

TREASURY EASES NEAR TERM SQUEEZE ON NI DEPARTMENTS BUT FUNDING SET TO FALL BELOW NEW ESTIMATE OF RELATIVE NEED

The Fiscal Council today publishes three reports:

- a brief summary of the Secretary of State for NI's (SoSNI's) 2023-24 Budget for NI Departments, which was published last Thursday
- its evidence to the House of Commons NI Affairs Committee inquiry into the funding of NI's public services, which includes a new calculation of NI's need for funding per head relative to equivalent UK Government spending in GB
- a technical paper providing more detail of the relative need assessment.

Budget 2023-24: Treasury relaxes near-term squeeze on NI departments

Having inherited a situation in which NI Departments looked set to overspend against available funding for the day-to-day cost of public services last year, the SoSNI had to make a £297 million claim on the Treasury Reserve to balance the books.

The Treasury would normally have required this to be repaid in full this year, but it has agreed to wait until 2024-25. This reduces the real-terms cut in funding for resource spending this year from 5.5 to 3.2 per cent. This will still be tough to deliver – the NI Civil Service believes that Departments may still need to find £800 million in cuts and additional revenues not to overspend again, given other budget pressures.

Under the deal with the Treasury, NI will forego any boost to the Block Grant that it would have enjoyed this year if the UK Government announces any fresh spending increases, as this will be put towards repaying the Reserve claim.

To limit the repayment required in 2024-25, the SoSNI has also said that, if necessary, he will work with the Treasury to reallocate unspent funding from past political agreements. The most likely candidates would seem to be the 2020 New Deal funding to help businesses in the wake of Brexit and the 2014 Stormont House Agreement funding for institutions to address the legacy of the Troubles. It is hard to know how much of this funding would have been spent anyway and when.

Compared to their allocations in the final Budget for 2022-23, Education, Justice and Economy all face larger-than-average real cuts in the SoSNI's Budget for this year, with

the cut in Education in notable contrast to the planned rise in English schools spending. Health, Infrastructure and Communities face smaller real cuts than the average.

NI's funding is falling below its level of need

The financial challenges confronting NI Departments in part reflect inflation and pay pressures common across the UK and weaknesses in budget management specific to NI and exacerbated by the absence of an Executive. But they also reflect the ongoing squeeze on the Block Grant from the operation of the Barnett formula.

Block Grant funding in NI is set to be around 25 per cent higher than equivalent UK Government spending in England in 2024-25 and likely to fall below 20 per cent by the early 2030s. The UK Government accepts that some premium is necessary (in Scotland and Wales as well) because the number of people requiring public services and the cost per head of providing them are higher. This reflects factors like the age structure and sparsity of the population, plus levels of deprivation and long-term illness.

In 2010 the Holtham Commission looked at factors like these and estimated that funding in NI needed to be around 21 per cent higher than equivalent spending in England to achieve similar outcomes. Using the same methodology – but drawing on the latest data and including policing and justice in the calculation – we estimate that the figure is now around 24 per cent. This is not a huge difference and earlier studies have tended to put the estimate somewhere between 20 and 25 per cent.

Sir Robert Chote, chair of the Council, said:

“For many years NI Departments benefited from funding-per-head that was not only well above spending in England but also above estimates of relative need. The funding premium has fallen sharply to broadly in line with relative need – which has already proved very challenging – and it is set to drop even further. That will increase the pressure on a restored Executive to deliver reform and improve efficiency, as well as confronting it with difficult choices over cutting services or raising more revenue. Another option would be to put a floor under the Block Grant funding in line with relative need, as in Wales, but that would need the agreement of the UK Government.”

Notes to editors:

1. The Barnett Squeeze occurs due to a higher initial level of spend in NI than England which causes the relative funding per head for NI to decrease over time, relative to that in England. This is because NI's funding increases equivalent to UK Government spending in England in cash (rather than percentage) terms - resulting in smaller percentage increases and reducing the percentage premium in spending per head over England.
2. Various studies have been undertaken to assess the relative need for spending on public services in the Devolved Administrations, but none particularly recent. Today, we present an updated estimate of the relative need for public spending in NI compared with England based on the approach set out in the 2010 Final Report of the Independent Commission on Funding & Finance for Wales, also known as the Holtham Commission. Although the Holtham Commission was focused on Wales, it also estimated a "broadly indicative" relative need of 121 for NI. Updating the Holtham Commission analysis for the latest NI data and extending its scope to reflect the devolution of responsibility for policing and justice suggests that public spending in NI needs to be around 24 per cent higher than in England to deliver the same standard of public service.
3. The 'Updated estimate of the relative need for public spending in Northern Ireland' report is available here: [Updated estimate of the relative need for public spending in NI | NI Fiscal Council](#)
4. The 'NI Fiscal Council response to NI Affairs Committee' is available here: [NI Fiscal Council response to NI Affairs Committee call for evidence | NI Fiscal Council](#)
5. The NIO's 2023-24 Budget for Northern Ireland: initial summary is available here: [The NIO's 2023-24 Budget for Northern Ireland: initial summary | NI Fiscal Council](#)
6. Further information on the NI Fiscal Council is available here: <https://www.nifiscalcouncil.org/>. Follow us on Twitter: [@NIFiscalCouncil](#).