7%	19.4%
Betting & Gaming duties	9.9%	46.4%
Air Passenger duty	152.1%	154.6%
Insurance Premium tax	0.5%	1.5%
Land fill tax	44.5%	54.7%
Climate Change Levy	-17.3%	-10.9%
Aggregates levy	0.0%	0.9%
Customs Duties & levies	26.5%	28.4%
VED	15.0%	20.2%
Business rates (non-domestic rates)	16.3%	29.2%
Council Tax (domestic rates)	25.2%	41.7%
Other taxes & royalties ¹	27.7%	40.1%
Interest & dividends	98.1%	76.8%
Gross operating surplus & rent	22.5%	12.6%
Other receipts & accounting adjustments ²	-200.7%	-203.6%
Current receipts (excluding NS revenues)	29.3%	31.7%
<i>North Sea revenues (per capita basis)³</i>	<i>81.1%</i>	<i>79.7%</i>
Current Receipts (including NS revenues)	29.9%	33.4%

Note: See notes 1, 3, 4 Table 4.1

SECTION 5: PUBLIC SECTOR EXPENDITURE

Introduction

This section provides a more detailed analysis of public expenditure in NI. The estimates presented are based on data contained in the Country and Regional Analysis (CRA) of HM Treasury's, 'Public Expenditure Statistical Analysis 2009'⁸ publication (hereafter referred to as PESA 2009).

In accordance with PESA 2009, public expenditure data has been disaggregated into three components: identifiable expenditure, non-identifiable expenditure and an accounting adjustment. Identifiable expenditure is that which can be recognised as benefiting individuals, enterprises or communities within particular regions. Examples of identifiable expenditure include welfare payments and most health and education expenditure.

Non-identifiable expenditure is incurred on behalf of the UK as a whole and cannot be apportioned to an individual country or region. The largest element of non-identifiable expenditure is defence expenditure. Defence spend benefits the UK as a single entity rather than specific parts. Debt interest payments, defence and international services are typically the largest elements of non-identifiable expenditure.

Identifiable expenditure consists of current and capital expenditure, as does non-identifiable expenditure. Current expenditure includes items such as welfare payments and public sector pay. Capital expenditure largely comprises spend on infrastructure such as for roads, schools and hospitals. Total identifiable and total non-identifiable expenditure sum to produce an estimate of Total Expenditure on Services (TES). An accounting adjustment is then required to bring TES into line with Total Managed Expenditure (TME), the principal public sector expenditure aggregate used in UK Public Finance Accounts.

Total Expenditure on Services

Table 5.1 shows estimated public sector TES for NI by expenditure category in 2007-08. Based on the methodologies adopted in this report, TES was estimated at £19.3 billion in NI. This was equivalent to 3.5 per cent of total UK public sector expenditure. The largest expenditure component was social protection, which accounted for 34.0 per cent of NI TES. Health and education were the next largest spending categories, accounting for respective TES shares of 16.1 per cent and 12.6 per cent.

8. HM Treasury, PESA 2009 [Available: http://www.hm-treasury.gov.uk/d/pesa_180609.pdf]

Table 5.1: NI Total Expenditure on Services (TES), 2007-08

	Northern Ireland	
	Expenditure £ million	Share of Total Expenditure
Public and common services	526	2.7%
EU transactions	-144	-0.7%
International services	194	1.0%
Debt interest	900	4.7%
Defence	967	5.0%
Public order and safety	1,368	7.1%
Enterprise and economic development	249	1.3%
Science and technology	92	0.5%
Employment policies	164	0.9%
Agriculture, fisheries and forestry	472	2.4%
Transport	532	2.8%
Environment protection	243	1.3%
Housing and community amenities	1,130	5.9%
Health	3,099	16.1%
Recreation, culture and religion	507	2.6%
Education ⁽¹⁾	2,431	12.6%
Social protection	6,551	34.0%
Total⁽²⁾	19,281	100.0%

1. In PESA 2009 the previous category 'Education and Training' was replaced with 'Education'.
2. Totals may not exactly match those shown in other tables due to the rounding conventions employed in analyses.

Table 5.2 summarises total current and capital expenditure for NI and the UK over the period 2003-04 to 2007-08.

Table 5.2: Total Current and Capital Expenditure on Services (TES): NI and the UK 2003-04 to 2007-08 (£m)

	NI					UK				
	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
Current	14,261	15,024	15,632	16,361	17,594	411,658	438,335	463,453	481,865	508,944
Capital	984	1,267	1,353	1,368	1,688	27,760	32,302	37,593	41,139	46,268
Total⁽¹⁾	15,245	16,292	16,985	17,729	19,282	439,415	470,640	501,046	523,001	555,211

1. The sum of the constituent items may not exactly agree with the total due to rounding.

Table 5.3 provides the shares of NI TES attributed to current and capital expenditure. Over the period 2003-04 to 2007-08, capital expenditure in NI has increased as a proportion of total expenditure from 6.5 per cent to 8.8 per cent.

Table 5.3: Current and Capital Expenditure (% of Total Expenditure): NI and the UK 2003-04 to 2007-08

	NI					UK				
	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
Current	93.5%	92.2%	92.0%	92.3%	91.2%	93.7%	93.1%	92.5%	92.1%	91.7%
Capital	6.5%	7.8%	8.0%	7.7%	8.8%	6.3%	6.9%	7.5%	7.9%	8.3%

Tables 5.4 and 5.5 present TES by current and capital expenditure for NI and the UK.

Over the period 2003-04 to 2007-08, estimated TES increased from £15.2 billion to £19.3 billion in NI, an increase of 26.5 per cent. UK TES increased from £439.4 billion to £555.2 billion over the same period, a similar increase of 26.4 per cent.

NI public sector current expenditure was estimated at £17.6 billion in 2007-08, accounting for 91.2 per cent of NI TES. Between 2003-04 and 2007-08, NI current expenditure increased by 23.4 per cent. UK public sector current expenditure was estimated at £509.0 billion in 2007-08, 91.7 per cent of UK TES. Between 2003-04 and 2007-08, UK current expenditure increased by 23.6 per cent.

In comparison, NI public sector capital expenditure was estimated at £1.7 billion in 2007-08, accounting for 8.8 per cent of TES. The main sectors were housing and community amenities, transport, education, and health. Between 2003-04 and 2007-08, NI capital expenditure increased significantly faster than current expenditure, increasing by 71.5 per cent. In comparison, capital expenditure at a UK level increased by 66.7 per cent over the 2003-04 to 2007-08 period to stand at 8.3 per cent of total UK TES.

Table 5.4: NI Total Expenditure on Services (TES), 2003-04 to 2007-08 (£m)

	Current					Capital					Total ⁽¹⁾				
	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
Public and common services	434	462	501	520	524	51	27	31	57	2	485	489	532	578	526
EU transactions	-183	-114	-299	-271	-144	0	0	0	0	0	-183	-114	-299	-271	-144
International services	141	153	167	169	182	6	5	10	11	12	147	158	177	180	194
Debt interest	658	711	766	822	900	0	0	0	0	0	658	711	766	822	900
Defence	782	802	853	897	893	39	46	31	26	73	820	848	883	922	967
Public order and safety	1,169	1,218	1,225	1,246	1,277	58	79	77	85	91	1,227	1,297	1,302	1,331	1,368
Enterprise and economic development	201	212	204	210	217	40	51	42	25	32	241	263	245	235	249
Science and technology	61	62	66	66	78	12	19	18	12	15	72	81	83	78	92
Employment policies	155	173	166	144	163	0	0	0	2	1	155	173	166	146	164
Agriculture, fisheries and forestry	357	378	497	422	420	26	24	37	51	52	383	402	534	473	472
Transport	241	223	233	234	256	99	119	133	160	276	340	342	366	394	532
Environment protection	145	153	173	193	218	27	52	67	64	25	172	205	240	257	243
Housing and community amenities	459	439	485	493	559	250	427	471	396	571	710	866	956	889	1,130
Health	2,181	2,308	2,486	2,684	2,915	132	157	159	197	184	2,313	2,465	2,645	2,881	3,099
Recreation, culture and religion	340	347	374	367	384	32	46	55	57	123	372	392	429	424	507
Education	1,871	1,933	2,044	2,106	2,220	196	206	195	205	211	2,067	2,139	2,239	2,311	2,431
Social protection	5,250	5,565	5,691	6,060	6,531	17	10	28	19	20	5,267	5,575	5,719	6,079	6,551
Total	14,261	15,024	15,632	16,361	17,594	984	1,267	1,353	1,368	1,688	15,245	16,292	16,984	17,729	19,282

1. The sum of the constituent items may not always agree exactly with the total shown due to rounding conventions.

Table 5.5: UK Total Expenditure on Services (TES), 2003-04 to 2007-08 (£m)

	Current					Capital					Total				
	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
Public and common services	10,152	10,766	11,398	11,755	11,257	1,030	1,661	1,684	1,241	1,299	11,181	12,427	13,082	12,995	12,555
EU transactions	-2,079	-891	-598	-1,763	-1,620	0	0	0	0	0	-2,079	-891	-598	-1,763	-1,620
International services	4,940	5,345	5,863	5,875	6,321	205	194	341	388	443	5,144	5,539	6,204	6,263	6,764
Debt interest	23,015	24,881	26,752	28,604	31,170	0	0	0	0	0	23,015	24,881	26,752	28,604	31,170
Defence	27,385	28,117	29,870	31,264	31,009	1,431	1,636	1,072	900	2,539	28,816	29,753	30,942	32,164	33,548
Public order and safety	24,749	26,501	27,393	28,358	29,306	1,394	1,699	1,602	1,807	2,081	26,143	28,200	28,996	30,164	31,387
Enterprise and economic development	4,733	5,072	5,209	4,952	5,469	1,275	1,474	1,360	1,575	1,633	6,008	6,547	6,569	6,527	7,102
Science and technology	1,797	1,940	2,242	2,146	2,410	505	514	683	630	798	2,303	2,454	2,925	2,776	3,208
Employment policies	2,883	3,027	2,987	3,155	3,211	313	157	355	195	72	3,196	3,184	3,342	3,350	3,283
Agriculture, fisheries and forestry	5,025	5,208	5,320	4,878	4,770	261	239	283	321	295	5,286	5,446	5,603	5,199	5,065
Transport	8,675	8,028	8,253	9,205	9,562	7,623	7,994	8,786	10,768	11,175	16,298	16,022	17,038	19,973	20,737
Environment protection	5,484	6,103	6,283	7,059	7,163	730	882	2,170	2,176	2,242	6,213	6,985	8,453	9,235	9,405
Housing and community amenities	3,814	3,262	3,540	3,561	3,860	2,889	4,692	7,015	7,962	9,042	6,703	7,955	10,555	11,523	12,902
Health	71,598	79,218	86,467	90,624	97,559	3,318	3,718	3,116	3,885	4,604	74,915	82,936	89,583	94,509	102,163
Recreation, culture and religion	8,135	8,485	9,097	9,503	9,656	1,500	1,467	1,699	1,820	2,265	9,635	9,952	10,796	11,323	11,921
Education	56,224	59,625	63,260	66,343	71,187	4,802	5,499	6,450	6,665	6,928	61,026	65,125	69,710	73,008	78,115
Social protection	155,128	163,648	170,117	176,346	186,654	484	476	977	806	852	155,612	164,125	171,094	177,151	187,506
Total⁽¹⁾	411,658	438,335	463,453	481,865	508,944	27,760	32,302	37,593	41,139	46,268	439,415	470,640	501,046	523,001	555,211

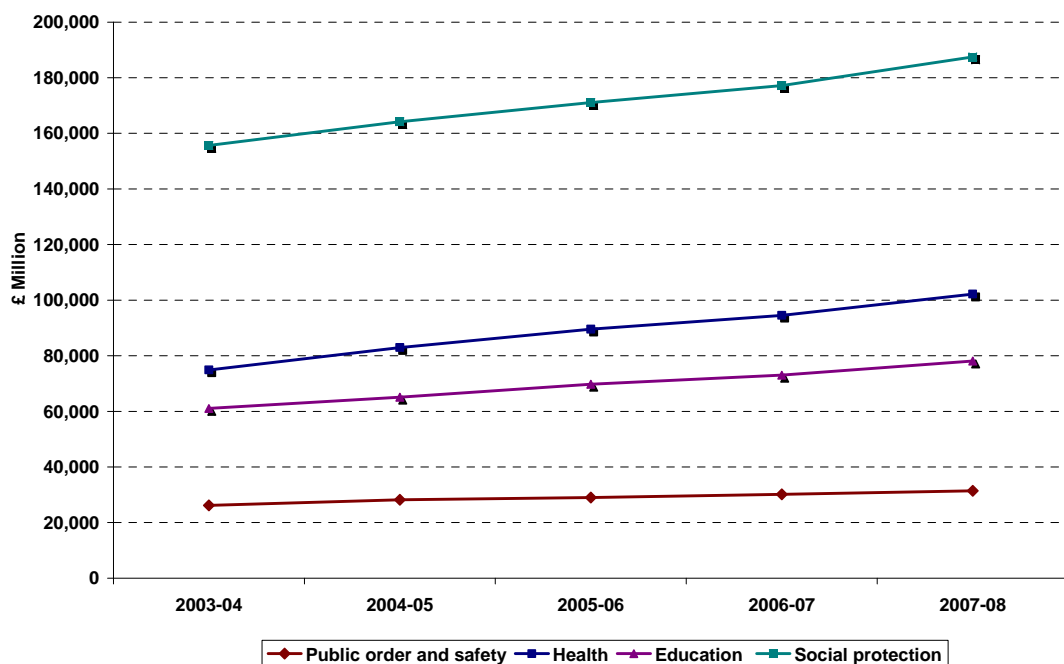
1. The sum of the constituent items may not always agree exactly with the total shown due to rounding conventions. The total presented is taken directly from PESA 2009.

Figures 5.6 and 5.7 below demonstrate similar trends in the growth of the four largest expenditure categories in both NI and the UK respectively. The largest categories in both regions are social protection; which covers expenditure on welfare payments and so on, following this is health expenditure, closely followed by expenditure on education, and then public order and safety spending.

Figure 5.6: Trend of NI Largest Expenditure Categories, 2003-04 to 2007-08



Figure 5.7: Trend of UK Largest Expenditure Categories, 2003-04 to 2007-08



Per capita TES spend for both NI and the UK is presented in Table 5.8. TES per capita for NI was estimated at £10,949 in 2007-08; 20 per cent (£1,843) higher than UK TES per capita.

TES per capita is generally higher in NI across spending categories with the most notable exceptions of transport and environmental protection expenditure which were below the UK figure in 2007-08. In absolute terms, the greatest differences on a per capita basis occurred in social protection, housing and community amenities, and public order and safety which were £645, £430, and £262 higher in NI than the UK. The largest relative differences (UK=100) occurred in agriculture, forestry and fisheries, EU transactions, and housing and community amenities.

Table 5.8: Total Expenditure on Services (TES) per capita: NI and UK, 2007-08*

	NI (£)	UK (£)	Difference (NI less UK)	Relative Expenditure for NI (UK=100)
Public and common services	299	206	93	145
EU transactions	-82	-27	-55	307
International services	110	111	-1	99
Debt interest	511	511	0	100
Defence	549	550	-1	100
Public order and safety	777	515	262	151
Enterprise and economic development	141	116	25	121
Science and technology	52	53	0	99
Employment policies	93	54	39	173
Agriculture, fisheries and forestry	268	83	185	323
Transport	302	340	-38	89
Environment protection	138	154	-16	89
Housing and community amenities	642	212	430	303
Health	1,760	1,676	84	105
Recreation, culture and religion	288	196	92	147
Education	1,380	1,281	99	108
Social protection	3,720	3,075	645	121
Total	10,949	9,106	1,843	120

*Note: Figures in this table have been rounded to the nearest whole number.

As might be expected public expenditure on services varies across the UK regions according to regional needs. NI public expenditure per capita differs from the UK average for a number of reasons. Higher public expenditure per capita in NI may be a reflection of the relative importance of particular activities, such as agriculture, forestry and fisheries. NI also has a lower population density than the UK which may partly explain the relative cost of providing a given level of public services, particularly in services such as health and education.

Furthermore, the range of activities classified within the public sector differs across the UK regions. This therefore affects the level of public expenditure required within those regions. For instance, water and sewerage services are within the public sector's remit in NI but are provided by the private sector in England.

Identifiable and Non-identifiable Expenditure

Public sector TES for NI may be disaggregated into identifiable expenditure and non-identifiable expenditure. In 2007-08, UK identifiable expenditure accounted for 84.3 per cent of UK TES. The remaining non-identifiable expenditure cannot be attributed directly to the UK regions because it is incurred for the benefit of the UK as a whole (e.g. defence spending). For the purposes of this analysis a share of UK non-identifiable expenditure may be apportioned to NI on a share of either UK population or UK Gross Value Added (GVA). Annex B of this paper further outlines the assumptions and methodologies employed in the apportionment of non-identifiable expenditure.

TES is shown by identifiable and non-identifiable expenditure for NI over the period 2003-04 to 2007-08 in Table 5.9. Identifiable expenditure amounted to £16.9 billion in 2007-08 while non-identifiable expenditure totaled £2.4 billion (12.5 per cent of TES).

Table 5.9: NI Total Expenditure on Services (TES), Identifiable and Non-identifiable, 2003-04 to 2007-08 (£m) ⁽¹⁾

	Identifiable (ID)					Non-identifiable (Non-ID)*					Total (ID + Non-ID*)				
	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08	2002-03	2003-04	2004-05	2005-06	2006-07
Public and common services	347	339	377	426	367	138	150	155	153	159	485	489	532	578	526
EU transactions	0	0	0	0	0	-183	-114	-299	-271	-144	-183	-114	-299	-271	-144
International services	6	7	7	6	5	141	151	170	174	189	147	158	177	180	194
Debt interest	0	0	0	0	0	658	711	766	822	900	658	711	766	822	900
Defence	0	0	0	0	0	820	848	883	922	967	820	848	883	922	967
Public order and safety	1,179	1,244	1,254	1,280	1,302	48	53	48	50	66	1,227	1,297	1,302	1,331	1,368
Enterprise & economic development	235	258	240	228	242	6	5	5	7	7	241	263	245	235	249
Science and technology	61	70	70	62	78	11	12	13	17	14	72	81	83	78	92
Employment policies	155	173	166	146	164	0	0	0	0	0	155	173	166	146	164
Agriculture, fisheries and forestry	383	402	534	473	472	0	0	0	0	0	383	402	534	473	472
Transport	331	333	355	385	521	9	10	10	9	10	340	342	366	394	532
Environment protection	164	197	231	247	234	8	7	8	10	9	172	205	240	257	243
Housing & community amenities	710	866	956	889	1,130	0	0	0	0	0	710	866	956	889	1,130
Health	2,299	2,446	2,630	2,858	3,070	14	19	15	23	29	2,313	2,465	2,645	2,881	3,099
Recreation, culture and religion	282	298	329	313	386	90	94	100	111	121	372	392	429	424	507
Education	2,066	2,138	2,238	2,310	2,430	1	1	1	1	1	2,067	2,139	2,239	2,311	2,431
Social protection	5,197	5,502	5,641	5,997	6,463	70	73	78	82	88	5,267	5,575	5,719	6,079	6,551
Total	13,415	14,273	15,028	15,620	16,864	1,830	2,020	1,954	2,111	2,416	15,245	16,292	16,984	17,729	19,282

1. Non-identifiable expenditure figures above have apportioned 'Outside the UK' and 'Non-identifiable spending' figures from PESA 2009 (chapter 9 tables).

Identifiable Expenditure

Table 5.10 compares identifiable expenditure for NI and the UK in 2007-08. Identifiable expenditure in NI was similar to that of the UK, with social protection, health and education being the main spending categories. Collectively, these three categories accounted for 70.9 per cent of total identifiable expenditure in NI and 77.7 per cent in the UK.

Table 5.10: Identifiable Expenditure on Services: NI and UK, 2007-08

	Northern Ireland		United Kingdom	
	Expenditure £ million	Share of Identifiable Expenditure	Expenditure £ million	Share of Identifiable Expenditure
Public and common services	367	2.2%	7,066	1.5%
International services	5	0.0%	210	0.0%
Defence	0	0.0%	84	0.0%
Public order and safety	1,302	7.7%	29,116	6.2%
Enterprise and economic development	242	1.4%	6,854	1.5%
Science and technology	78	0.5%	2,624	0.6%
Employment policies	164	1.0%	3,275	0.7%
Agriculture, fisheries and forestry	472	2.8%	5,066	1.1%
Transport	521	3.1%	20,371	4.4%
Environment protection	234	1.4%	8,997	1.9%
Housing and community amenities	1,130	6.7%	12,902	2.8%
Health	3,070	18.2%	101,158	21.6%
Recreation, culture and religion	386	2.3%	7,743	1.7%
Education	2,430	14.4%	78,073	16.7%
Social protection	6,463	38.3%	184,443	39.4%
Total	16,864	100.0%	467,982	100.0%

Table 5.11 presents a NI/UK per capita comparison of identifiable expenditure. In 2007-08, identifiable expenditure per capita in NI was £9,576, 25 per cent higher than the corresponding UK figure. In absolute terms, the greatest differences occurred in social protection, housing and community amenities, and public order and safety.

The relative expenditure index (UK=100) indicates that the largest differences occurred in agriculture, forestry and fisheries (323) and housing and community amenities (303).

Table 5.11: Identifiable Expenditure per capita, 2007-08*

	NI	UK	Difference (NI less UK)	Relative Expenditure (UK = 100)
Public and common services	208	116	93	180
International Services	3	3	-1	82
Defence	0	1	-1	0
Public order and safety	739	478	262	155
Enterprise and economic development	137	112	25	122
Science and technology	44	43	1	103
Employment policies	93	54	39	173
Agriculture, fisheries and forestry	268	83	185	323
Transport	296	334	-38	89
Environment protection	133	148	-15	90
Housing and community amenities	642	212	430	303
Health	1743	1659	84	105
Recreation, culture, and religion	219	127	92	173
Education	1,380	1,280	99	108
Social protection	3,670	3,025	645	121
Total	9,576	7,675	1,901	125

*Note: Figures in this table have been rounded to the nearest whole number.

Non-identifiable expenditure

This section presents a breakdown of non-identifiable expenditure on services in NI and the UK.

PESA 2009 contains data on non-identifiable expenditure data as well as expenditure incurred on programmes outside the UK. In order to ensure that the data is comparable, expenditure incurred outside the UK has been included within non-identifiable expenditure for both NI and the UK. The rationale for including such expenditure in non-identifiable expenditure rests on the fact that benefits are shared among the UK constituent countries. An example of this is the services provided by overseas UK embassies to all UK residents.

Table 5.12 provides estimates of non-identifiable expenditure for NI and the UK over the period 2003-04 to 2007-08. Tables 5.13 and 5.14 disaggregate non-identifiable expenditure into its current and capital components both for NI and the UK respectively.

In 2007-08, total non-identifiable expenditure attributed to NI was estimated at £2.4 billion, 2.8 per cent of the UK figure. Defence and debt interest were the largest elements, accounting for 77.3 per cent of non-identifiable expenditure apportioned to NI.

Tables 5.13 and 5.14 indicate that current expenditure accounted for 95 per cent of non-identifiable expenditure for both NI and the UK.

Table 5.12: NI and UK Non-identifiable expenditure, 2003-04 to 2007-08 (£m)

	NI					UK*				
	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
Public and common services	138	150	155	153	159	4,831	5,246	5,429	5,318	5,489
EU transactions	-183	-114	-299	-271	-144	-2,079	-891	-598	-1,763	-1,620
International services	141	151	170	174	189	4,925	5,290	5,934	6,047	6,554
Debt interest	658	711	766	822	900	23,015	24,881	26,752	28,604	31,170
Defence	820	848	883	922	967	28,687	29,675	30,865	32,073	33,465
Public order and safety	48	53	48	50	66	1,680	1,862	1,663	1,756	2,271
Enterprise and economic development	6	5	5	7	7	205	179	190	228	248
Science and technology	11	12	13	17	14	449	472	533	674	584
Employment policies	0	0	0	0	0	8	10	10	12	7
Agriculture, fisheries and forestry	0	0	0	0	0	0	0	0	0	-1
Transport	9	10	10	9	10	330	373	380	344	366
Environment protection	8	7	8	10	9	325	290	338	427	409
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	14	19	15	23	29	493	672	538	804	1,005
Recreation, culture and religion	90	94	100	111	121	3,133	3,295	3,509	3,867	4,179
Education	1	1	1	1	1	28	28	29	36	42
Social protection	70	73	78	82	88	2,437	2,547	2,713	2,842	3,063
Total	1,830	2,020	1,954	2,111	2,416	68,467	73,929	78,285	81,269	87,231

*Note: This includes the categories in PESA 'Outside the UK' and 'Non-identifiable Spending'. Further note that the sum of the constituent items may not always agree exactly with the total shown due to rounding. The total presented is taken directly from PESA 2009.

Table 5.13: NI Non-identifiable expenditure, 2003-04 to 2007-08 (£m)

	Current					Capital				
	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
Public and common services	131	139	143	150	151	7	11	12	2	8
EU transactions	-183	-114	-299	-271	-144	0	0	0	0	0
International services	135	146	160	163	177	6	5	10	11	12
Debt interest	658	711	766	822	900	0	0	0	0	0
Defence	782	802	853	897	893	39	46	31	26	73
Public order and safety	44	50	46	48	58	4	3	2	3	8
Enterprise and economic development	4	4	4	4	5	2	1	2	3	2
Science and technology	10	10	11	14	11	2	2	3	3	4
Employment policies	0	0	0	0	0	0	0	0	0	0
Agriculture, fisheries and forestry	0	0	0	0	0	0	0	0	0	0
Transport	3	4	4	4	5	6	6	6	5	5
Environment protection	7	6	7	9	8	1	1	1	1	1
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	13	18	16	22	27	1	1	-1	1	2
Recreation, culture and religion	89	92	96	103	105	1	3	4	8	16
Education	1	1	1	1	1	0	0	0	0	0
Social protection	70	73	78	82	88	0	0	0	0	0
Total⁽¹⁾	1,764	1,941	1,885	2,047	2,286	66	79	69	64	131

1. Totals may not exactly match those shown in other tables due to the rounding conventions employed in analyses.

Table 5.14: UK Non-identifiable expenditure, 2003-04 to 2007-08 (£m)

	Current					Capital				
	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
Public and common services	4,593	4,851	5,003	5,232	5,215	238	395	427	85	275
EU transactions	-2,079	-891	-598	-1,763	-1,620	0	0	0	0	0
International services	4,731	5,105	5,600	5,666	6,132	193	185	335	380	422
Debt interest	23,015	24,881	26,752	28,604	31,170	0	0	0	0	0
Defence	27,333	28,065	29,800	31,182	30,928	1,354	1,610	1,066	891	2,536
Public order and safety	1,556	1,755	1,592	1,655	1,998	124	107	71	101	273
Enterprise and economic development	133	134	133	136	163	73	45	57	94	85
Science and technology	382	399	427	549	436	67	74	106	124	148
Employment policies	8	10	10	12	7	0	0	0	0	0
Agriculture, fisheries and forestry	0	0	0	0	-1	0	0	0	0	0
Transport	125	153	165	160	197	205	220	215	183	168
Environment protection	290	253	297	388	360	35	38	41	38	48
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	467	641	575	754	938	27	29	-37	50	67
Recreation, culture and religion	3,110	3,207	3,371	3,580	3,631	23	88	138	287	548
Education	26	28	29	36	42	2	0	0	0	0
Social protection	2,440	2,547	2,710	2,836	3,059	-3	0	2	6	5
Total ⁽¹⁾	66,130	71,138	75,866	79,027	82,655	2,338	2,791	2,421	2,239	4,575

1. Note that the sum of the constituent items may not always agree exactly with the total shown due to rounding. The total presented is taken directly from PESA 2009.

As one would expect Table 5.15 highlights similarities in the composition of non-identifiable expenditure for NI and the UK, with defence and debt interest accounting for the majority of expenditure. Collectively, these two spending categories accounted for 77.3 per cent of non-identifiable expenditure in NI and 74.1 per cent in the UK.

Table 5.15: Non-identifiable expenditure: NI and the UK, 2007-08 (£m)

	NI		UK	
	Expenditure	Share of non-identifiable expenditure	Expenditure	Share of non-identifiable expenditure
Public and common services	159	6.6%	5,489	6.3%
EU transactions	-144	-5.9%	-1,620	-1.9%
International services	189	7.8%	6,554	7.5%
Debt interest	900	37.3%	31,170	35.7%
Defence	967	40.0%	33,465	38.4%
Public order and safety	66	2.7%	2,271	2.6%
Enterprise and economic development	7	0.3%	248	0.3%
Science and technology	14	0.6%	584	0.7%
Employment policies	0	0.0%	7	0.0%
Agriculture, fisheries and forestry	0	0.0%	-1	0.0%
Transport	10	0.4%	366	0.4%
Environment protection	9	0.4%	409	0.5%
Housing and community amenities	0	0.0%	0	0.0%
Health	29	1.2%	1,005	1.2%
Recreation, culture and religion	121	5.0%	4,179	4.8%
Education	1	0.1%	42	0.0%
Social protection	88	3.7%	3,063	3.5%
Total	2,416	100.0%	87,231	100.0%

Table 5.16 presents non-identifiable expenditure for NI and the UK in 2007-08 on a per capita basis. NI non-identifiable expenditure was estimated to be £1,372 per capita which was 96 per cent of the equivalent UK figure. This lower figure reflects the fact that some apportionments were based on NI's share of UK GVA which is lower than NI's share of the UK population.

Table 5.16: Non-identifiable Expenditure per capita: NI and UK, 2007-08*

	NI (£)	UK (£)	Difference (NI less UK)	Relative Expenditure for NI (UK=100)
Public and common services	90	90	0	100
EU transactions	-82	-27	-55	307
International services	107	107	0	100
Debt interest	511	511	0	100
Defence	549	549	0	100
Public order and safety	37	37	0	100
Enterprise and economic development	4	4	0	100
Science and technology	8	10	-2	83
Employment policies	0	0	0	100
Agriculture, fisheries and forestry	0	0	0	212
Transport	5	6	-1	91
Environment protection	5	7	-2	76
Housing and community amenities	0	0	0	0
Health	16	16	0	100
Recreation, culture and religion	69	69	0	100
Education	1	1	0	100
Social protection	50	50	0	100
Total	1,372	1,431	-59	96

* Note: Figures in this table have been rounded to the nearest whole number.

Accounting Adjustments

The public sector expenditure figures presented in this section have focused on Total Expenditure on Services (TES). However, Total Managed Expenditure (TME) is the main spending aggregate used in UK public sector finances. Therefore, an accounting adjustment is required to bring TES in line with TME. The largest component of this adjustment is general government capital consumption which is depreciation of fixed capital resources from public service provision. General government capital consumption represents approximately half of the total accounting adjustment. The other main component of the adjustment is certain VAT refunds.

Table 5.17 sets out total UK accounting adjustments for the years 2003-04 to 2007-08. In 2007-08, total UK accounting adjustments were estimated at £28.9 bn. The accounting adjustments range from 3.6 per cent to 4.9 per cent of TME over the course of this period.

Table 5.17: UK Accounting Adjustment, 2003-04 to 2007-08 (£m)

	2003-04	2004-05	2005-06	2006-07	2007-08
UK TME	455,609	492,758	524,609	549,939	584,065
UK TES	439,416	470,639	501,046	523,003	555,211
UK Accounting Adjustment	16,193	22,119	23,563	26,936	28,854

Source: PESA 2009, Table 9.1

Table 5.18 provides a disaggregation of NI accounting adjustments for the years 2003-04 to 2007-08. UK accounting adjustments have been apportioned to NI using a variety of methods. Firstly, general government capital consumption and VAT refunds have been apportioned to NI according to its share of UK TES. The grant equivalent element of student loans⁹ and the Nigerian debt cancellation¹⁰ accounting adjustments have been apportioned to NI on a per capita basis. Finally, the UK accounting adjustment residuals have been allocated to NI on a UK TES share basis.

In 2007-08, the total public sector accounting adjustment for NI was estimated at £1.0 bn, or 3.5 per cent of the total UK accounting adjustment. Further detail on the calculation of the accounting adjustment is provided in Annex B of this report.

Table 5.18: NI Accounting Adjustment, 2003-04 to 2007-08 (£m)

	2003-04	2004-05	2005-06	2006-07	2007-08
Capital consumption					
Central Government Capital Consumption	193	192	198	202	214
Local Government Capital Consumption	175	189	205	222	237
Current Expenditure					
Current VAT refunds	260	281	294	323	339
Student Loans subsidy	-11	-9	-12	-8	-30
Capital Expenditure					
Capital VAT refunds	46	53	56	59	66
Nigerian Debt cancellation	0	0	36	34	0
Residual (Current & Capital)	-94	67	31	88	187
Total accounting adjustment	569	772	807	920	1014
Percentage of UK accounting adjustment	3.5%	3.5%	3.4%	3.4%	3.5%

⁹ TES includes the subsidy implied in student loans being issued at lower than market rate.

¹⁰ As a result of the 2005 G8 Summit the UK Government pledged to grant debt relief to Nigeria as part of the Multilateral Debt Relief Initiative. This is recorded as an element of the UK accounting adjustment for 2005-06 and 2006-07. Official International Development assistance for the UK (which includes a share of Northern Ireland's taxation revenues) is allocated to development projects/ programmes etc. through the UK's Department for International Development (DFID).

Aggregate Expenditure

Table 5.19 shows the breakdown of aggregate expenditure in UK and NI. In 2007-08, NI TME was estimated at £20.3 bn; of this £16.9 bn was identifiable, £2.4 bn was non-identifiable, and £1.0 bn represented accounting adjustments.

Over the same period UK TME was £584.1 bn, comprising identifiable expenditure of £468.0 bn, non-identifiable expenditure of £87.2 bn, and accounting adjustments of £28.9 bn.

Aggregate expenditure per head equated to £11,524 in NI, 20.3 per cent higher than the UK equivalent of £9,579.

Table 5.19: Expenditure in the UK and NI, 2007-08 (£m)

	UK	NI
Identifiable Expenditure	467,981	16,864
Non-Identifiable Expenditure	87,230	2,416
Total Expenditure on Services	555,211	19,280
Accounting Adjustments	28,854	1,014
Total Managed Expenditure	584,065	20,294
TME per capita	9,579	11,524

SECTION 6: CONCLUSION

This report provides an estimate of the net fiscal balance position for NI over the five year period of 2003-04 to 2007-08; with a particular focus on 2007-08 (the most recent year for which financial outturn data is available).

Table 6.1 summarises the fiscal positions of NI, Scotland¹¹ and the UK. In 2007-08, the estimated net fiscal balance for the public sector in NI was a deficit of £7.3 billion (26.1 per cent of GVA).

In 2003-04 the estimated fiscal position for NI excluding North Sea revenue was a deficit of £6.0 billion representing an increasing deficit of £1.3 billion over the period 2003-04 to 2007-08.

Table 6.1: Net Fiscal Balance Estimates: NI, Scotland and the UK, 2007-08 (£m)

£ Million	NI	Scotland	UK
Aggregate Expenditure	20,296	56,459	584,065
Aggregate Revenue	12,958	44,747	540,915
Net Fiscal Balance	-7,338	-11,712	-43,150
Net Fiscal Balance per capita (£)	-4,167	-2,280	-708
Net Fiscal Balance as a % of financial year GVA	-26.1%	-11.7%	-3.5%

¹¹ The estimates presented for Scotland should be viewed as comparisons to the NI estimates as the official figures published by the Scottish Government are not directly comparable to these NI estimates, arising from variations in methodology (Annex A and B). Also, it is important to note that the figures presented here for Scotland will not be as accurate as the figures produced by the Scottish Government in the report, 'Government Expenditure & Revenue Scotland 2007-2008' (GERS).

ANNEX A: METHODOLOGY FOR PRODUCING ESTIMATES OF PUBLIC SECTOR REVENUE

This annex details the apportionment methodologies and sources used to estimate public sector revenue in NI.

UK Exchequer revenues are published by the Office for National Statistics (ONS) and are taken from HM Treasury's Public Sector Finances Databank (Table C4). The UK revenue figures presented in this report are consistent with outturns published by HM Treasury at December 2009¹².

In some cases, revenue figures can be directly attributed to NI and require no further estimation. Examples include inheritance tax revenue and national insurance contributions. However, the majority of public sector revenues are collected centrally and their distribution by region is often unavailable. In these instances, UK figures are apportioned to NI using specific methodologies. It should be noted that in certain cases a variety of alternative methodologies could be applied each leading to variations in estimates. Where possible, the most accurate and up to date apportionment methods have been applied.

In June 2009, the Scottish Government published fiscal deficit estimates covering the period 2003-04 to 2007-08 '*Government Expenditure & Revenue Scotland 2007-2008*'¹³ (GERS). NI's fiscal deficit estimate cannot be directly compared to Scotland's as a result of differing methodologies for certain revenue streams. However, NI apportionment methods have been updated to reflect revisions in the methodology employed by the Scottish Government, where it was relevant and practical to do so. This has led to an improved NI fiscal deficit estimation.

There are two stages in estimating a revenue stream for NI. In the first stage, the UK outturn figure is obtained from ONS Public Sector Finances Databank. In the second stage, NI's share is estimated according to a specific methodology. Note that generally information comes from survey data for the UK. Examples include the Survey of Personal Incomes and the Family Spending Survey.

Table A.1 summarises the various apportionment methodologies and sources used to estimate public sector revenues in NI.

¹² As this database is updated monthly, figures contained in more recent data releases may differ from those used for the purposes of this report.

http://www.hm-treasury.gov.uk/psf_statistics.htm

¹³ GERS Report, 2007-08:

<http://www.scotland.gov.uk/Publications/2009/06/18101733/0>

Table A.1: Apportionment methodologies and sources used to estimate Public Sector Revenues in NI

Revenue	Methodology	Source	Revised
Income tax (net of tax credits)	NI's share of UK income tax liabilities	Survey of Personal Incomes (SPI): HMRC	No
Corporation tax (exc. North Sea Oil)	NI's share of profits (less holding gains) of UK corporations	Supplied directly by ONS	No
Capital gains tax	NI's share of UK GVA (less extra regio)	Regional Accounts: ONS	No
Inheritance tax	Actual Outturns for NI	Supplied directly by HMRC	No
Stamp duties	Land and property stamp duty: actual outturns Stocks and shares: NI/UK ratio of adults owning stocks, shares, unit trusts, PEPs and ISAs	Land and property stamp duty: HMRC Stocks and shares: DWP Family Resources Survey	No
National Insurance Contributions (NICs)	Employee and Employer estimates in NI and UK	Supplied directly by HMRC	No
VAT	NI's share of UK household VAT expenditure	Family Spending Survey: ONS	Yes
Fuel duties	NI's share of UK road traffic fuel consumption	Road Transport Energy Consumption at Regional and Local Authority Level: BERR	No
Tobacco duties	NI's share of UK expenditure on tobacco	Family Spending Survey: ONS	No
Alcohol duties	NI's share of UK expenditure on alcohol	Family Spending Survey: ONS	No
Betting & Gaming duties	NI's share of UK expenditure on betting and gaming	Family Spending Survey: ONS	No
Air Passenger duty	NI's share of UK population	PESA 2008: HMT	No
Insurance Premium tax	NI's share of UK population	PESA 2008: HMT	No
Land fill tax	NI's share of UK tonnage sent to land fill	NI Environment Agency, Scottish Environment protection Agency, Environment Agency, DEFRA	No
Climate Change Levy	Electricity: NI's share of UK electricity consumption Solids & other fuels: NI's share of UK GVA (less extra regio)	Electricity: BERR Solids & other fuels: HMRC	No
Aggregates Levy	Levy declared by operators in NI	Supplied directly by HMRC	Yes
Customs Duties & levies	NI's share of UK population (16+)	ONS	No
Vehicle Excise Duty	As reported by DVLNI (less refunds)	DVLNI Annual Reports & Accounts	No
Business rates (non-domestic)	Actual data	Supplied by DFP Officials in Rating Policy Division	No
Council Tax (domestic)	Actual data	Supplied by DFP Officials in Rating Policy Division	No
Other Taxes & Royalties	Various	Annual Abstract of Statistics 2008:ONS UK Blue Book (2008): ONS	Yes
Interest & dividends	NI's share of UK public sector GVA	Regional Accounts: ONS	No
Gross Operating Surplus & Rent and other current transfers	CG: NI's share of UK public sector GVA LG: NI/UK share of total UK LG capital consumption PC: NI's share of UK public s	Public Sector Finances: Supplementary Data: HMT	No
Other receipts & accounting adjustments	NI's share of UK GVA (less extra regio)	Regional Accounts: ONS	No

The following describes the methodology employed in estimating each source of NI receipts.

Income tax

The UK figure for income tax is taken from the Public Finances Databank published by HM Treasury, and is presented net of tax credits.

NI's share of UK income tax is derived from the Survey of Personal Incomes (SPI) produced by HM Revenue and Customs (HMRC)¹⁴. This share is then applied to the UK figure for income tax published by HM Treasury.

The SPI data includes some records which cannot be allocated to a particular region - these have been excluded from the total used to estimate the NI share.

Corporation tax

The UK figure for total corporation tax is taken from the Public Finances Databank published by HM Treasury. North Sea corporation tax payments are deducted using data from HMRC published tables on corporation tax¹⁵. The estimate of NI corporation tax excludes North Sea corporation tax.

NI's share of UK corporation tax (excluding North Sea revenues) is taken to be its share of profits (less holding gains) of all public and private corporations in the UK. Information on profits (less holding gains) is directly supplied by ONS.

There may be an argument to adjust the corporation tax revenue estimate as certain types of firms, such as banks, pay a larger proportion of Corporation tax than small firms (which can avoid corporation tax by availing of tax credits to a greater extent).

Capital gains tax (CGT)

The UK capital gains tax figure, taken from the Public Finances published by HM Treasury, is apportioned to NI according to its share of UK GVA (less extra-regio).

¹⁴ The latest SPI data is available from:
http://www.hmrc.gov.uk/stats/income_distribution/menu-by-year.htm#311

¹⁵ HMRC tables on corporation tax are available from:
http://www.hmrc.gov.uk/stats/corporate_tax/table11_11.pdf

Inheritance tax (IHT)

The UK figure for IHT is taken from the Public Finances Databank published by HM Treasury. HMRC directly provides actual outturn revenue figures raised from inheritance tax in Northern Ireland. The proportion of the UK revenue raised in NI based on these figures is then applied to the total UK figure obtained from the Public Finances Databank to estimate IHT for NI.

Stamp duties

The UK figure for stamp duty is taken from the Public Finances published by HM Treasury.

NI stamp duty is estimated based on NI's share of UK revenue raised from (1) land and property stamp duties, and (2) stocks and shares stamp duties.

Stamp duty land tax (SDLT) is published by HMRC¹⁶ and is disaggregated by government office region (GOR). NI's share of UK households who own stocks, shares, unit trusts, PEPs and ISAs as recorded in the Family Resources Survey¹⁷, produced by the Department for Work and Pensions (DWP), is used to estimate stamp duty from stocks and shares in NI.

National insurance contributions (NICs)

NI national insurance contributions (NICs) are based on an analysis of a 1 per cent sample of National Insurance Recording System (NIRS) data, supplied by HMRC, which is aggregated to represent the population, using Government Actuary's Department (GAD) estimates of total NIC (employee and employer) accruals for each year. NI's share of employer and employee contributions in this sample is applied to the UK NICs figure from the Public Finances published by HM Treasury to estimate NICs in NI.

Value added tax (VAT)

NI's share of UK VAT revenues is estimated based on average weekly household expenditure data in the ONS 'Family Spending Survey'¹⁸ publications. The 2009 Edition of the Family Spending Survey is used for 2006-07 & 2007-08 and for earlier years the 2005-06 Edition is used (2005-06, 2004-05, 2003-04). The appropriate VAT rating (standard rate, reduced rate, zero-rate or exempt) is applied to each expenditure item to estimate average household VAT revenues in NI and the UK. These average VAT revenues per household are then scaled up by the number of households to

¹⁶ Latest SDLT figures available from:

http://www.hmrc.gov.uk/stats/stamp_duty/menu.htm

¹⁷ Family Resources Survey available from:

<http://research.dwp.gov.uk/asd/frs/index/publications.asp>

¹⁸ Family Spending Survey data available from:

<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=361>

estimate total VAT revenues in NI and the UK. The NI/UK ratio of total VAT revenues is then applied to apportion UK VAT receipts, as given in the Public Finances Databank, to NI.

Fuel duties

UK fuel duty revenue is apportioned to NI according to its share of UK fuel consumption. NI's share of fuel consumption is estimated using regional road traffic fuel consumption data produced by the Department for Business Enterprise and Regulatory Reform (BERR)¹⁹. The estimated NI/UK ratio of fuel consumption is then applied to apportion UK fuel duties, published by HM Treasury, to NI.

Tobacco duty

UK tobacco duty revenue is apportioned to NI based on regional household expenditure data in the ONS 'Family Spending Survey' publications. Average weekly household expenditure is scaled up by the number of households to estimate total weekly expenditure on tobacco in NI and the UK. The NI/UK ratio of total weekly expenditure on tobacco is used to apportion UK tobacco duty revenue, as published by HM Treasury, to NI. Note that the Family Spending Survey editions used are the same as in VAT above.

Alcohol duty

UK alcohol duty revenue is apportioned to NI based on regional household expenditure data in the ONS 'Family Spending Survey', publications. Average weekly household expenditure is scaled up by the number of households to estimate total weekly expenditure on beer/cider, wines and spirits in NI and the UK. The NI/UK ratio of total weekly expenditure on each type of alcohol is used to apportion UK revenue to NI. Note that the Family Spending Survey editions used are the same as in VAT above.

Alcohol consumed 'away from home' is recorded at the UK level for beer/cider, wine, and spirits in the ONS 'Family Spending Survey' publications. The distribution of alcohol consumed away from home is assumed to be the same in NI as in the UK. Purchases away from home are given a weighting of 0.426²⁰ to account for catering margins in the expenditure. The weighted purchases away from home are then added to purchases brought home to estimate total weekly expenditure on alcohol in NI

¹⁹ Source: BERR - Regional and local use of road transport fuels, available from: <http://webarchive.nationalarchives.gov.uk/+http://www.berr.gov.uk/energy/statistics/regional/road-transport/page36199.html>

²⁰ This weighting is taken from the Scottish methodology as reported and explained in 'GERS: Detailed Revenue Methodology Paper 2007-08', p. 25. <http://www.scotland.gov.uk/Resource/Doc/133434/0062306.pdf>

and the UK. The estimated NI/UK ratio alcohol consumption is used to apportion UK alcohol duty revenue, as published by HM Treasury, to NI.

Betting and gaming duty

UK betting and gaming duty revenue is apportioned to NI based on regional household expenditure data in the ONS 'Family Spending Survey' publications. Average weekly household expenditure is scaled up by the number of households to estimate total weekly expenditure in NI and the UK. The NI/UK ratio of total weekly expenditure on gambling is used to apportion UK betting and gaming duty revenue, as published by HM Treasury, to NI. Note that the Family Spending Survey editions used are the same as in VAT above.

Air passenger duty (APD)

As there are currently no reliable official estimates of flights taken from Northern Ireland, UK air passenger duty revenue (APD), as published by HM Treasury, is apportioned to NI according to its share of the UK population. Population figures are sourced from HM Treasury's 'Public Expenditure Statistical Analyses 2009' (PESA) publication.²¹

Insurance premium tax (IPT)

UK insurance premium tax (IPT), as published by HM Treasury, is apportioned to NI according to its share of the UK population. Population figures are sourced from PESA 2009, as above.

Land fill tax

UK land fill tax is apportioned to NI according to its share of UK waste sent to land fill. The quantity of municipal waste sent to land fill is recorded in annual Municipal Waste Management reports produced by the Northern Ireland Environment Agency,²² the Scottish Environment Protection Agency (SEPA),²³ and the Environment Protection Agency (England²⁴ and Wales²⁵).

²¹ Population figures taken from PESA 2009, Table F1: Population by country and region, p. 190
http://www.hm-treasury.gov.uk/d/pesa_180609.pdf

²² NI Environment Agency, Municipal Waste Reports
[Available from: http://www.ni-environment.gov.uk/waste/municipal_data_reporting.htm]

²³ SEPA, Waste Digest:
[Available from: http://www.sepa.org.uk/waste/waste_data/waste_data_digest.aspx]

²⁴ DEFRA, Municipal Waste Management Statistics
[Available from: <http://www.defra.gov.uk/evidence/statistics/environment/wastats/bulletin08.htm>]

²⁵ Welsh Assembly Government, Municipal Waste Management Reports [Available from: http://new.wales.gov.uk/topics/environmentcountryside/epq/waste_recycling/municipalwastemanagement/annualreports/0708report/:jsessionid=jvytLgwHL9GJPSZZpnQDpHbpy2f27SptVpyjvKhMJsTw0pWKJyQp!1619092613?lang=en]

These surveys are used to derive the total quantity of municipal waste sent to land fill in the UK. The NI/UK ratio of UK waste tonnage is used to apportion UK land fill tax, as published by HM Treasury, to NI.

Climate change levy

In apportioning the UK total for climate change levy (CCL), NI's consumption of electricity, and solids & other fuels are considered. The UK levy on supplies of electricity, gas, and solids & other fuels are recorded separately in HMRC, 'Annual Reports and Accounts 2007-08'.²⁶ Climate change levy receipts from electricity consumption are apportioned to NI according to its share of UK electricity consumption, which is derived from the 'Digest of UK energy statistics' (DUKES)²⁷ published by the Department for Business, Enterprise & Regulatory Reform (BERR). UK revenues from the consumption of solids & other fuels are apportioned on the basis of NI's share of UK GVA (less extra regio). Note that natural gas suppliers are exempt from climate change levy in NI.²⁸

Aggregates levy

Aggregates levy revenues for NI are provided directly by HMRC for 2004-05, 2005-06, and 2006-07. However, there are inherent difficulties in trying to establish regional aggregate levy estimates as operators located anywhere throughout the UK may have sites in other regions. The totals for some of these operators may therefore be amalgamated into one region.

Earlier years are no longer available from HMRC due to a system change. As an alternative methodology, 2003-04 NI aggregates levy has been broadly estimated by apportioning UK Public Finance figures for total aggregates levy by NI/UK GVA (less extra regio).

Further note that for Aggregates Levy Declarations in 2007/08, the regional data previously applied by HMRC was amalgamated into a national total for the whole of the UK. For 2007/08 the NI figure has also been estimated by apportioning UK Public Finance figures for total aggregates levy by NI/UK GVA (less extra regio).²⁹

²⁶ HMRC Annual Reports and Accounts homepage:

<http://www.hmrc.gov.uk/about/reports.htm>

²⁷ Electricity consumption data is available from:

http://stats1.berr.gov.uk/energystats/et5_5.xls

²⁸ Link to CCL gas exemption notice for NI:

www.hmrc.gov.uk/budget2006/bn53.htm

²⁹ Note that the methodology applied in GERS makes use of a publication which does not provide the same breakdown of information for NI.

Customs duties and levies

The UK figure for customs duties and levies, as published by HM Treasury, is apportioned to according to its share of UK (16+) population. Population figures are sourced from 'Population Trends, Winter 2009', ONS.³⁰

Vehicle excise duty

NI vehicle excise duty (VED) is recorded net of refunds in annual reports published by the Driver and Vehicle Licensing Northern Ireland (DVLNI).

<http://www.dvlni.gov.uk/publications/annualreports.htm>

Domestic and Non-Domestic rates

NI domestic and non-domestic rates revenues are provided by the Department of Finance and Personnel (DFP) officials in Rating Policy Division (RPD) and require no further estimation.

Other taxes and royalties

The UK figure for other taxes and royalties is comprised of a number of small revenues. UK figures for the sub categories of revenue listed below are available from the ONS 'Annual Abstract of Statistics, 2009'³¹ and the ONS 'UK Blue Book (2009)'.³² Where revenue categories are listed in both publications, preference is given to the 'Annual Abstract of Statistics, 2009' as it reports in financial years as opposed to calendar years. Separate apportionment methods are used to allocate these revenues to NI.

1. Consumer Credit Act fees are apportioned to NI on a population share basis.
2. UK revenues paid to levy funded bodies are apportioned to NI according to its share of UK agricultural GVA. This is taken from ONS 'Regional Accounts'³³ – GVA industry group; 'Agriculture, hunting, forestry & fishing'.
3. Regulatory fees are apportioned to NI on a population share basis.

³⁰ Population Trends, Winter 2009, ONS:

http://www.statistics.gov.uk/downloads/theme_population/Pop-trends-winter09.pdf

³¹ ONS: Annual Abstract of Statistics, 2009

http://www.statistics.gov.uk/downloads/theme_compendia/AA2009/AA09Webversion.pdf

³² ONS: UK Blue Book (2009)

http://www.statistics.gov.uk/downloads/theme_economy/BB09.pdf

³³ ONS: Regional GVA (Nuts 1, 2 and 3) First Release -December 2009. (Table 1.1)

<http://www.statistics.gov.uk/pdfdir/gva1209.pdf>

4. Milk super levy revenues are apportioned to NI according to its share of UK agricultural GVA.
5. Passport fees have been allocated to NI on a population share basis.
6. VAT refunds are apportioned according to NI's share of UK expenditure on VAT as estimated from the ONS 'Family Spending Survey' reports.
7. UK TV licence revenue is apportioned based on NI's share of UK private households. This has been estimated using the ONS 'Family Spending Survey' publications (NI number of weighted households/UK number of weighted households). This share is then applied to the UK TV license revenue as reported in the ONS 'Annual Abstract of Statistics, 2009.'
8. National lottery revenues are apportioned according to NI's share of UK expenditure on gambling from the ONS 'Family Spending Survey' publications.
9. Renewable energy obligations are apportioned using the NI share of UK electricity consumption. This is taken from BERR as referenced above in the climate change levy methodology.

Interest and dividends

The UK figure for interest and dividends, as published by HM Treasury, is apportioned to NI according to its share of UK public sector GVA. Public sector GVA is derived from the ONS 'Regional Accounts'³⁴ – GVA industry groups; 'Public administration and defence', 'Education', 'Health and social work', and 'Other services'.

Gross operating surplus & Rent and other current transfers

In calculating gross operating surplus (GOS) for NI, separate figures are estimated for:

1. Central government (NRLN)
2. Local government (NRLT)
3. Public corporations (NRJT, IL64)

Firstly, the UK revenue figure for central government (CG) GOS is taken from the ONS database underlying the Public Sector Finances.³⁵ Note that the database's variable codes corresponding to the three elements of GOS are

³⁴ ONS: Regional GVA (Nuts 1, 2 and 3) First Release -December 2009. (Table 1.5)
<http://www.statistics.gov.uk/pdfdir/gva1209.pdf>

³⁵ Public Sector Finances: Supplementary (Quarterly) Data:
[Available: www.statistics.gov.uk/StatBase/Product.asp?vlnk=805]

those presented in brackets above. Central government GOS revenue is apportioned to NI according to its share of public sector GVA.

The UK revenue figure for local government (LG) GOS is also taken from the ONS database, as for CG above. Depreciation for NI is assumed to be 3 per cent of this LG total for all UK countries.³⁶

Thirdly, the UK revenue figure for public corporations (PC), taken from the ONS database, is apportioned to NI according to share of public sector GVA. In calculating rent and other current transfers the database's variable codes ANBU + ANBX + ANCW are apportioned to NI according to its share of UK public sector GVA. Note that the same estimate for UK rent and other current transfers, as deduced from the aforementioned codes, can also be derived by subtracting the GOS estimate from the Gross operating surplus & rent figure reported in the Public Finance Database (Table C4).

Other receipts & accounting adjustments

The UK figure for 'Other receipts & accounting adjustments', as published by HM Treasury, is apportioned to NI according to its share of UK GVA.

Current receipts (excluding North Sea revenues)

This is the total value of public sector revenues (excluding North Sea revenues) estimated for NI.

North Sea revenues

In the Regional Accounts, the UK Continental Shelf is included as a separate region of the UK (the extra regio territory) and is not allocated to specific regions.

Current receipts (including North Sea revenues)

This is the total value of public sector revenues (including North Sea revenues on a per capita basis) estimated for NI. Population figures are sourced from PESA 2009, as previous. This apportionment method views North Sea revenues as non-identifiable UK revenue.

³⁶ This percentage is taken from the Scottish methodology as reported and explained in 'GERS: Detailed Revenue Methodology Paper 2007-08', p. 42.

[Available: <http://www.scotland.gov.uk/Resource/Doc/933/0082969.pdf>]

ANNEX B: METHODOLOGY FOR PRODUCING ESTIMATES OF PUBLIC SECTOR EXPENDITURE

This annex discusses the methodologies applied to allocate public sector expenditure to NI using data from official UK Government sources.

Estimates of public sector expenditure presented in this report are based on outturn data recorded in PESA 2009.³⁷

Total Expenditure on Services (TES) may be disaggregated into two components:

- **Identifiable expenditure:** that is expenditure that can be recognised as benefiting individuals, enterprises or communities within particular regions; and
- **Non-identifiable expenditure:** that is expenditure considered to occur on behalf of the UK as a whole and cannot be apportioned on an individual country or regional basis.

Note that both of these can be separated further into current and capital expenditure.

TES accounts for approximately 95% of Total Managed Expenditure (TME). TME is the total current and capital expenditure of the public sector, on a national accounts basis. The other component of TME is referred to as the accounting adjustment.

Identifiable Expenditure

Identifiable expenditure is allocated on a 'who benefits' basis to the UK region where the expenditure is attributable. PESA 2009 provides identifiable expenditure data by country and region of the UK. In this exercise the NI identifiable expenditure data is taken directly from PESA 2009 chapter nine, 'Public sector expenditure by country, region and function'. As this report covers the period 2003-04 to 2007-08, tables 9.5 to 9.14 provide the expenditure figures required for Northern Ireland.

Non-Identifiable Expenditure

Non-identifiable expenditure cannot be identified as benefiting a particular UK region rather it is incurred on behalf of the UK as a whole; where the entire UK population benefits, regardless of where the funds are spent. It mainly comprises expenditure on defence, debt interest and international services. In addition, it should be noted that PESA 2009 includes data on expenditure outside the UK. For the purposes of this exercise, this category is included in

³⁷ HM Treasury, PESA 2009 [Available: http://www.hm-treasury.gov.uk/d/pesa_180609.pdf]

non-identifiable expenditure for both the UK and NI data. The inclusion of this data in non-identifiable expenditure is consistent with the view that expenditure outside the UK should be categorised as non-identifiable, given that the benefits are shared amongst the UK constituent countries.

Similarly, as for identifiable expenditure, the data required is provided in PESA 2009 chapter nine. However, to estimate non-identifiable expenditure, which as noted above includes figures from outside the UK, the PESA data needs to be apportioned as it is not disaggregated into regions.

EU Transactions

EU transactions consist of two components: (1) receipts from; and (2) payments to the EU. The EU Division within the Department of Finance and Personnel (DFP) provide the figures for actual receipts from the EU to NI. UK payments to the EU are apportioned to NI according to its share of UK GVA (less extra regio).

Table B1 summarises the apportionment methodologies used to estimate NI non-identifiable expenditure from UK data published in PESA 2009.

Table B1: Apportionment Methodologies for Non-identifiable Expenditure in NI 2003-04 to 2007-08^{1,2}

Element of Non-ID Expenditure	Methodology	
	Non-identifiable	Outside the UK
Public and common services	Population	N/A
EU transactions	Actual	GVA
International services	Population	Population
Debt interest	Population	N/A
Defence	Population	Population
Public order and safety	Population	Population
Enterprise and economic development	Population	Population
Science and technology	GVA	Population
Employment policies	N/A	Population
Agriculture, fisheries and forestry	Agricultural GVA	N/A
Transport	GVA	Population
Environment protection	GVA	Population
Housing and community amenities	N/A	N/A
Health	Population	Population
Recreation culture, and religion	Population	Population
Education	N/A	Population
Social protection	N/A	Population

1. Where there is no UK non-identifiable expenditure this is entered as not applicable (N/A).

2. Non-identifiable expenditure outside the UK, except EU transactions, is apportioned on a per capita basis.

Population figures are taken from PESA 2009 mid year estimates.³⁸ GVA (less extra regio) figures are sourced from the ONS.³⁹ Note that GVA 'less extra regio' excludes income that cannot be satisfactorily assigned to any physical region.

Accounting Adjustment

As mentioned previously, aggregate expenditure is termed Total Managed Expenditure (TME). This is calculated as TES summed with an accounting adjustment. To reiterate, TES for NI is the sum of NI identifiable expenditure taken directly from PESA 2009, and the apportioned share of 'non-identifiable' and 'outside the UK' figures given in PESA 2009, according to the methodologies presented in table B1 above.

The accounting adjustment for the UK as a whole is given in PESA 2009 chapter 9, table 9.1. To estimate the accounting adjustment for NI, the UK figure is apportioned using the methodologies set out in table B2. Note that the breakdown of the UK accounting adjustment figure into the elements below was provided by HM Treasury, courtesy of Scottish Government statisticians.

Table B2: Apportionment Methodologies for estimating the Accounting Adjustment in NI

Element of Accounting adjustment	Methodology
Central Government Capital Consumption	NI Share of UK TES
Local Government Capital Consumption	NI Share of UK TES
Current VAT refunds	NI Share of UK TES
Capital VAT refunds	NI Share of UK TES
Student Loans	Population
Nigerian debt cancellation	Population
Residual	NI Share of UK TES

³⁸ Population figures taken from PESA 2009, Table F1: Population by country and region, p. 190
[Available: http://www.hm-treasury.gov.uk/d/pesa_180609.pdf]

³⁹ ONS: Regional GVA (Nuts 1, 2 and 3) First Release -December 2009. (Table 1.1)
[Available: <http://www.statistics.gov.uk/pdfdir/gva1209.pdf>]

ANNEX C: NORTHERN IRELAND'S PUBLIC SECTOR ACCOUNTS – EXCLUDING NON-IDENTIFIABLE EXPENDITURE & ACC. ADJUSTMENT

Non-identifiable expenditure is considered to occur on behalf on the UK as a whole and thus cannot be apportioned on an individual or regional basis. It is mainly comprised of defence expenditure and debt interest payments. For example, 77.3 per cent of total NI Non-identifiable expenditure was either attributed to defence or debt repayment expenditure. This exercise will examine the effect of removing this type of expenditure and in addition to this it will also exclude an accounting adjustment for depreciation and VAT refunds (i.e. not cash expenditure). The impact of such exclusion is demonstrated in the table and figure provided below, where in 2007-08 the impact was a considerable revision downwards in the NI fiscal deficit from 26.1 per cent to 13.9 per cent of GVA (12.2 percentage points).

This exercise illustrates that hypothetically if NI was a self sufficient country, with the assumption of no defence expenditure e.g. armed forces, then the fiscal balance would be at a more manageable level of under - £4bn, as compared to over -£7bn in the absence of self sufficiency.

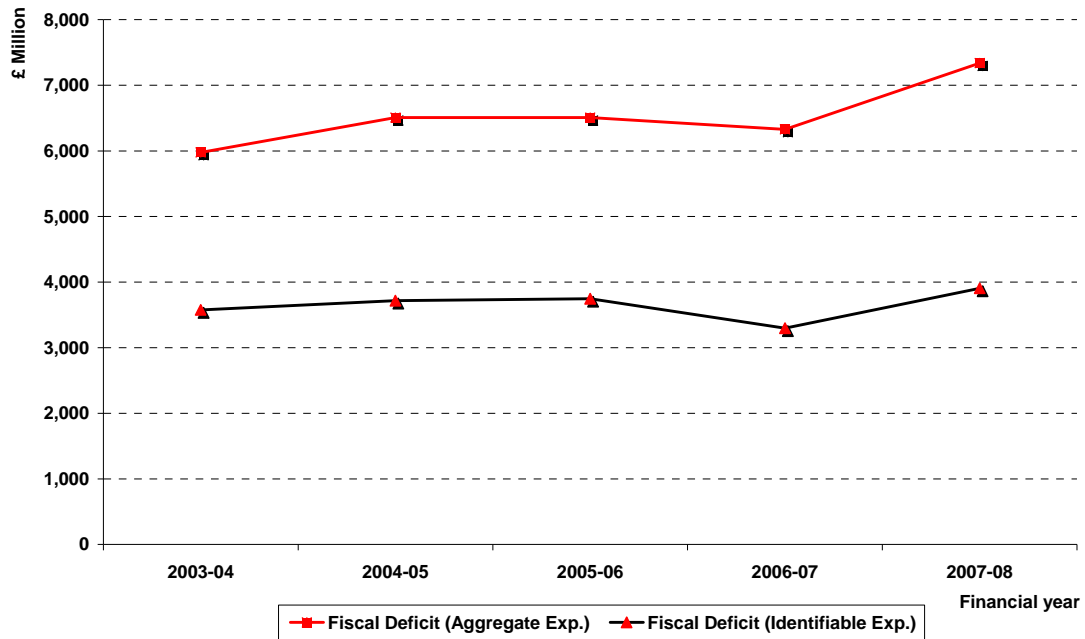
Table C.1 below shows the NI fiscal balance estimates for the period 2003-04 to 2007-08 when non-identifiable expenditure and the accounting adjustment are excluded. In 2007-08 the impact of excluding Non-identifiable expenditure and the accounting adjustment is a reduction in the fiscal deficit from £7.3 bn to £3.9 bn, a reduction by almost half (47 percent). The average annual reduction in the fiscal balance per capita is over £1,600, and the average annual reduction as a percentage of GVA is 11.3 per cent.

Table C1: NI Net Fiscal Balance Estimates (Exc. Non-Identifiable Expenditure and Accounting Adjustment), 2003-04 to 2007-08 (£m)

£ Million	NI				
	2003-04	2004-05	2005-06	2006-07	2007-08
Aggregate Expenditure (Agg. Exp.)	15,814	17,064	17,791	18,649	20,296
Identifiable Expenditure (Id. Exp)	13,415	14,273	15,028	15,620	16,864
Aggregate Revenue (Exc. NS)	9,839	10,556	11,282	12,322	12,958
Net Fiscal Balance (Agg. Exp.)	-5,976	-6,508	-6,509	-6,327	-7,338
Net Fiscal Balance (Id. Exp.)	-3,576	-3,717	-3,746	-3,298	-3,906
<i>Difference</i>	-2,399	-2,791	-2,763	-3,029	-3,432
Net Fiscal Balance per capita (£) (Agg. Exp.)	-3,509	-3,806	-3,776	-3,632	-4,167
Net Fiscal Balance per capita (£) (Id. Exp.)	-2,100	-2,174	-2,173	-1,893	-2,218
Net Fiscal Balance as a % of financial year GVA (Agg. Exp.)	-26.1%	-26.8%	-25.6%	-23.6%	-26.1%
Net Fiscal Balance as a % of financial year GVA (Id. Exp.)	-15.6%	-15.3%	-14.7%	-12.3%	-13.9%

Figure C2 shows that both fiscal deficit methodologies of expenditure inclusion cause the overall position to follow the same approximate trend over the five year period. However, it is very interesting to note that when a share of UK Non-identifiable expenditure and accounting adjustments are excluded the NI fiscal deficit is reduced by an annual average of 44 per cent.

Figure C2: NI Fiscal Deficit Position shown by Aggregate Expenditure and Identifiable Expenditure Estimates, 2003-04 to 2007-08 (£m)



ANNEX D: NORTHERN IRELAND'S PUBLIC SECTOR ACCOUNTS-INCLUDING A HYPOTHETICAL PER CAPITA SHARE OF NORTH SEA (NS) OIL REVENUES

The inclusion of a per capita share of North Sea oil revenue revises downwards the overall NI negative net fiscal balance; from £7.3 bn excluding North Sea oil revenues to £7.1 bn in 2007-08, as presented in table D1. This decline represents a reduction of £0.2 bn or 3.1 per cent.

However, applying the assumption of a zero share of North Sea oil revenue to NI follows the most logical approach as NI's activity in North Sea oil fields is unclear. To include this revenue within the main analysis would not be a true representation of NI's public sector revenue as evidence suggests that NI is not listed as servicing any of the strictly NS oil fields.

The inclusion of a per capita share of North Sea oil in 2007-08 leads to a revision downward of £0.7 bn (5.6 per cent) on the estimate of Scotland's deficit⁴⁰, and the effect on the UK deficit estimate is a revision of £7.8 bn downward (18.0 per cent).

Table D1: Net Fiscal Balance Estimates (Inc. North Sea oil): NI, Scotland and the UK, 2007-08 (£m)

£ Million	NI	Scotland	UK
Aggregate Expenditure	20,296	56,459	584,065
Aggregate Revenue	13,183	45,402	548,690
Net Fiscal Balance	-7,113	-11,057	-35,375
Net Fiscal Balance per capita (£)	-4,039	-2,152	-580
Net Fiscal Balance as a % of financial year GVA	-25.3%	-11.0%	-2.9%

Table D2 shows the impact of the inclusion of North Sea oil revenues on the NI fiscal position over the period 2003-04 to 2007-08. The largest downwards revision arising from the inclusion of a share of NS oil revenue to the NI position is a 4.2 percent reduction for 2005-06; approximately twice as large an impact as for the two years prior. A similar impact of 4.1 per cent is shown for 2006-07; following this a smaller revision of 3.1 per cent is shown for 2007-08.

Table D2: NI Fiscal Position (Inc. North Sea oil), 2003-04 to 2007-08

£ Million	NI				
	2003-04	2004-05	2005-06	2006-07	2007-08
Aggregate Expenditure	15,814	17,064	17,791	18,649	20,296
Aggregate Revenue	9,961	10,704	11,558	12,582	13,183
Net Fiscal Balance	-5,853	-6,360	-6,233	-6,068	-7,113
Net Fiscal Balance per capita (£)	-3,437	-3,719	-3,616	-3,483	-4,039
Net Fiscal Balance as a % of financial year GVA	-25.6%	-26.2%	-24.5%	-22.6%	-25.3%

⁴⁰ As derived using the methodology set out in Annex A and B of this report, not using the Scottish Government's published estimates.

Future Work

This is the second Northern Ireland Net Fiscal Balance report (NFBR) to be published. The report makes best use of the data sources and methodologies that are currently available. However, the methodology is continually under development and as such the estimates presented in this report are termed 'experimental' at this stage.

User feedback will be greatly welcomed.

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