

NORTHERN IRELAND
NET FISCAL BALANCE REPORT
2008-09

August 2011

CONTENTS

Section	Page
Executive Summary	5
Section 1: Introduction and Overview	6
Section 2: Fiscal Background	8
Section 3: NI's Public Sector Accounts	10
Section 4: Public Sector Revenue	16
Section 5: Public Sector Expenditure	22
Section 6: Conclusion	42
Annex A: Revenue Methodology	43
Annex B: Expenditure Methodology	53
Annex C: NI's Public Sector Accounts (Exc. Non-Id.)	56
Annex D: NI's Public Sector Accounts (Inc. North Sea Oil)	58
Annex E: NI's Public Sector Accounts (Exc. UK Financial Sector Interventions)	59

LIST OF TABLES & FIGURES

NI's Public Sector Accounts

Table 3.1: Net Fiscal Balance Estimates: NI and the UK, 2008-09 (£m)	11
Table 3.2: Net Fiscal Balance Estimates (Exc. Non-Identifiable Expenditure and Accounting Adjustment): NI and the UK, 2008-09 (£m)	11
Table 3.3: NI Fiscal Position 2004-05 to 2008-09	12
Figure 3.4: NI Trends in Aggregate Revenue and Aggregate Expenditure, 2004-05 to 2008-09	12
Figure 3.5: NI Fiscal Deficit Position, 2004-05 to 2008-09	13
Table 3.6: Summary of Total Public Sector Revenue in NI, 2004-05 to 2008-09 (£m)	14
Table 3.7: Summary of Total Public Sector Expenditure on Services (TES) in NI, 2004-05 to 2008-09 (£m)	15

Public Sector Revenue

Table 4.1: Current Revenue: NI and UK 2008-09	17
Table 4.2: Current Revenue in NI 2008-09	18
Figure 4.3: Trend of NI Largest Revenue Categories, 2004-05 to 2008-09	19
Figure 4.4: Trend of UK Largest Revenue Categories, 2004-05 to 2008-09	19
Table 4.5: Estimated Revenue Trend for UK and NI 2004-05 to 2008-09	20
Table 4.6: % Growth in Revenue between 2004-05 and 2008-09	21

Public Sector Expenditure

Table 5.1: NI Total Expenditure on Services (TES), 2008-09	23
Table 5.2: Total Current and Capital Expenditure on Services (TES): NI and the UK 2004-05 to 2008-09 (£m)	24
Table 5.3: Current and Capital Expenditure (% of Total Expenditure): NI and the UK 2004-05 to 2008-09	24
Table 5.4: NI Total Expenditure on Services (TES), 2004-05 to 2008-09 (£m)	25
Table 5.5: UK Total Expenditure on Services (TES), 2004-05 to 2008-09 (£m)	26
Figure 5.6: Trend of NI Largest Expenditure Categories, 2004-05 to 2008-09	27
Figure 5.7: Trend of UK Largest Expenditure Categories, 2004-05 to 2008-09	27
Table 5.8: Total Expenditure on Services (TES) per capita: NI and UK, 2008-09	28
Table 5.9: NI Total Expenditure on Services (TES), Identifiable and Non-identifiable, 2004-05 to 2008-09 (£m)	30
Table 5.10: Identifiable Expenditure on Services: NI and UK, 2008-09	31
Table 5.11: Identifiable Expenditure per capita, 2008-09	32
Table 5.12: NI and UK Non-identifiable expenditure, 2004-05 to 2008-09 (£m)	34
Table 5.13: NI Non-identifiable expenditure, 2004-05 to 2008-09 (£m)	35
Table 5.14: UK Non-identifiable expenditure, 2004-05 to 2008-09 (£m)	36
Table 5.15: Non-identifiable expenditure: NI and the UK, 2008-09 (£m)	37
Table 5.16: Non-identifiable Expenditure per capita: NI and UK, 2008-09	38
Table 5.17: UK Accounting Adjustment, 2004-05 to 2008-09 (£m)	39
Table 5.18: NI Accounting Adjustment, 2004-05 to 2008-09 (£m)	40
Table 5.19: Expenditure in the UK and NI, 2008-09 (£m)	41

Conclusion

Table 6.1: Net Fiscal Balance Estimates: NI and the UK, 2008-09 (£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 2004-05 to 2008-09	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), 2004-05 to 2008-09 (£m)	56
Figure C2: NI Fiscal Deficit Position shown by Aggregate Expenditure and Identifiable Expenditure Estimates, 2004-05 to 2008-09 (£m)	57

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

Table D1: Net Fiscal Balance Estimates (Inc. North Sea oil): NI and the UK, 2008-09 (£m)	58
Table D2: NI Fiscal Position (Inc. North Sea oil), 2004-05 to 2008-09	58

Annex E - NI's Public Sector Accounts (Exc. UK Financial Sector Interventions)

Table E1: NI's estimated share of UK Financial Sector Interventions, 2008-09 (£m)	59
Table E2: NI Fiscal Position (Exc. Financial Interventions) 2008-09 (£m)	59

EXECUTIVE SUMMARY

- This report provides an analysis of the public finances in NI, focusing on the expenditure and revenue generated within the region. The report concentrates on 2008-09, the latest financial year for which the complete series of relevant data is available.
- In 2008-09, the estimated fiscal balance in NI was a deficit of £9.0 billion (31.3 per cent of GVA).
- Total (non-north Sea) public sector revenue collected in NI was estimated to be £12.8 billion in 2008-09, or 2.5 per cent of the equivalent UK total.
- In 2008-09, total public sector expenditure in NI was estimated to be £20.8 billion, or 3.5 per cent of the equivalent UK total.
- 'Identifiable' public sector expenditure in NI was estimated to be £18.0 billion in 2008-09, or 3.6 per cent of the corresponding UK total.
- 'Non-identifiable' expenditure was estimated at £2.8 billion in 2008-09, or 2.9 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 £21.8 billion.
- In 2008-09 the net fiscal balance or 'fiscal deficit' in NI was equivalent to £5,052 per head. This compares to a per head figure of £1,785 in the UK. The NI fiscal deficit as a percentage of the 2008-09 GVA was 31.3 per cent, which was significantly higher than the UK equivalent of 8.7 per cent.
- Unless otherwise stated all estimates are net of North Sea oil revenue and include a per capita share of UK financial sector interventions in 2008-09.
- The calculations employed to derive this net fiscal balance figure for NI 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.

SECTION 1: INTRODUCTION AND OVERVIEW

- 1.1 The purpose of this report is to provide an overview of public sector finances in Northern Ireland (NI) for the financial years 2004-05 to 2008-09. Particular focus is given to 2008-09, 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 sets out a detailed disaggregation by individual expenditure and revenue components.
- 1.2 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).¹ While 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)², population share, or alternative methods.
- 1.3 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. Particular caution should be used in relation to individual components of the fiscal balance as many revenue streams have been estimated and are not true values.
- 1.4 The remainder of this report is structured as follows:

Section 2: Fiscal Background

- 1.5 Provides a brief background to the public sector fiscal framework in NI and the UK.

Section 3: NI's Public Sector Accounts

- 1.6 Derives estimates of overall net fiscal balances in NI based on aggregate public sector revenue and expenditure estimates.

Section 4: Public Sector Revenue

- 1.7 Section 4 presents estimates of NI's public sector revenue raised over the financial years 2004-05 to 2008-09; with particular attention being

¹ Scottish Government (June 2010) 'Government Expenditure and Revenue in Scotland 2008-09'
<http://www.scotland.gov.uk/Publications/2010/06/22160331/0>

² Gross Domestic Product data is not available for Northern Ireland so Gross Value-Added (GVA) data is used instead. $GVA + \text{taxes on products} - \text{subsidies on products} = \text{GDP}$. Further note that the GVA figures used exclude Extra-Regio (off-shore contribution to GVA that cannot be assigned to any region).

Section 5: Public Sector Expenditure

- 1.8 Section 5 presents public sector expenditure estimates for NI over the financial years 2004-05 to 2008-09; with particular focus on 2008-09 (the latest fiscal year for which outturn data is available).

Section 6: Conclusion

- 1.9 This section summarises the main results of the analysis.

Annex A : Methodology for Producing Estimates of Public Sector Revenue

- 1.10 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

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

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

- 1.12 Annex C provides an estimate of the NI fiscal balance based on identifiable expenditure only.

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

- 1.13 Annex D provides an estimate of the NI fiscal balance including a per capita share of North Sea oil revenue.

Annex E: NI's Public Sector Accounts (Exc. UK Financial Sector Interventions)

- 1.14 Annex E provides an estimate of the NI fiscal balance in 2008-09 excluding any share of UK financial sector interventions from non-identifiable UK total public sector expenditure.

SECTION 2: FISCAL BACKGROUND

Total Managed Expenditure (TME) in the UK

- 2.1 In the current UK public finance framework Total Managed Expenditure (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).
- 2.2 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. This is spending that is 'demand-led' and cannot be planned far in advance. AME is also disaggregated into capital and resource components.
- 2.3 DEL makes up the majority of TME. The sum of DEL and AME plus an 'accounting adjustment' is equal to TME.

Public Expenditure Data

- 2.4 Information on 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 2010, which provides outturn data for the 2008-09 financial year.

Public Expenditure in NI

- 2.5 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.

- 2.6 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

- 2.7 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, value added tax, and national insurance contributions.
- 2.8 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.

Net Fiscal Balance

- 2.9 The 'net fiscal balance' is estimated as the difference between total public sector revenue and total public sector expenditure (including accounting adjustments).

SECTION 3: NI'S PUBLIC SECTOR ACCOUNTS

Introduction

3.1 This section presents an overview of NI's public sector accounts for the period 2004-05 to 2008-09 including estimates of NI's net fiscal balance over this five year period. NI's net fiscal balance is estimated as the difference between public sector revenue and expenditure. It is important to bear in mind that the figures set out in this report are estimates subject to a margin of error and should be treated accordingly.

Net Fiscal Balance 2008-09

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

3.3 In 2008-09, NI recorded a negative net fiscal balance of £9.0 billion (or 31.3 per cent of GVA).

3.4 In 2008-09, the total UK current budget deficit (including North Sea revenues) amounted to £96.6 billion.

3.5 The net fiscal balance or 'fiscal deficit' in NI in 2008-09 was equivalent to £5,052 per head. Applying the NI methodology, which excludes North Sea oil revenues, this compares to a per head figure of £1,785 in the UK. The NI fiscal deficit as a percentage of the 2008-09 regional GVA was 31.3 per cent. This was higher than the UK equivalent of 8.7 per cent.

3.6 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 and the UK.

Table 3.1: Net Fiscal Balance Estimates: NI and the UK, 2008-09 (£m)

£ Million	NI	UK
Aggregate Expenditure	21,772	629,844
Aggregate Revenue	12,804	520,277
Net Fiscal Balance	-8,968	-109,567
Net Fiscal Balance per capita (£)	-5,052	-1,785
Net Fiscal Balance as a % of financial year GVA	-31.3%	-8.7%

3.7 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. The exclusion of this 'non-identifiable' expenditure and an accounting adjustment revises downwards the NI deficit considerably from 31.3 per cent to 18.0 per cent of GVA. When non-identifiable expenditure is removed the UK figure moves into a surplus position while NI remains negative. Note that if the accounting adjustment is included the estimates change to a net fiscal balance of -£5.2 bn and £16.6 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 and the UK, 2008-09 (£m)

£ Million	NI	UK
Identifiable Expenditure	17,975	503,705
Aggregate Revenue	12,804	520,277
Net Fiscal Balance	-5,171	16,572
Net Fiscal Balance per capita (£)	-2,913	270
Net Fiscal Balance as a % of financial year GVA	-18.0%	1.3%

Net Fiscal Balance 2004-05 to 2008-09

3.8 The remainder of this section profiles NI's fiscal position over the period 2004-05 to 2008-09, identifying trends in aggregate expenditure and revenue.

3.9 Table 3.3 shows how NI's fiscal deficit has increased by £2.6 billion over the period; from £6.3 billion in 2004-05 to £9.0 billion in 2008-09. While the deficit as a percentage of regional GVA remained relatively stable over the period 2004-05 to 2007-08 in 2008-09 it increased by 7.5 per cent from the year previous as the deficit estimate increased along with a fall in GVA resulting from the economic downturn.

Table 3.3: NI Fiscal Position 2004-05 to 2008-09

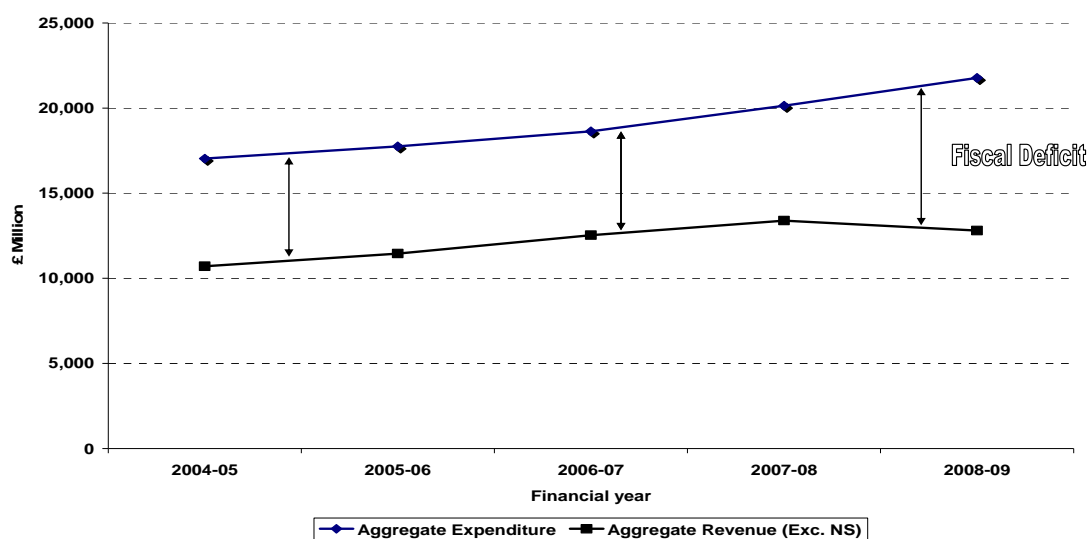
£ Million	NI				
	2004-05	2005-06	2006-07	2007-08	2008-09
Aggregate Expenditure	17,034	17,752	18,632	20,141	21,772
Aggregate Revenue	10,709	11,451	12,531	13,393	12,804
Net Fiscal Balance	-6,325	-6,301	-6,101	-6,749	-8,968
Net Fiscal Balance per capita (£)	-3,699	-3,655	-3,502	-3,832	-5,052
Net Fiscal Balance as a % of financial year GVA	-26.0%	-24.7%	-22.6%	-23.8%	-31.3%

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

3.11 Figure 3.4 presents aggregate expenditure and revenue, highlighting NI's negative budget balance or 'deficit'. The gap between these two lines indicates the size of the NI deficit over the period 2004-05 to 2008-09.

3.12 Over the five year period, total spending increased by £4.7 billion (27.8 per cent), whereas estimated aggregate revenue increased by £2.1 billion (19.6 per cent), giving a net increase in the NI fiscal deficit of approximately £ 2.6 billion (41.8 per cent) – with the bulk of the increase occurring during 2008-09.

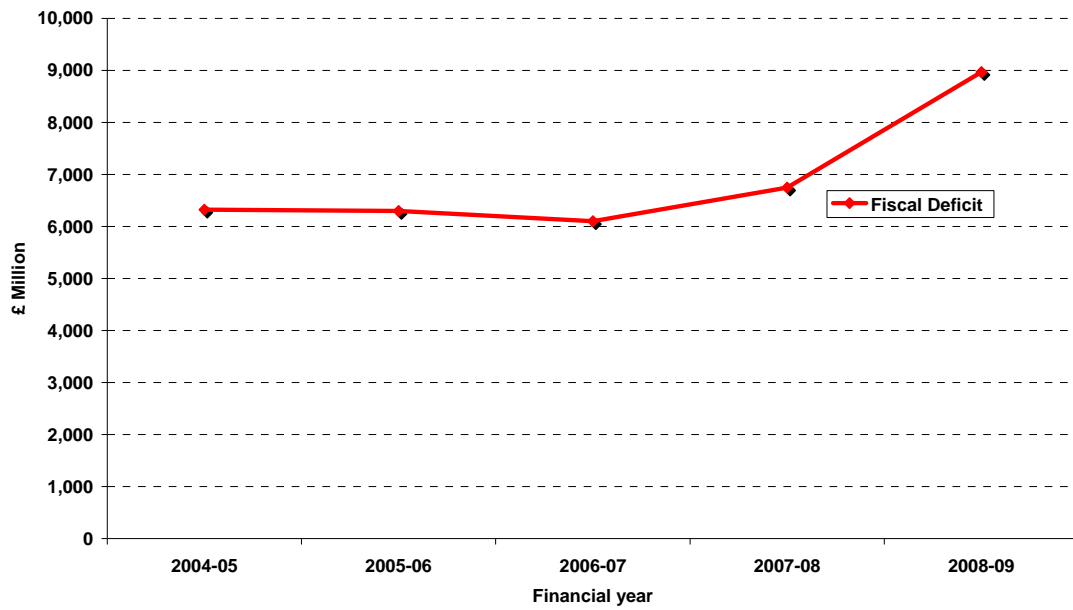
Figure 3.4: NI Trends in Aggregate Revenue and Aggregate Expenditure, 2004-05 to 2008-09



3.13 Figure 3.5 illustrates the growth of the 'fiscal deficit' over the five year period. Between 2004-05 and 2005-06 the deficit remained largely unchanged. However, over 2005-06 to 2006-07 the deficit decreased

by 3.2 per cent due to increased tax receipts in NI. From 2006-07 to 2007-08 there was an increase in the deficit of 10.6 per cent which can be attributed to expenditure growth. The fiscal deficit increased by almost 33 per cent, or one third, over the latest period 2007-08 to 2008-09, which can mainly be attributed to a sharp fall in tax receipts in NI. Overall, the period of 2004-05 to 2008-09 witnessed a significant increase in the fiscal deficit in the order of almost 42 per cent, or more than two fifths.

Figure 3.5: NI Fiscal Deficit Position, 2004-05 to 2008-09



Revenue

3.14 Table 3.6 details the main components of public sector revenue in NI over the period 2004-05 to 2008-09. A further disaggregation of revenue is presented in section 4.

3.15 In 2008-09, total estimated public sector revenue in NI was approximately £12.8 billion representing a nominal increase of 19.6 per cent from 2004-05. Increased revenue from income tax, NICs, and VAT contributed most in absolute terms to the increase in tax revenues.

Table 3.6: Summary of Total Public Sector Revenue in NI, 2004-05 to 2008-09 (£m)

Revenue Stream £ Million	NI				
	2004-05	2005-06	2006-07	2007-08	2008-09
Income tax (net of tax credits)	2,342	2,513	2,788	2,816	2,826
VAT	1,967	1,963	2,235	2,425	2,360
National Insurance Contributions (NICs)	1,674	1,822	1,866	2,117	2,075
Local Authority Revenue	747	817	901	904	986
Corporation tax (excluding NS revenues)	716	840	901	936	711
Fuel duties	780	845	879	931	921
Gross operating surplus & rent	680	766	784	795	784
Other Revenues	1,803	1,885	2,177	2,468	2,141
Current receipts (excluding NS revenues)	10,709	11,451	12,531	13,393	12,804

Expenditure

3.16 Table 3.7 presents a summary of Total Expenditure on Services (TES) for the main spending functions in NI over the period 2004-05 to 2008-09. 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.

Table 3.7: Summary of Total Public Sector Expenditure on Services (TES) in NI, 2004-05 to 2008-09 (£m)

Expenditure Category	NI				
	2004-05	2005-06	2006-07	2007-08	2008-09
Social protection	5,573	5,719	6,077	6,618	6,921
Health	2,464	2,645	2,881	2,983	3,329
Education	2,139	2,238	2,312	2,435	2,522
Public order and safety	1,309	1,312	1,342	1,364	1,346
Defence	848	883	922	968	1,056
General public services ¹	1,348	1,465	1,574	1,611	1,732
Other ²	2,606	2,718	2,609	3,228	3,913
Total	16,287	16,979	17,718	19,206	20,819

1. This category is comprised of public and common services, international services, and debt interest.

2. 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.

SECTION 4: PUBLIC SECTOR REVENUE

Introduction

- 4.1 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.³
- 4.2 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.
- 4.3 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 2008-09

- 4.4 The estimates of revenue generated in NI and the UK for 2008-09 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 £12.8 billion in 2008-09 or 2.5 per cent of the UK total non-North Sea revenue.

³ The applied methodology for estimating NI's share of UK Corporation tax revenue in this report attempts to reflect the methodology of the Scottish GERS publication. This is different from the HM Treasury methodology used in paper on rebalancing the NI economy which was based on a detailed analysis of post code based tax receipt data. However this analysis will continue to replicate GERS for consistency but as indicated previously, individual estimates should be treated with caution. This is not intended as an accurate estimate of Corporation Tax, rather one small element of the Fiscal Deficit estimate where the methodology was developed in the absence of localized data.

Table 4.1: Current Revenue: NI and UK 2008-09

Revenue Stream	UK (£ million)	NI (£ million)	Share of UK
Income tax (net of tax credits)	147,840	2,826	1.9%
Corporation tax (excluding North Sea revenues)	32,719	711	2.2%
Capital gains tax	7,864	180	2.3%
Inheritance tax	2,848	43	1.5%
Stamp duties	8,002	181	2.3%
National Insurance Contributions (NICs)	96,884	2,075	2.1%
Total Inland Revenue	296,157	6,016	2.0%
VAT	78,439	2,360	3.0%
Fuel duties	24,615	921	3.7%
Tobacco duty	8219	405	4.9%
Alcohol Duties	8,470	243	2.9%
Betting & Gaming duties	1,474	42	2.8%
Air Passenger duty	1,862	54	2.9%
Insurance Premium tax	2,281	66	2.9%
Land fill tax	954	38	4.0%
Climate Change Levy	716	13	1.8%
Aggregates levy	334	8	2.3%
Customs Duties & levies	2,659	74	2.8%
Total HMRC	426,180	10,240	2.4%
VED	5,582	163	2.9%
Business rates (non-domestic rates)	22,907	503	2.2%
Council Tax (domestic rates)	24,361	483	2.0%
Other taxes & royalties ¹	15,960	532	3.3%
Net taxes & NICs conts	494,990	11,921	2.4%
Interest & dividends	8,970	291	3.2%
Gross operating surplus & rent	24,702	784	3.2%
Other receipts & accounting adjustments ²	-8,385	-192	2.3%
Current Receipts (excluding North Sea Revenues)	520,277	12,804	2.5%
North Sea Revenues (NI on a per capita basis) ³	12,925	374	2.9%
Current Receipts (including North Sea Revenues)	533,202	13,178	2.5%
¹ Includes VAT refunds and money paid into the National Lottery Distribution Fund.			
² Includes TV licences and tax credit adjustments; net of business rate payments by local authorities.			
³ Consists of North Sea corporation tax, petroleum revenue tax and royalties.			

4.5 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 £2.4 billion, and National Insurance Contributions (NICs) amounting to £2.1 billion. Collectively, these estimated receipts accounted for around 57 per cent of NI public sector revenue.

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

Table 4.2: Current Revenue in NI 2008-09

Revenue Stream	NI (£ million)	Share of NI Total
Income tax (net of tax credits)	2,826	22.1%
Corporation tax (excluding North Sea revenues)	711	5.6%
Capital gains tax	180	1.4%
Inheritance tax	43	0.3%
Stamp duties	181	1.4%
National Insurance Contributions (NICs)	2,075	16.2%
VAT	2,360	18.4%
Fuel duties	921	7.2%
Tobacco duty	405	3.2%
Alcohol Duties	243	1.9%
Betting & Gaming duties	42	0.3%
Air Passenger duty	54	0.4%
Insurance Premium tax	66	0.5%
Land fill tax	38	0.3%
Climate Change Levy	13	0.1%
Aggregates levy	8	0.1%
Customs Duties & levies	74	0.6%
VED	163	1.3%
Business rates (non-domestic rates)	503	3.9%
Council Tax (domestic rates)	483	3.8%
Other taxes & royalties ¹	532	4.2%
Interest & dividends	291	2.3%
Gross operating surplus & rent	784	6.1%
Other receipts & accounting adjustments ²	-192	-1.5%
Current Receipts (excluding North Sea Revenues)	12,804	100.0%

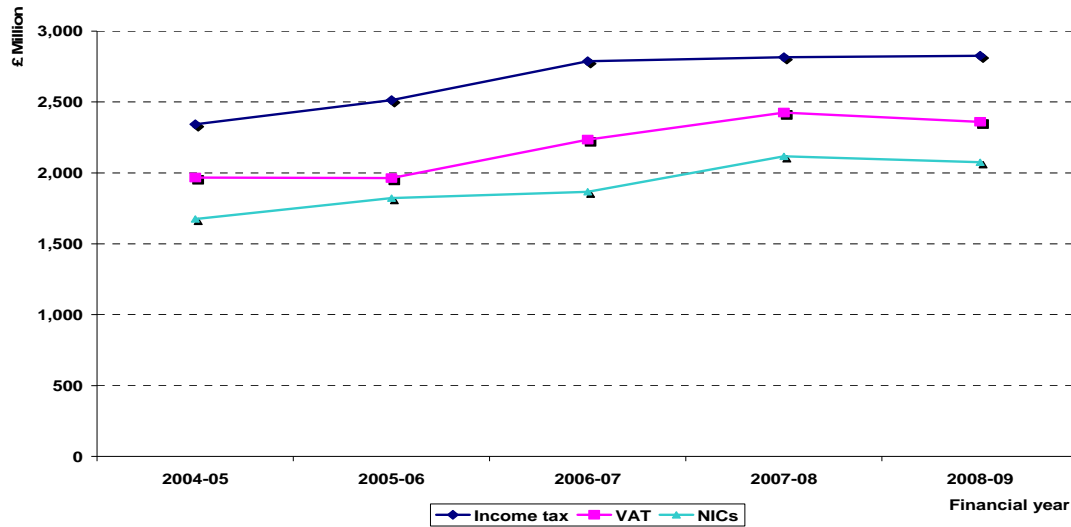
¹ Includes VAT refunds and money paid into the National Lottery Distribution Fund.

² Includes TV licences and tax credit adjustments; net of business rate payments by Local Authorities.

Estimated Revenue 2004-05 to 2008-09

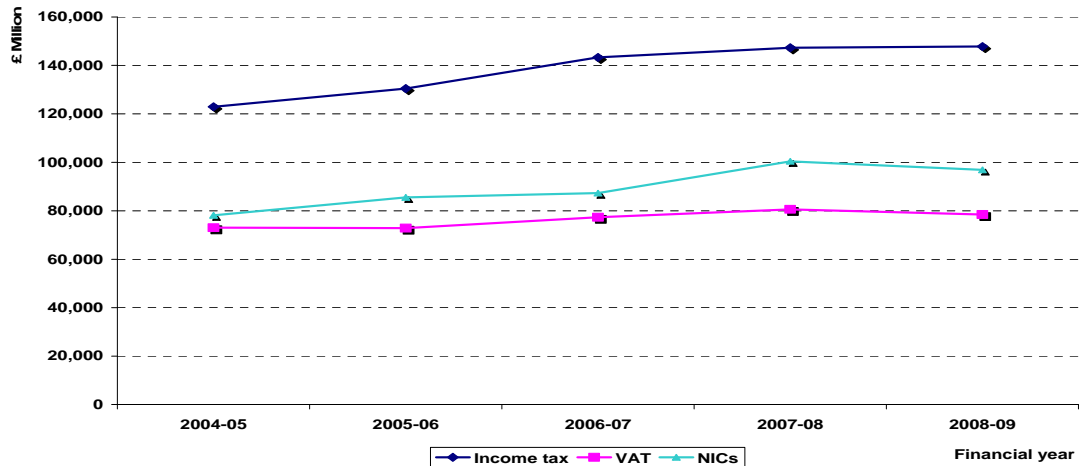
4.8 Figures 4.3 and 4.4 below illustrate the trends in NI and the UK respectively for each of the three largest revenue categories (namely income tax, VAT, and NICs). Together these categories comprise 62 per cent of UK aggregate revenue (exc. NS) and 57 per cent of NI aggregate revenue (exc. North Sea) in 2008-09.

Figure 4.3: Trend of NI Largest Revenue Categories, 2004-05 to 2008-09



4.9 In both NI and the UK each of these categories has experienced growth over the five year period 2004-05 to 2008-09. Figures 4.3 and 4.4 show that each region's income tax revenues are significantly higher than the subsequent VAT revenues.

Figure 4.4: Trend of UK Largest Revenue Categories, 2004-05 to 2008-09



4.10 Table 4.5 below shows UK revenue and estimates of NI revenue for the period 2004-05 to 2008-09.

Table 4.5: Estimated Revenue Trend for UK and NI 2004-05 to 2008-09

£ Million	UK					NI				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Income tax (net of tax credits)	122,924	130,478	143,322	147,324	147,840	2,342	2,513	2,788	2,816	2,826
Corporation tax (excluding NS revenues)	29,810	34,522	37,599	40,655	32,719	716	840	901	936	711
Capital gains tax	2,278	3,041	3,812	5,267	7,864	52	70	88	121	180
Inheritance tax	2,929	3,277	3,558	3,834	2,848	28	33	29	51	43
Stamp duties	8,966	10,918	13,393	14,123	8,002	263	247	365	435	181
National Insurance Contributions (NICs)	78,098	85,522	87,274	100,411	96,884	1,674	1,822	1,866	2,117	2,075
VAT	73,026	72,856	77,360	80,601	78,439	1,967	1,963	2,235	2,425	2,360
Fuel duties	23,313	23,438	23,585	24,905	24,615	780	845	879	931	921
Tobacco duty	8,100	7,959	8,149	8,094	8,219	349	343	352	399	405
Alcohol duties	7,876	7,861	7,913	8,302	8,470	191	190	212	238	243
Betting & Gaming duties	1,421	1,421	1,391	1,481	1,474	30	30	39	42	42
Air Passenger duty	864	905	971	1,994	1,862	25	26	28	58	54
Insurance Premium tax	2,359	2,343	2,314	2,306	2,281	67	67	67	67	66
Land fill tax	672	733	804	877	954	23	26	30	32	38
Climate Change Levy	764	744	712	688	716	13	14	13	13	13
Aggregates levy	334	326	321	339	334	9	8	8	8	8
Customs Duties & levies	2,195	2,258	2,325	2,456	2,659	60	62	65	68	74
VED	4,737	4,950	5,139	5,393	5,582	127	135	143	155	163
Business rates (non-domestic rates)	18,702	19,833	20,962	21,413	22,907	400	437	469	461	503
Council Tax (domestic rates)	20,167	21,260	22,210	23,359	24,361	347	380	432	443	483
Other taxes & royalties ¹	12,430	12,819	14,010	14,748	15,960	384	419	475	512	532
Interest & dividends	6,079	6,776	6,574	9,046	8,970	208	226	215	294	291
Gross operating surplus & rent	20,575	23,540	24,491	25,028	24,702	680	766	784	795	784
Other receipts & accounting adjustments ²	-1,192	-505	2,071	-1,058	-8,385	-27	-12	48	-24	-192
Current receipts (excluding NS revenues)	447,427	477,275	510,260	541,586	520,277	10,709	11,451	12,531	13,393	12,804
<i>North Sea revenues (per capita basis)³</i>	5,195	9,641	9,015	7,775	12,925	148	276	259	225	374
Current Receipts (including NS revenues)	452,622	486,916	519,275	549,361	533,202	10,857	11,727	12,790	13,617	13,178

See footnotes 1, 2, 3 Table 4.1

- 4.11 Table 4.6 identifies the growth rate of each revenue category over this period for both the UK and NI.
- 4.12 In nominal terms, revenues in NI for income tax and NICs are estimated to have grown at approximately the same rate as in the UK. Income tax grew by 20.7 per cent in NI between 2004-05 and 2008-09 in comparison to 20.3 per cent in the UK. NICs grew by 24.0 per cent in NI between 2004-05 and 2008-09 compared to 24.1 per cent in the UK.
- 4.13 In comparison, over the period 2007-08 to 2008-09 growth in revenue was negative for many revenue streams as a result of the economic downturn. The largest contributors of taxation experienced marginal or negative growth such as income tax, NICS, VAT, corporation tax and fuel duties.

Table 4.6: % Growth in Revenue between 2004-05 and 2008-09

£ Million	2004-05 to 2008-09		2007-08 to 2008-09	
	UK % Growth	NI % Growth	UK % Growth	NI % Growth
Income tax (net of tax credits)	20.3%	20.7%	0.4%	0.4%
Corporation tax (excluding NS revenues)	9.8%	-0.6%	-19.5%	-24.0%
Capital gains tax	245.2%	244.4%	49.3%	48.4%
Inheritance tax	-2.8%	53.6%	-25.7%	-15.7%
Stamp duties	-10.8%	-31.1%	-43.3%	-58.3%
National Insurance Contributions (NICs)	24.1%	24.0%	-3.5%	-2.0%
VAT	7.4%	20.0%	-2.7%	-2.7%
Fuel duties	5.6%	18.2%	-1.2%	-1.0%
Tobacco duty	1.5%	16.0%	1.5%	1.5%
Alcohol duties	7.5%	27.1%	2.0%	1.8%
Betting & Gaming duties	3.7%	39.8%	-0.5%	-0.5%
Air Passenger duty	115.5%	118.1%	-6.6%	-6.5%
Insurance Premium tax	-3.3%	-2.1%	-1.1%	-1.0%
Land fill tax	42.0%	62.7%	8.8%	16.9%
Climate Change Levy	-6.3%	-0.3%	4.1%	1.3%
Aggregates levy	0.0%	-16.3%	-1.5%	-2.0%
Customs Duties & levies	21.1%	23.0%	8.3%	8.6%
VED	17.8%	28.3%	3.5%	5.2%
Business rates (non-domestic rates)	22.5%	25.8%	7.0%	9.1%
Council Tax (domestic rates)	20.8%	39.2%	4.3%	9.0%
Other taxes & royalties ¹	28.4%	38.7%	8.2%	3.9%
Interest & dividends	47.6%	40.1%	-0.8%	-0.9%
Gross operating surplus & rent	20.1%	15.2%	-1.3%	-1.5%
Other receipts & accounting adjustments ²	603.4%	601.8%	692.5%	687.9%
Current receipts (excluding NS revenues)	14.8%	19.3%	-3.9%	-4.4%
North Sea revenues (per capita basis) ³	148.8%	151.8%	66.2%	66.4%
Current Receipts (including NS revenues)	16.9%	21.6%	-2.9%	-3.2%

See footnotes 1, 2, 3 Table 4.1

SECTION 5: PUBLIC SECTOR EXPENDITURE

Introduction

- 5.1 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 2010'⁴ publication (hereafter referred to as PESA 2010).
- 5.2 In accordance with PESA 2010, 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.
- 5.3 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.
- 5.4 A hypothetical exercise estimating the NI fiscal balance excluding non-identifiable spending and an accounting adjustment is however attached at Annex C of this report.
- 5.5 Furthermore, note that UK financial sector interventions in 2008-09 have been allocated to NI in this public sector expenditure estimation on a per capita basis. For an exercise excluding the effect of a share of financial sector interventions refer to Annex E.
- 5.6 **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.

4. HM Treasury, PESA 2010 [Available: http://www.hm-treasury.gov.uk/d/pesa_2010_complete.pdf]

In Summary:

- **Identifiable (Current + Capital) + Non-Identifiable (Current + Capital) = Total Expenditure on Services**
- **Total Expenditure on Services + Accounting Adjustment = Total Managed Expenditure**

Total Expenditure on Services

5.7 Table 5.1 shows estimated public sector TES for NI by expenditure category in 2008-09. Based on the methodologies adopted in this report, TES was estimated at £20.8 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 33.2 per cent of NI TES. Health and education were the next largest spending categories, accounting for respective TES shares of 16.0 per cent and 12.1 per cent.

Table 5.1: NI Total Expenditure on Services (TES), 2008-09

	NI	
	Expenditure £ million	Share of Total Expenditure
Public and common services	613	2.9%
EU transactions	-89	-0.4%
International services	207	1.0%
Debt interest	912	4.4%
Defence	1,056	5.1%
Public order and safety	1,346	6.5%
Enterprise and economic development	534	2.6%
Science and technology	84	0.4%
Employment policies	148	0.7%
Agriculture, fisheries and forestry	576	2.8%
Transport	547	2.6%
Environment protection	245	1.2%
Housing and community amenities	1,309	6.3%
Health	3,329	16.0%
Recreation, culture and religion	558	2.7%
Education	2,522	12.1%
Social protection	6,921	33.2%
Total	20,818	100.0%

5.8 Table 5.2 details total current and capital expenditure for NI and the UK over the period 2004-05 to 2008-09.

Table 5.2: Total Current and Capital Expenditure on Services (TES): NI and the UK 2004-05 to 2008-09 (£m)

	NI					UK				
	04-05	05-06	06-07	07-08	08-09	04-05	05-06	06-07	07-08	08-09
Current	15,020	15,629	16,356	17,532	18,519	438,515	463,693	482,198	510,198	538,091
Capital	1,267	1,349	1,362	1,674	2,300	32,281	37,369	40,711	45,455	64,263
Total¹	16,287	16,979	17,718	19,206	20,819	470,804	501,063	522,909	555,653	602,355

1. The sum of the constituent items may not always agree exactly with the total shown due to rounding. The UK total presented is taken directly from PESA 2010.

5.9 Table 5.3 provides the shares of NI TES attributed to current and capital expenditure. Over the period 2004-05 to 2008-09, capital expenditure in NI has increased as a proportion of total expenditure from 7.8 per cent to 11.0 per cent.

Table 5.3: Current and Capital Expenditure (% of Total Expenditure): NI and the UK 2004-05 to 2008-09

	NI					UK				
	04-05	05-06	06-07	07-08	08-09	04-05	05-06	06-07	07-08	08-09
Current	92.2%	92.1%	92.3%	91.3%	89.0%	93.1%	92.5%	92.2%	91.8%	89.3%
Capital	7.8%	7.9%	7.7%	8.7%	11.0%	6.9%	7.5%	7.8%	8.2%	10.7%

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

5.11 Over the period 2004-05 to 2008-09, estimated TES increased from £16.3 billion to £20.8 billion in NI, an increase of 27.8 per cent. UK TES increased from £470.8 billion to £602.4 billion over the same period, a similar increase of 27.9 per cent.

5.12 NI public sector current expenditure accounts for approximately 90 per cent of TES in both NI and the UK. Between 2004-05 and 2008-09 current expenditure increased by 23 per cent in both NI and the UK.

5.13 In comparison, NI public sector capital expenditure accounts for around 10 per cent of TES. Between 2004-05 and 2008-09, capital expenditure increased significantly faster than current expenditure, increasing by more than 80 per cent in NI and by almost 100 per cent in the UK.

Table 5.4: NI Total Expenditure on Services (TES), 2004-05 to 2008-09 (£m)

	Current					Capital					Total				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Public and common services	452	492	511	512	556	26	30	57	0	58	478	522	568	512	613
EU transactions	-114	-299	-272	-141	-89	0	0	0	0	0	-114	-299	-272	-141	-89
International services	153	168	169	182	195	5	10	10	12	12	158	177	180	194	207
Debt interest	711	765	827	906	912	0	0	0	0	0	711	765	827	906	912
Defence	802	852	896	894	955	46	30	26	74	100	848	883	922	968	1,056
Public order and safety	1,229	1,237	1,257	1,277	1,255	80	75	85	87	91	1,309	1,312	1,342	1,364	1,346
Enterprise and economic development ¹	205	199	204	212	224	51	40	25	27	310	256	239	229	240	534
Science and technology	64	67	67	76	78	19	17	12	15	7	82	84	79	91	84
Employment policies	174	167	145	164	147	0	0	2	1	0	174	167	146	164	148
Agriculture, fisheries and forestry	378	497	422	413	458	24	37	51	51	118	402	534	473	464	576
Transport	224	234	234	255	275	120	133	161	275	272	344	367	395	530	547
Environment protection	151	171	188	215	229	52	67	63	24	17	203	238	252	240	245
Housing and community amenities	439	485	493	559	567	427	471	395	573	743	866	956	889	1,132	1,309
Health	2,308	2,486	2,684	2,800	3,136	157	159	197	184	193	2,464	2,645	2,881	2,983	3,329
Recreation, culture and religion	348	375	365	387	428	46	56	53	121	130	393	431	418	508	558
Education	1,933	2,044	2,107	2,222	2,289	206	195	205	213	233	2,139	2,238	2,312	2,435	2,522
Social protection	5,563	5,691	6,058	6,600	6,905	10	28	19	18	16	5,573	5,719	6,077	6,618	6,921
Total	15,020	15,629	16,356	17,532	18,519	1,267	1,349	1,362	1,674	2,300	16,287	16,979	17,718	19,206	20,819

1. The increase in 2008-09 relates to the UK financial sector interventions.

Table 5.5: UK Total Expenditure on Services (TES), 2004-05 to 2008-09 (£m)

	Current					Capital					Total				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Public and common services	10,488	11,123	11,460	11,342	11,910	1,655	1,677	1,244	1,265	2,013	12,143	12,800	12,703	12,607	13,923
EU transactions	-900	-599	-1,802	-1,505	-2,927	0	0	0	0	0	-900	-599	-1,802	-1,505	-2,927
International services	5,358	5,868	5,887	6,309	6,733	194	341	368	426	423	5,552	6,209	6,255	6,734	7,156
Debt interest	24,897	26,746	28,749	31,363	31,555	0	0	0	0	0	24,897	26,746	28,749	31,363	31,555
Defence	28,119	29,846	31,250	31,031	33,122	1,636	1,072	899	2,563	3,475	29,755	30,918	32,149	33,594	36,596
Public order and safety	26,785	27,685	28,633	29,652	30,917	1,707	1,610	1,815	2,091	2,741	28,492	29,295	30,448	31,743	33,658
Enterprise and economic development ²	5,094	5,236	4,998	5,501	4,303	1,503	1,309	1,515	1,386	11,532	6,598	6,544	6,512	6,888	15,835
Science and technology	1,931	2,232	2,136	2,416	2,550	514	683	629	784	618	2,445	2,915	2,765	3,200	3,168
Employment policies	3,027	2,987	3,155	3,210	3,017	157	355	195	72	87	3,184	3,342	3,349	3,282	3,104
Agriculture, fisheries and forestry	5,203	5,316	4,835	4,753	5,034	236	280	315	293	383	5,439	5,596	5,150	5,046	5,416
Transport	8,129	8,459	9,551	9,872	9,032	7,894	8,580	10,437	10,620	11,758	16,022	17,039	19,988	20,492	20,789
Environment protection	6,140	6,313	7,095	7,220	7,052	903	2,209	2,228	2,271	2,592	7,043	8,522	9,323	9,491	9,644
Housing and community amenities	3,262	3,540	3,560	3,859	3,737	4,723	7,011	7,946	8,998	11,184	7,985	10,551	11,506	12,856	14,921
Health	79,218	86,467	90,623	97,432	104,605	3,718	3,116	3,885	4,722	5,345	82,936	89,583	94,509	102,155	109,951
Recreation, culture and religion	8,496	9,110	9,462	9,754	9,977	1,467	1,699	1,767	2,252	3,063	9,962	10,809	11,229	12,006	13,040
Education	59,620	63,254	66,266	71,162	74,282	5,500	6,450	6,665	6,936	8,302	65,120	69,704	72,931	78,098	82,583
Social protection	163,647	170,111	176,340	186,827	203,194	475	976	804	775	747	164,122	171,088	177,143	187,603	203,941
Total¹	438,515	463,693	482,198	510,198	538,091	32,281	37,369	40,711	45,455	64,263	470,804	501,063	522,909	555,653	602,355

1. 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 2010.

2. The increase in 2008-09 relates to the UK financial sector interventions.

5.14 Figures 5.6 and 5.7 below demonstrate similar trends in the growth of the three 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, and then expenditure on education.

Figure 5.6: Trend of NI Largest Expenditure Categories, 2004-05 to 2008-09

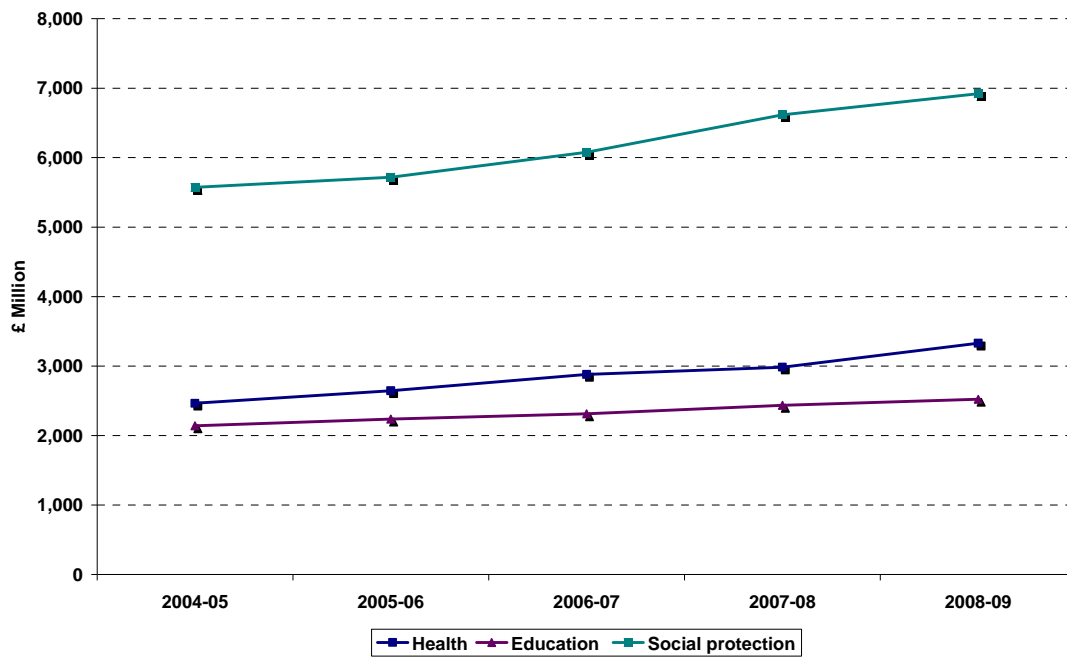
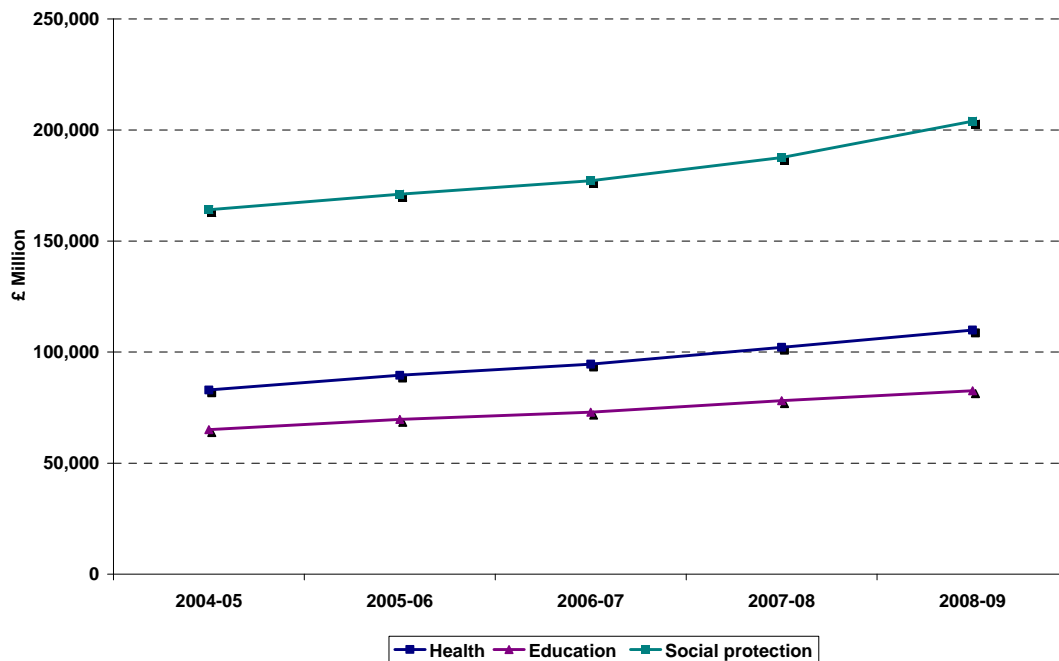


Figure 5.7: Trend of UK Largest Expenditure Categories, 2004-05 to 2008-09



- 5.15 Per capita TES spend for both NI and the UK is presented in Table 5.8. TES per capita for NI was estimated at £11,729 in 2008-09; 20 per cent (£1,916) higher than UK TES per capita.
- 5.16 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 2008-09. In absolute terms, the greatest differences on a per capita basis occurred in social protection, and housing and community amenities, which were £577, and £494 higher in NI than the UK. The largest relative differences (UK=100) occurred in agriculture, forestry and fisheries, and housing and community amenities.

Table 5.8: Total Expenditure on Services (TES) per capita: NI and UK, 2008-09 ¹

	NI (£)	UK (£)	Difference (NI less UK)	Relative Expenditure for NI (UK=100)
Public and common services	345	227	119	152
EU transactions	-50	-48	-2	105
International services	117	117	0	100
Debt interest	514	514	0	100
Defence	595	596	-1	100
Public order and safety	758	548	210	138
Enterprise and economic development	301	258	43	117
Science and technology	47	52	-4	92
Employment policies	83	51	33	165
Agriculture, fisheries and forestry	325	88	236	368
Transport	308	339	-31	91
Environment protection	138	157	-19	88
Housing and community amenities	737	243	494	303
Health	1,875	1,791	84	105
Recreation, culture and religion	314	212	102	148
Education	1,421	1,345	75	106
Social protection	3,899	3,322	577	117
Total	11,729	9,813	1,916	120

1. Figures in this table have been rounded to the nearest whole number.

- 5.17 As might be expected public expenditure on services varies across the UK regions. 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.

- 5.18 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

- 5.19 Public sector TES for NI may be disaggregated into identifiable expenditure and non-identifiable expenditure. In 2008-09, UK identifiable expenditure accounted for 86.3 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.
- 5.20 TES is shown by identifiable and non-identifiable expenditure for NI over the period 2004-05 to 2008-09 in Table 5.9. Identifiable expenditure amounted to £18.0 billion in 2008-09 while non-identifiable expenditure totaled £2.8 billion (13.7 per cent of TES).

Table 5.9: NI Total Expenditure on Services (TES), Identifiable and Non-identifiable, 2004-05 to 2008-09 (£m) ⁽¹⁾

	Identifiable (ID)					Non-identifiable (Non-ID)					Total (ID + Non-ID)				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Public and common services	335	372	422	363	456	143	149	146	148	158	478	522	568	512	613
EU transactions	0	0	0	0	0	-114	-299	-272	-141	-89	-114	-299	-272	-141	-89
International services	6	6	5	6	6	153	171	174	188	201	158	177	180	194	207
Debt interest	0	0	0	0	0	711	765	827	906	912	711	765	827	906	912
Defence	0	0	0	0	0	848	883	922	968	1,056	848	883	922	968	1,056
Public order and safety	1,247	1,255	1,283	1,303	1,285	62	56	59	61	61	1,309	1,312	1,342	1,364	1,346
Enterprise & economic development ²	253	235	224	234	288	3	4	5	5	246	256	239	229	240	534
Science and technology	71	72	63	77	69	11	13	16	14	16	82	84	79	91	84
Employment policies	173	167	146	164	147	0	0	0	0	1	174	167	146	164	148
Agriculture, fisheries and forestry	402	534	473	464	576	0	0	0	0	0	402	534	473	464	576
Transport	334	357	386	521	539	10	10	9	9	8	344	367	395	530	547
Environment protection	199	233	247	235	239	5	5	5	5	6	203	238	252	240	245
Housing & community amenities	866	956	889	1,132	1,309	0	0	0	0	0	866	956	889	1,132	1,309
Health	2,445	2,630	2,858	2,955	3,300	19	15	23	29	29	2,464	2,645	2,881	2,983	3,329
Recreation, culture and religion	299	331	310	387	417	94	100	107	122	141	393	431	418	508	558
Education	2,138	2,238	2,311	2,434	2,521	1	1	1	1	1	2,139	2,239	2,312	2,435	2,522
Social protection	5,501	5,640	5,996	6,530	6,825	72	78	81	87	96	5,573	5,719	6,077	6,618	6,921
Total	14,269	15,026	15,614	16,805	17,975	2,018	1,953	2,104	2,401	2,844	16,287	16,979	17,718	19,206	20,819

1. Non-identifiable expenditure figures above have apportioned 'Outside the UK' and 'Non-identifiable spending' figures from PESA 2010 (chapter 9 tables).

2. The increase in 2008-09 relates to the UK financial sector interventions.

Identifiable Expenditure

5.21 Table 5.10 compares identifiable expenditure for NI and the UK in 2008-09. 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 70.4 per cent of total identifiable expenditure in NI and 77.8 per cent in the UK.

Table 5.10: Identifiable Expenditure on Services: NI and UK, 2008-09

	NI		United Kingdom	
	Expenditure £ million	Share of Identifiable Expenditure	Expenditure £ million	Share of Identifiable Expenditure
Public and common services	456	2.5%	8,472	1.7%
International services	6	0.0%	214	0.0%
Defence	0	0.0%	82	0.0%
Public order and safety	1,285	7.1%	31,553	6.3%
Enterprise and economic development	288	1.6%	7,321	1.5%
Science and technology	69	0.4%	2,543	0.5%
Employment policies	147	0.8%	3,087	0.6%
Agriculture, fisheries and forestry	576	3.2%	5,416	1.1%
Transport	539	3.0%	20,483	4.1%
Environment protection	239	1.3%	9,376	1.9%
Housing and community amenities	1,309	7.3%	14,921	3.0%
Health	3,300	18.4%	108,934	21.6%
Recreation, culture and religion	417	2.3%	8,153	1.6%
Education	2,521	14.0%	82,543	16.4%
Social protection	6,825	38.0%	200,608	39.8%
Total	17,975	100.0%	503,706	100.0%

5.22 Table 5.11 presents a NI/UK per capita comparison of identifiable expenditure. In 2008-09, identifiable expenditure per capita in NI was £10,127, which was 23 per cent higher than the corresponding UK figure. In absolute terms, the greatest differences occurred in social protection, and housing and community amenities.

Table 5.11: Identifiable Expenditure per capita, 2008-09¹

	NI	UK	Difference (NI less UK)	Relative Expenditure (UK = 100)
Public and common services	257	138	119	186
International Services	3	3	0	97
Defence	0	1	-1	0
Public order and safety	724	514	210	141
Enterprise and economic development	162	119	43	136
Science and technology	39	41	-3	93
Employment policies	83	50	33	165
Agriculture, fisheries and forestry	325	88	236	368
Transport	304	334	-30	91
Environment protection	135	153	-18	88
Housing and community amenities	738	243	495	304
Health	1859	1775	84	105
Recreation, culture, and religion	235	133	102	177
Education	1,420	1,345	75	106
Social protection	3,845	3,268	577	118
Total	10,127	8,206	1,921	123

1. Figures in this table have been rounded to the nearest whole number.

Non-identifiable expenditure

- 5.24 This section presents a breakdown of non-identifiable expenditure on services in NI and the UK.
- 5.25 PESA 2010 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.
- 5.26 Table 5.12 provides estimates of non-identifiable expenditure for NI and the UK over the period 2004-05 to 2008-09. Tables 5.13 and 5.14 disaggregate non-identifiable expenditure into its current and capital components both for NI and the UK respectively.
- 5.27 In 2008-09, total non-identifiable expenditure attributed to NI was estimated at £2.8 billion, 2.9 per cent of the UK figure. Defence and debt interest were the largest elements, accounting for 69.2 per cent of non-identifiable expenditure apportioned to NI.
- 5.28 Tables 5.13 and 5.14 indicate that current expenditure accounted for 84 per cent of non-identifiable expenditure for both NI and the UK in 2008-09.

Table 5.12: NI and UK Non-identifiable expenditure, 2004-05 to 2008-09 (£m) ¹

	NI					UK				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Public and common services	143	149	146	148	158	5,021	5,221	5,085	5,135	5,451
EU transactions	-114	-299	-272	-141	-89	-900	-599	-1,802	-1,505	-2,927
International services	153	171	174	188	201	5,346	5,984	6,057	6,513	6,942
Debt interest	711	765	827	906	912	24,897	26,746	28,749	31,363	31,555
Defence	848	883	922	968	1,056	29,676	30,841	32,058	33,501	36,514
Public order and safety	62	56	59	61	61	2,165	1,972	2,054	2,103	2,105
Enterprise and economic development ²	3	4	5	5	246	115	137	177	177	8,514
Science and technology	11	13	16	14	16	453	508	644	567	625
Employment policies	0	0	0	0	1	14	15	18	13	17
Agriculture, fisheries and forestry	0	0	0	0	0	0	0	0	0	0
Transport	10	10	9	9	8	372	380	346	351	306
Environment protection	5	5	5	5	6	194	211	218	203	268
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	19	15	23	29	29	671	538	804	991	1,017
Recreation, culture and religion	94	100	107	122	141	3,286	3,503	3,736	4,208	4,888
Education	1	1	1	1	1	28	29	36	42	41
Social protection	72	78	81	87	96	2,517	2,734	2,820	3,021	3,333
Total	2,018	1,953	2,104	2,401	2,844	73,863	78,222	81,000	86,681	98,649

1. 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 2010.

2. The increase in 2008-09 relates to the UK financial sector interventions.

Table 5.13: NI Non-identifiable expenditure, 2004-05 to 2008-09 (£m)

	Current					Capital				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Public and common services	132	137	144	141	144	11	12	2	7	14
EU transactions	-114	-299	-272	-141	-89	0	0	0	0	0
International services	148	162	164	177	189	5	9	10	11	12
Debt interest	711	765	827	906	912	0	0	0	0	0
Defence	802	852	896	894	955	46	30	26	74	100
Public order and safety	59	54	56	57	55	3	2	3	4	6
Enterprise and economic development ¹	2	2	2	3	-27	1	2	3	2	273
Science and technology	9	10	13	10	12	2	3	3	4	3
Employment policies	0	0	0	0	1	0	0	0	0	0
Agriculture, fisheries and forestry	0	0	0	0	0	0	0	0	0	0
Transport	4	4	4	5	5	6	6	5	4	3
Environment protection	4	4	4	4	5	1	1	1	1	1
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	18	16	22	27	27	1	-1	1	2	2
Recreation, culture and religion	91	96	101	107	105	3	4	7	15	37
Education	1	1	1	1	1	0	0	0	0	0
Social protection	72	78	81	87	96	0	0	0	0	0
Total	1,939	1,884	2,043	2,278	2,392	79	68	62	123	451

1. The increase in 2008-09 relates to the UK financial sector interventions.

Table 5.14: UK Non-identifiable expenditure, 2004-05 to 2008-09 (£m)

	Current					Capital				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Public and common services	4,632	4,802	5,008	4,893	4,970	389	419	78	242	481
EU transactions	-900	-599	-1,802	-1,505	-2,927	0	0	0	0	0
International services	5,168	5,655	5,702	6,115	6,524	178	329	355	398	417
Debt interest	24,897	26,746	28,749	31,363	31,555	0	0	0	0	0
Defence	28,066	29,776	31,168	30,941	33,041	1,610	1,066	891	2,560	3,473
Public order and safety	2,051	1,894	1,945	1,962	1,891	114	78	109	141	214
Enterprise and economic development ¹	70	81	84	117	-931	45	56	93	60	9,445
Science and technology	377	402	515	422	485	76	106	129	145	140
Employment policies	14	14	17	13	17	0	1	0	0	0
Agriculture, fisheries and forestry	0	0	0	0	0	0	0	0	0	0
Transport	152	165	161	197	214	219	215	184	154	92
Environment protection	166	179	184	168	230	28	32	34	35	38
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	642	574	753	937	950	30	-36	50	54	67
Recreation, culture and religion	3,195	3,361	3,500	3,702	3,620	90	142	236	506	1,268
Education	28	29	36	42	41	0	0	0	0	0
Social protection	2,516	2,726	2,811	3,014	3,328	1	8	9	7	5
Total ²	71,075	75,805	78,831	82,380	83,007	2,780	2,416	2,169	4,301	15,641

1. The increase in 2008-09 relates to the UK financial sector interventions.

2. Note that the sum of the constituent items may not always agree exactly with the total shown due to rounding.

5.29 Table 5.15 highlights similarities in the composition of non-identifiable expenditure for NI and the UK which is expected as NI's non-identifiable expenditure is estimated by apportioning a percentage share of the UK figure. Defence and debt interest account for the majority of expenditure totalling 69.2 per cent of non-identifiable expenditure in NI and 69.0 per cent in the UK.

Table 5.15: Non-identifiable expenditure: NI and the UK, 2008-09 (£m)

	NI		UK	
	Expenditure	Share of non-identifiable expenditure	Expenditure	Share of non-identifiable expenditure
Public and common services	158	5.5%	5,451	5.5%
EU transactions	-89	-3.1%	-2,927	-3.0%
International services	201	7.1%	6,942	7.0%
Debt interest	912	32.1%	31,555	32.0%
Defence	1,056	37.1%	36,514	37.0%
Public order and safety	61	2.1%	2,105	2.1%
Enterprise and economic development	246	8.7%	8,514	8.6%
Science and technology	16	0.6%	625	0.6%
Employment policies	1	0.0%	17	0.0%
Agriculture, fisheries and forestry	0	0.0%	0	0.0%
Transport	8	0.3%	306	0.3%
Environment protection	6	0.2%	268	0.3%
Housing and community amenities	0	0.0%	0	0.0%
Health	29	1.0%	1,017	1.0%
Recreation, culture and religion	141	5.0%	4,888	5.0%
Education	1	0.0%	41	0.0%
Social protection	96	3.4%	3,333	3.4%
Total	2,844	100.0%	98,649	100.0%

5.30 Table 5.16 presents non-identifiable expenditure for NI and the UK in 2008-09 on a per capita basis. NI non-identifiable expenditure was estimated to be £1,602 per capita and was almost identical to the UK figure which is expected given the apportionment method of non-identifiable expenditure.

Table 5.16: Non-identifiable Expenditure per capita: NI and UK, 2008-09¹

	NI (£)	UK (£)	Difference (NI less UK)	Relative Expenditure for NI (UK=100)
Public and common services	89	89	0	100
EU transactions	-50	-48	-2	105
International services	113	113	0	100
Debt interest	514	514	0	100
Defence	595	595	0	100
Public order and safety	34	34	0	100
Enterprise and economic development	139	139	0	100
Science and technology	9	10	-1	88
Employment policies	0	0	0	100
Agriculture, fisheries and forestry	0	0	0	0
Transport	4	5	-1	88
Environment protection	4	4	-1	81
Housing and community amenities	0	0	0	0
Health	17	17	0	100
Recreation, culture and religion	80	80	0	100
Education	1	1	0	85
Social protection	54	54	0	100
Total	1,602	1,607	-5	100

1. Figures in this table have been rounded to the nearest whole number.

Accounting Adjustments

5.31 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.

5.32 Table 5.17 sets out total UK accounting adjustments for the years 2004-05 to 2008-09. In 2008-09, total UK accounting adjustments were estimated at £27.5 bn. The accounting adjustments range from 4.4 per cent to 4.9 per cent of TME throughout this period.

Table 5.17: UK Accounting Adjustment, 2004-05 to 2008-09 (£m)

	2004-05	2005-06	2006-07	2007-08	2008-09
UK TME	492,377	524,006	550,046	582,534	629,844
UK TES	470,804	501,063	522,909	555,653	602,355
UK Accounting Adjustment	(+)21,573	(+)22,943	(+)27,137	(+)26,881	(+)27,489

Source: PESA 2010, Table 9.1

- 5.33 Table 5.18 provides a disaggregation of NI accounting adjustments for the years 2004-05 to 2008-09. 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 loans⁵ and the Nigerian debt cancellation⁶ 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.
- 5.34 In 2008-09, 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, 2004-05 to 2008-09 (£m)

	2004-05	2005-06	2006-07	2007-08	2008-09
Capital consumption					
Central Government Capital Consumption	191	194	199	212	226
Local Government Capital Consumption	188	202	219	235	250
Current Expenditure					
Current VAT refunds	270	298	319	336	346
Student Loans subsidy	-9	-12	-8	-30	-15
Capital Expenditure					
Capital VAT refunds	52	56	60	69	68
Nigerian Debt cancellation	3	36	40	0	0
Residual (Current & Capital)	53	0	84	113	79
Total accounting adjustment	748	773	914	935	953
Percentage of UK accounting adjustment	3.5%	3.4%	3.4%	3.5%	3.5%

⁵ TES includes the subsidy implied in student loans being issued at lower than market rate.

⁶ 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

5.35 Table 5.19 shows the breakdown of aggregate expenditure in UK and NI. In 2008-09, NI TME was estimated at £21.8 bn; of this £18.0 bn was identifiable, £2.8 bn was non-identifiable, and £1.0 bn represented accounting adjustments.

5.37 Aggregate expenditure per head equated to £12,266 in NI, 19.5 per cent higher than the UK equivalent of £10,261.

Table 5.19: Expenditure in the UK and NI, 2008-09 (£m)

	UK	NI
Identifiable Expenditure	503,705	17,975
Non-Identifiable Expenditure	98,649	2,844
Total Expenditure on Services	602,355	20,819
Accounting Adjustments	27,489	953
Total Managed Expenditure	629,844	21,772
TME per capita	10,261	12,266

SECTION 6: CONCLUSION

- 6.1 This report provides an estimate of the net fiscal balance position for NI over the five year period of 2004-05 to 2008-09; with a particular focus on 2008-09 (the most recent year for which financial outturn data is available).
- 6.2 Table 6.1 summarises the fiscal positions of NI and the UK. In 2008-09, the estimated net fiscal balance for the public sector in NI was a deficit of £9.0 billion (31.1 per cent of GVA).
- 6.3 In 2004-05 the estimated fiscal position for NI excluding North Sea revenue was a deficit of £6.3 billion representing an increasing deficit of £2.6 billion over the period 2004-05 to 2008-09.

Table 6.1: Net Fiscal Balance Estimates: NI and the UK, 2008-09 (£m)

£ Million	NI	UK
Aggregate Expenditure	21,772	629,844
Aggregate Revenue	12,804	520,277
Net Fiscal Balance	-8,968	-109,567
Net Fiscal Balance per capita (£)	-5,052	-1,785
Net Fiscal Balance as a % of financial year GVA	-31.3%	-8.7%

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 C2). The UK revenue figures presented in this report are consistent with outturns published by HM Treasury at December 2010⁷.

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 2010, the Scottish Government published fiscal deficit estimates covering the period 2004-05 to 2008-09 '*Government Expenditure & Revenue Scotland 2008-2009*'⁸ (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.

⁷ 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

⁸ GERS Report, 2008-09:

<http://www.scotland.gov.uk/Publications/2010/06/22160331/0>

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	No
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 2010: HMT	No
Insurance Premium tax	NI's share of UK population	PESA 2010: 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	No
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	ONS UK Blue Book (2008): ONS	Yes
Interest & dividends	NI's share of UK public sector GVA	Regional Accounts: ONS	Yes
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

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)⁹. This share is then applied to the UK figure for income tax published by HM Treasury.

The latest SPI survey was published by HMRC in February 2010 and provided data for 2007-08. The 2007-08 apportionment ratio was also used for 2008-09. However, this will be revised in future publications as more recent data becomes available.¹⁰ Further note that 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 tax¹¹. 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).

⁹ The latest SPI data is available from:

http://www.hmrc.gov.uk/stats/income_distribution/menu-by-year.htm#311

¹⁰ Delay to 2008-09 SPI Announcement: <http://www.hmrc.gov.uk/stats/delay-sept10.htm>

¹¹ 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 NI. 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 HMRC¹² 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 Survey¹³, 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'¹⁴ publications. The 2010 Edition of the Family Spending Survey is used for 2008-09 & 2007-08 and for 2006-07 the 2009 Edition is used, for earlier years (2005-06 & 2004-05) the 2005-06 Edition is used. 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 estimate total VAT revenues in NI and the UK. The

¹² Latest SDLT figures available from:

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

¹³ Family Resources Survey available from:

http://research.dwp.gov.uk/asd/frs/2008_09/chapter4.pdf

¹⁴ Family Spending Survey data available from:

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

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 published by the Department of Energy and Climate Change (DECC)¹⁵. 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 0.426¹⁶ 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 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.

¹⁵ Source: DECC - Regional and local use of road transport fuels, available from:

http://www.decc.gov.uk/en/content/cms/statistics/regional/road_transport/road_transport.aspx

¹⁶ This weighting is taken from the Scottish methodology as first reported and explained in 'GERS: Detailed Revenue Methodology Paper 2006-07', p. 25.

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS/Methodology>

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 NI, 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 2010' (PESA) publication.¹⁷

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 2010, as above.

Landfill tax

UK landfill tax is apportioned to NI according to its share of UK waste sent to landfill. The quantity of municipal waste sent to landfill is recorded in annual Municipal Waste Management reports produced by the NI Environment Agency,¹⁸ the Scottish Environment Protection Agency (SEPA),¹⁹ and the Environment Protection Agency (England²⁰ and Wales²¹). These surveys are used to derive the total quantity of municipal waste sent to landfill in the UK. The NI/UK ratio of UK waste tonnage is used to apportion UK landfill tax, as published by HM Treasury, to NI.

¹⁷ Population figures taken from PESA 2010, Table F1: Population by country and region, p. 190
www.hm-treasury.gov.uk/d/pesa_2010_complete.pdf

¹⁸ NI Environment Agency, Municipal Waste Reports
http://www.ni-environment.gov.uk/waste/municipal_data_reporting.htm

¹⁹ SEPA, Waste Digest:
http://www.sepa.org.uk/waste/waste_data/waste_data_digest.aspx

²⁰ DEFRA, Municipal Waste Management Statistics
<http://www.defra.gov.uk/evidence/statistics/environment/wastats/bulletin09.htm>

²¹ Welsh Assembly Government, Municipal Waste Management Report 2009-10
<http://wales.gov.uk/docs/statistics/2010/101116sdr1922010en.pdf>

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, 'Climate Change Levy Bulletin'.²² 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)²³ published by the Department of Energy and Climate Change (DECC). 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.²⁴

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.

Further note that for Aggregates Levy Declarations in 2007/08 and 2008/09, the regional data previously applied by HMRC was amalgamated into a national total for the whole of the UK. From 2007/08 onwards the NI figure has also been estimated by apportioning UK Public Finance figures for total aggregates levy by NI/UK GVA (less extra regio).²⁵

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.²⁶

Vehicle excise duty

NI vehicle excise duty (VED) is recorded net of refunds in annual reports published by the Driver and Vehicle Licensing NI (DVLNI).²⁷

²² HMRC Climate Change Levy Bulletin:

<https://www.uktradeinfo.com/index.cfm?task=bullclimate&hasFlashPlayer=true>

²³ Electricity consumption data is available from:

<http://www.decc.gov.uk/en/content/cms/statistics/source/electricity/electricity.aspx>

²⁴ Link to CCL gas exemption notice for NI:

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

²⁵ Note that the methodology applied in GERS makes use of a publication which does not provide the same breakdown of information for NI.

²⁶ Population Trends, Winter 2009, ONS:

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

²⁷ DVLNI: Annual Reports and Accounts <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.

However, for the financial year 2008-09 the split between domestic and non-domestic rates was not recorded accurately as a result of changes on the computer system of Land and Property Services (LPS), who supply the data to RPD. Therefore for 2008-09, the respective shares of total rates in the previous year have been applied to the 2008-09 total rates. This error in the LPS computer system will be rectified for 2009-10 publication onwards.

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 'UK Blue Book (2010)'.²⁸ 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'²⁹ – GVA industry group; 'Agriculture, hunting, forestry & fishing'.
3. Regulatory fees are apportioned to NI on a population share basis.
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

²⁸ ONS: UK Blue Book (2010)

http://www.statistics.gov.uk/downloads/theme_economy/bluebook2010.pdf

²⁹ ONS: Regional GVA (Nuts 1, 2 and 3) First Release -December 2010. (Table 1.1)

<http://www.statistics.gov.uk/pdfdir/gva1210.pdf>

households/UK number of weighted households). This share is then applied to the UK TV licence revenue as reported in the ONS 'UK Blue Book, 2010.'

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 DECC 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'³⁰ – GVA industry groups; 'Public administration and defence', 'Education', and 'Health and social work'.

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.³¹ Note that the database's variable codes corresponding to the three elements of GOS are 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.³²

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.

³⁰ ONS: Regional GVA (Nuts 1, 2 and 3) First Release -December 2010. (Table 1.5)

<http://www.statistics.gov.uk/pdfdir/gva1210.pdf>

³¹ Public Sector Finances: Supplementary Data:

<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=805&Pos=&ColRank=1&Rank=422>

³² This percentage is taken from the Scottish methodology as reported and explained in 'GERS: Detailed Revenue Methodology Paper 2007-08', p. 42.

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

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.

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 2010, as previous. This apportionment method views North Sea revenues as non-identifiable UK revenue.

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 2010.³³

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 accounted for approximately 96% of Total Managed Expenditure (TME) in 2008-09. 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 2010 provides identifiable expenditure data by country and region of the UK. In this exercise the NI identifiable expenditure data is taken directly from PESA 2010 chapter nine, 'Public sector expenditure by country, region and function'. As this report covers the period 2004-05 to 2008-09, tables 9.5 to 9.14 provide the expenditure figures required for NI.

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 2010 includes data on expenditure outside the UK. For the purposes of this exercise, this category is included in

³³ HM Treasury, PESA 2010 http://www.hm-treasury.gov.uk/d/pesa_2010_complete.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 2010 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 2010.

Table B1: Apportionment Methodologies for Non-identifiable Expenditure in NI 2004-05 to 2008-09¹

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	N/A
Enterprise and economic development ²	Population	Population
Science and technology	GVA	Population
Employment policies	N/A	Population
Agriculture, fisheries and forestry	N/A	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. Non-identifiable expenditure outside the UK, except EU transactions, is apportioned on a per capita basis.

2. Under the CRA (Country and Regional Analysis) section of PESA 2010 for the financial year 2008-09, UK Government financial sector interventions are categorized under 'enterprise and economic development' as non-identifiable expenditure and is apportioned by NI population share of the UK.

Population figures are taken from PESA 2010 mid year estimates.³⁴ GVA (less extra regio) figures are sourced from the ONS.³⁵ 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 2010, and the apportioned share of 'non-identifiable' and 'outside the UK' figures given in PESA 2010, according to the methodologies presented in table B1 above.

The accounting adjustment for the UK as a whole is given in PESA 2010 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

³⁴ Population figures taken from PESA 2010, Table F1: Population by country and region, p. 190
http://www.hm-treasury.gov.uk/d/pesa_2010_complete.pdf

³⁵ ONS: Regional GVA (Nuts 1, 2 and 3) First Release -December 2010. (Table 1.1)
<http://www.statistics.gov.uk/pdfdir/gva1210.pdf>

ANNEX C: NI'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, almost 70 per cent of total NI Non-identifiable expenditure was either attributed to defence or debt repayment expenditure in 2008-09. 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 2008-09 the impact was a considerable revision downwards in the NI fiscal deficit from 31.3 per cent to 18.0 per cent of GVA (13.3 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 just over - £5bn, as compared to almost -£9bn in the absence of self sufficiency.

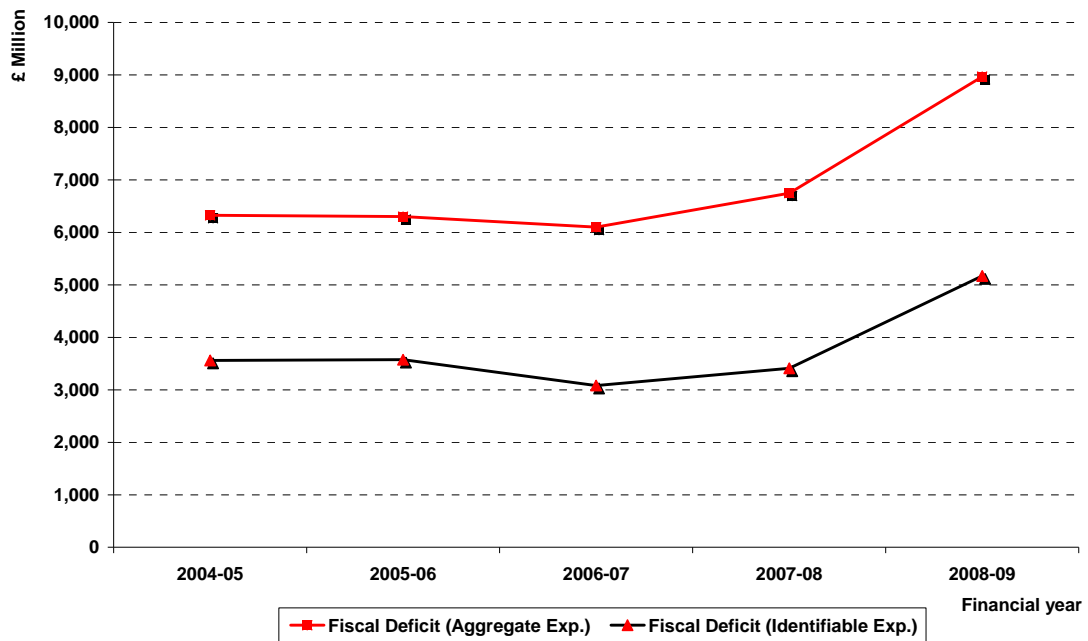
Table C.1 below shows the NI fiscal balance estimates for the period 2004-05 to 2008-09 when non-identifiable expenditure and the accounting adjustment are excluded. In 2008-09 the impact of excluding Non-identifiable expenditure and the accounting adjustment is a reduction in the fiscal deficit from £9.0 bn to £5.2 bn, a large reduction in the magnitude of two fifths (42 percent). The average annual reduction in the fiscal balance per capita is almost £1,800, and the average annual reduction as a percentage of GVA is 11.7 per cent.

Table C1: NI Net Fiscal Balance Estimates (Exc. Non-Identifiable Expenditure and Accounting Adjustment), 2004-05 to 2008-09 (£m)

£ Million	NI				
	2004-05	2005-06	2006-07	2007-08	2008-09
Aggregate Expenditure (Agg. Exp.)	17,034	17,752	18,632	20,141	21,772
Identifiable Expenditure (Id. Exp.)	14,269	15,026	15,614	16,805	17,975
Aggregate Revenue (Exc. NS)	10,709	11,451	12,531	13,393	12,804
Net Fiscal Balance (Agg. Exp.)	-6,325	-6,301	-6,101	-6,749	-8,968
Net Fiscal Balance (Id. Exp.)	-3,560	-3,575	-3,083	-3,412	-5,171
<i>Difference</i>	-2,766	-2,726	-3,018	-3,336	-3,797
Net Fiscal Balance per capita (£) (Agg. Exp.)	-3,699	-3,655	-3,502	-3,832	-5,052
Net Fiscal Balance per capita (£) (Id. Exp.)	-2,082	-2,074	-1,770	-1,938	-2,913
Net Fiscal Balance as a % of financial year GVA (Agg. Exp.)	-26.0%	-24.7%	-22.6%	-23.8%	-31.3%
Net Fiscal Balance as a % of financial year GVA (Id. Exp.)	-14.6%	-14.0%	-11.4%	-12.0%	-18.0%

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 approximately 46 per cent.

Figure C2: NI Fiscal Deficit Position shown by Aggregate Expenditure and Identifiable Expenditure Estimates, 2004-05 to 2008-09 (£m)



ANNEX D: NI'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 £9.0 bn excluding North Sea oil revenues to £8.6 bn in 2008-09, as presented in table D1. This decline represents a reduction of £0.4 bn or 4.2 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 2008-09 leads to a revision downward of £12.9 bn (11.8 per cent) on the estimate of the UK deficit.

Table D1: Net Fiscal Balance Estimates (Inc. North Sea oil): NI and the UK, 2008-09 (£m)

£ Million	NI	UK
Aggregate Expenditure	21,772	629,844
Aggregate Revenue	13,178	533,202
Net Fiscal Balance	-8,594	-96,642
Net Fiscal Balance per capita (£)	-4,842	-1,574
Net Fiscal Balance as a % of financial year GVA	-30.0%	-7.7%

Table D2 shows the impact of the inclusion of North Sea oil revenues on the NI fiscal position over the period 2004-05 to 2008-09. The largest downwards revision arising from the inclusion of a share of NS oil revenue to the NI position is a 4.4 percent reduction for 2005-06. Similar impacts of 4.2 per cent reductions are recorded for both 2006-07 and 2008-09; following this a smaller revision of 3.3 per cent is shown for 2007-08 and then the smallest revision was in the earliest year 2004-05 (2.3 per cent).

Table D2: NI Fiscal Position (Inc. North Sea oil), 2004-05 to 2008-09 (£m)

£ Million	NI				
	2004-05	2005-06	2006-07	2007-08	2008-09
Aggregate Expenditure	17,034	17,752	18,632	20,141	21,772
Aggregate Revenue	10,857	11,727	12,790	13,617	13,178
Net Fiscal Balance	-6,177	-6,025	-5,842	-6,524	-8,594
Net Fiscal Balance per capita (£)	-3,612	-3,495	-3,353	-3,705	-4,842
Net Fiscal Balance as a % of financial year GVA	-25.4%	-23.6%	-21.6%	-23.0%	-30.0%
Reduction in Fiscal Deficit when NS Oil Inc.	148	276	259	225	374
% Reduction in Fiscal Deficit (Exc. NS Oil vs. Inc NS Oil)	-2.3%	-4.4%	-4.2%	-3.3%	-4.2%

ANNEX E: NI'S PUBLIC SECTOR ACCOUNTS- EXCLUDING UK FINANCIAL SECTOR INTERVENTIONS.

This section estimates the NI net fiscal balance for the financial year 2008-09 not including the effects of UK financial sector interventions. The aim of this is to help highlight the underlying trend in the data adjusted from the effects of the significant financial injection in to the UK financial sector.

Under the Country and Regional Analysis (CRA) section of PESA 2010 the UK Government financial sector interventions, in response to the instability in the banking sector as a result of the global financial crisis, are recorded from 2008-09 onwards. This is categorised under 'enterprise and economic development' as non-identifiable expenditure, both current and capital expenditure. This means that HM Treasury has deemed such interventions to be for the benefit of the UK as a whole and for this reason a share has been apportioned to NI on a per capita basis throughout the body of this report.

Table E1 below shows the share of interventions allocated to NI by applying a per capita share³⁶. It can thus be interpreted that £0.24 billion of the 2008-09 fiscal deficit is attributable to the UK financial sector interventions.

Table E1: NI's estimated share of UK Financial Sector Interventions, 2008-09 (£m)

£ Million	NI	UK
Current	-30	-1,049
Capital	271	9,361
Total	240	8,312

Table E2 below shows the impact of the exclusion of financial sector intervention expenditure on the NI fiscal position to which it relates. In 2008-09 the impact of removing the effect of the £240m per capita share of UK financial sector interventions is a decline in fiscal deficit per person of £135 and a decline of GVA share by 0.8 per cent.

Table E2: NI Fiscal Position (Exc. Financial Interventions) 2008-09 (£m)

£ Million	2008-09
Aggregate Expenditure	21,532
Aggregate Revenue	12,804
Net Fiscal Balance	-8,728
Net Fiscal Balance per capita (£)	-4,917
Net Fiscal Balance as a % of financial year GVA	-30.4%

³⁶ This is equivalent to 2.89 per cent based on 2008 mid-year population estimates taken from PESA 2010

Future Work

This is the third 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 user feedback will be greatly welcomed.

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