

CIPFA BRIEFING

October 2015

a balance sheet

for Northern Ireland's Public Sector

Northern Ireland's public finances have been the subject of recent public debate and scrutiny. The wider background is the continuing effort of the UK government to reduce the UK deficit. In this context it is important that the Northern Ireland devolved public sector reflects and acts on the priorities of the people of Northern Ireland.

The public sector in Northern Ireland is not required to publicly report its overall financial position. So what is the financial position of the devolved public sector in Northern Ireland? and what challenges do Northern Ireland's public services face going forward?

A balance sheet is a basic management tool which is essential for any organisation, government or country.

CIPFA considers that the overall financial position of the Northern Ireland devolved public sector should be clearly reported to the people of Northern Ireland. At the heart of this would be a balance sheet, as part of consolidated accounts for Northern Ireland, which demonstrates the assets and liabilities of Northern Ireland.

To provide a stimulus for this debate CIPFA has considered what the Northern Ireland balance sheet would look like and this briefing paper sets out for the first time what the scale of the devolved assets and liabilities in Northern Ireland are.

Consequently, our challenge to politicians, policy makers and to public service professionals is to engage in the debate to improve transparency in financial reporting in Northern Ireland.

Why a Balance Sheet?

The public sector owns assets in the form of plant, property and equipment including its investment in infrastructure such as roads, hospitals or schools. Other assets include IT systems, investments and cash held.

Liabilities include financial commitments entered into such as finance leases, provision for compensation claims and borrowing.

Both assets and liabilities are classified by timescale; those expected to be settled within one year (current) and those which extend over a longer timescale (non-current). This enables identification of what is owned/owed in the current financial year and what is owned/owed into the future as a result of past activities.

The balance of the assets against the liabilities is the net financial position and in a public sector context this is referred to as taxpayer's equity as ultimately all public services are funded by the taxpayer.

Each public sector body produces financial statements but there is no requirement to produce financial information at a wider public sector level in Northern Ireland.

In order to produce this briefing paper, CIPFA has analysed recent, available audited financial information for individual public bodies.

A balance sheet¹ provides a snap shot of an organisations financial position at a point in time. It shows what is owned by way of assets and what is owned by way of liabilities.

Policy makers need clear information in order to make decisions that secure the fiscal sustainability of services and they will also need to provide transparency to the electorate on why such decisions are necessary. A balance sheet would be a starting point to achieve this and would provide a platform for a redefinition of the relationship between the citizen and state so that there is a clear understanding of what is affordable and achievable in service delivery in the longer term².

Northern Ireland's Assets

CIPFA has estimated that Northern Ireland's devolved administration and wider public sector has assets of approximately £51.8bn.

Ultimately, these public assets are used for service delivery rather than resale or for the creation of profit. Nevertheless this provides an indicator of scale of the assets which have been invested.

The single biggest element of this is network assets totalling £28.6bn and which is comprised primarily of roads.

The scale of the asset base reinforces the role of the Strategic Investment Board in providing the knowledge and skills base to deliver effective asset management for the people of Northern Ireland.

Northern Ireland's Liabilities

The most significant liability for the public sector in Northern Ireland is its pension commitments as an employer that we estimate, based on audited information, at £43.6bn.

This represents 85% of all liabilities. It is not a liability that will be settled in the short or medium term. This liability will be met from future grant funding, returns on any scheme assets, employer contributions and employee contributions.

The Northern Ireland Assembly has passed the Public Service Pensions Act (Northern Ireland) 2014 which paves the way for pension changes in terms of cost to the sector and raising retirement age.³

£43.6bn

**pension liability
is equivalent to**

**£23.8k per head of
population**



Source: Northern Ireland Statistics and Research Agency (NISRA), Northern Ireland Population Estimates 2014

The management of the pensions liability in the future will continue to have an impact on the available resources of the Northern Ireland public sector.

Other long term liabilities amount to just over £5bn which include commitments for PFI projects. The Northern Ireland Audit Office has previously reported that there is scope to take a more strategic approach to existing PFI arrangements and to take opportunities to seek further efficiencies and operational savings⁴. Consequently, this could make some impact on the liabilities position.

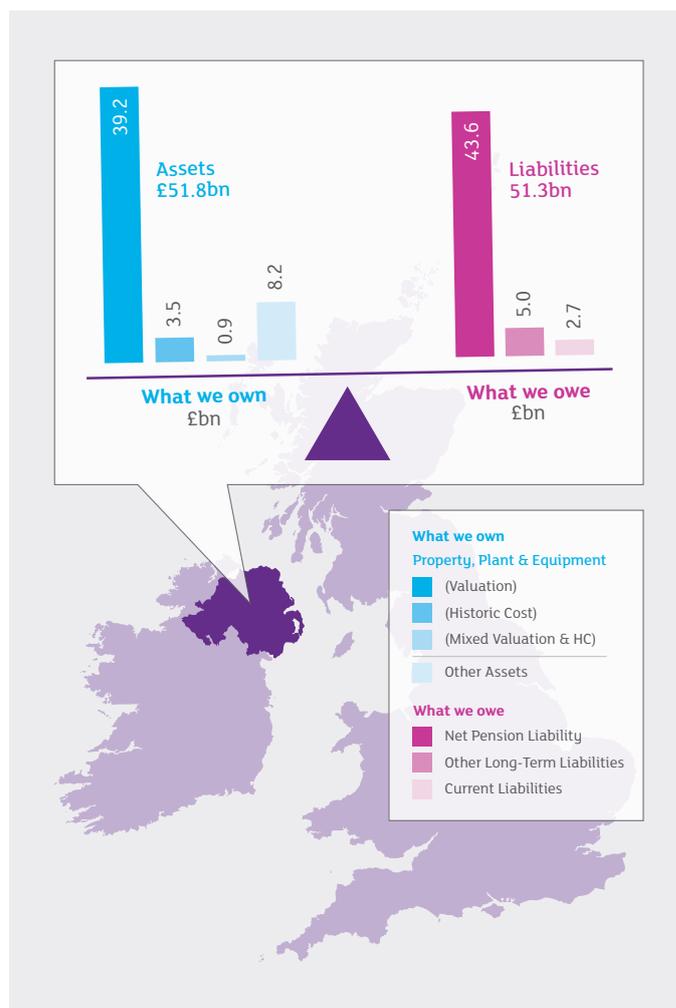
A Devolved Northern Ireland Balance Sheet

We can now use our estimates of a devolved Northern Ireland's assets and liabilities from the individual financial statements to begin to bring together these assets and obligations to form the foundations for a balance sheet.

Our analysis shows that Northern Ireland owns £51.8bn of assets and owes £51.3bn in liabilities.

This is a positive position but the Northern Ireland asset base has been financed by the UK government and the liability for public sector debt is recognised on the UK balance sheet.⁵

It is not however enough to simply produce a devolved Northern Ireland balance sheet. More importantly is that it provides an initial and more transparent basis for better policy decisions and improved financial management.



CIPFA's Position on A Balance Sheet for Northern Ireland

- 1 CIPFA estimates that the devolved public sector in Northern Ireland owns or controls assets of around £52bn and has liabilities which also total around £52bn.
- 2 Public sector pensions form around 85% of overall liabilities and are the most significant liability to be met in future
- 3 Clearer public financial reporting at a Northern Ireland level would provide a sound basis for assessing future commitments and ensuring good financial management and will provide transparency on public finances.

References

- 1 A balance sheet is also referred to as a Statement of Financial Position under International Financial Reporting Standards (IFRS)
- 2 CIPFA Manifesto 2015
- 3 Public Service Pension Act (Northern Ireland) 2014, section 8 - 10
- 4 NIAO Report: The Future Impact of Borrowing and Private Finance Commitments – January 2014
- 5 Reinvestment and Reform Initiative (RRI) borrowing for capital is covered by the Northern Ireland (Loans) Act 1975 and the Northern Ireland Miscellaneous Provisions Act 2006 – The 2006 act increased the total ceiling from £2 billion to £3 billion.



Registered office: 77 Mansell Street, London E1 8AN
T: 020 7543 5600 F: 020 7543 5700 www.cipfa.org

The Chartered Institute of Public Finance and Accountancy.
Registered with the Charity Commissioners of England and Wales No 231060.

