Northern Ireland Fiscal Council

Bringing transparency to NI's public finances

The NI Executive's 2024-25 Budget: an assessment

May 2024

Contents

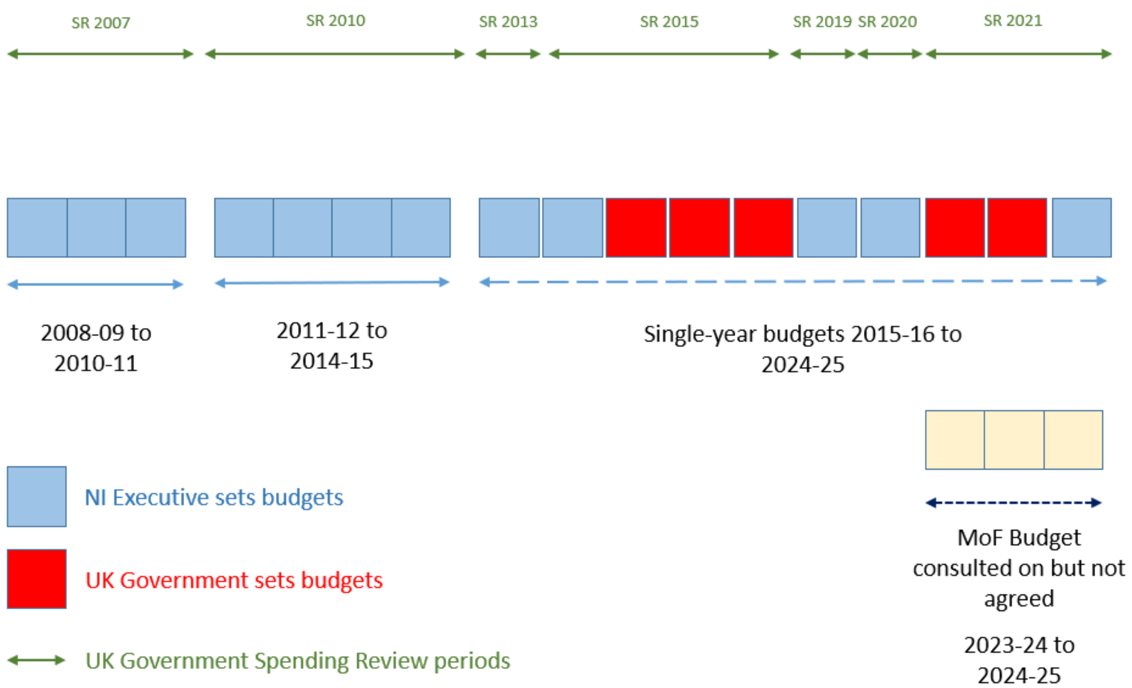
Foreword

The Northern Ireland (NI) Fiscal Council was established in 2021. It is chaired by Sir Robert Chote and the other members are Maureen O'Reilly and Dr Esmond Birnie. Our aim is to bring greater transparency and independent scrutiny to the region's public finances, focusing on the finances of the NI Executive. In doing so we hope to inform both public debate and policy decisions to the benefit of everyone in NI.

Within this mission, our Terms of Reference require us to *"prepare an annual assessment of the Executive's revenue streams and spending proposals and how these allow the Executive to balance their budget"* (as it is required to do).

This is our fifth report dealing with NI Budgets; our first was on the 2022-2025 Draft Budget which the then Executive could not agree. Due to political developments in the intervening period, including the collapse of the Executive in February 2022, this is the first report in which we can completely meet our Terms of Reference. Before now, no Budget upon which we have reported was an 'Executive Budget' in the sense defined in the NI Act 1998, through which Westminster devolved power back to NI after decades of direct rule. The recently restored Executive has agreed a Budget for 2024-25, although not all Ministers were in favour of every element. This is the tenth year in a row when a single-year budget has been set as Figure 1 illustrates below.

Figure 1 - Multi- and single-year Budgets in NI since 2007



In this paper we:

- Provide an overview of **developments since the 2021 Spending Review** and subsequent NI Budgets.
- We outline **the Budget process** and, in particular, the process for 2024-25.
- Describe the changes to the **funding and spending position** this year implied by the Executive's Budget.
- Review the potential implications for **future Budgets**.
- Offer some **concluding reflections**.

Throughout this paper, our use of the term 'Budget' refers to the financing and spending of the NI Executive covered by the Departmental Expenditure Limit (DEL) set for it by the Treasury. (We set out the background to this focus on the DEL Budget in our assessment of the 2022-25 Draft Budget.)[1] The DEL Budget excludes the Executive's Annually Managed Expenditure (AME), which is primarily spending on state and public sector pensions and social security benefits. AME spending is fully financed by the UK Government outside the DEL envelope, except where the Executive makes an AME programme more generous than in the rest of the UK. Any consequent 'super-parity' costs must be met from the DEL Budget.

[1] https://www.nifiscalcouncil.org/publications/ni-executives-2022-25-draft-budget-assessment

1 Executive Summary

How did we get here?

On 10 December 2021 the then Finance Minister put a Draft Budget to the Executive for the three financial years 2022-23, 2023-24 and 2024-25. The Executive published (but failed to agree) it and then shortly afterwards collapsed.

This led to a period when budget management was shared between Caretaker Ministers (no longer acting as a single Executive) and their departmental Accounting Officers. The combination of reduced executive oversight and Assembly scrutiny, the Barnett squeeze and rising funding pressures resulted in departments being on track for a significant overspend against available funding by the time the Ministers stood down on 28 October 2022. Overall responsibility for setting departmental budgets then passed to the Secretary of State for NI in London. The Secretary of State and Accounting Officers, despite approving a pay award for health staff after Ministers had stepped down, managed to reduce the anticipated overspend by roughly half. To bridge the remaining gap, the Secretary of State made a £297 million claim on the Treasury Reserve.

Departments continued to be on course to overspend against available resources through 2023-24. Early this year the UK Government negotiated a return of the parties to Stormont. In doing so, it made a financial offer to the parties, the final version of which was outlined on 13 February 2024. The deal included: short-term funding support of £584 million in 2023-24 (to meet the cost of backdated public sector pay awards) and £520 million in both 2024-25 and 2025-26; the potential writing off up to £559 million of debt repayments to the Treasury; higher capital borrowing limits and a 24 per cent top-up to future Barnett consequentials. In order to address the projected overspend, a £262 million reserve claim was made for 2023-24. This additional funding is not available in 2024-25 representing a net additional pressure.

Following the restoration of the Assembly and Executive, the Finance Minister brought forward the Budget Bill to the Assembly via accelerated passage on Monday 19 February. It passed the Final Stage on Tuesday 20 February and received Royal Assent on 14 March. The NI Budget Act (as it now is) also provides authorisation for spending, service delivery and borrowing for a significant part of 2024-25 through the Vote on Account.

The Budget process

Budget setting in 'normal' times

The Executive's Budget has three main components: resource spending, which covers the day-to-day costs of public services and administration; conventional capital spending, which pays for infrastructure, buildings and the like; and financial transactions capital spending, which involves equity injections into or loans to private sector entities, including universities. The NI Act 1998 requires the Executive to balance each of these Budgets, so that spending does not exceed available financing (including a limited amount of borrowing for capital spending).

Given stability at Stormont and a multi-year Spending Review at the UK level, the Executive might set a multi-year budget along the following more 'normal' lines:

- A process of **bidding** to the Finance Minister. Requests would in aggregate inevitably exceed the amount of funding available in the summer of the preceding financial year.
- The Finance Minister developing a **Draft Budget** for the Executive's agreement, with allocations proposed that are within the overall funding envelope,
- a **public consultation** (for 8 weeks or more in line with The Fresh Start Agreement) in the winter of the preceding financial year.[2]
- Departmental **Equality Impact Assessments** to determine any adverse impacts the draft budget would have on any group and put in place measures to mitigate these impacts such as additional allocations.
- Revised proposals would be brought to Ministers for consideration with the **Final Budget**. Agreement requires the assent of the majority of Ministers in the Executive, normally 2-3 months before the start of the financial year to allow departmental spending plans to be cascaded down to Arm's Length Bodies.

In practice, the process for setting the Budget for 2024-25 has to reflect a very tight timetable between the restoration of the Executive and putting a Budget in place.

The NI Budget position in 2024-25

Resource spending

Under the NI Executive's Budget, the funding envelope for resource spending in 2024-25 is £15,247 million (around £19,800 per household). This is 9 per cent higher than the resource funding originally available for 2024-25 from the 2021 Spending Review that formed the basis of the December 2021 Draft Budget for 2022-25. This illustrates that there are limitations to the stability of a multi-year budget, even had one been in place. Almost all the funding was available for allocation to departments. Of this £728 million was effectively pre-allocated to departments for items earmarked by the Treasury or the Executive collectively and £79 million was centrally held. In addition, some support package funding has also been earmarked, for example £34 million for waiting lists support.

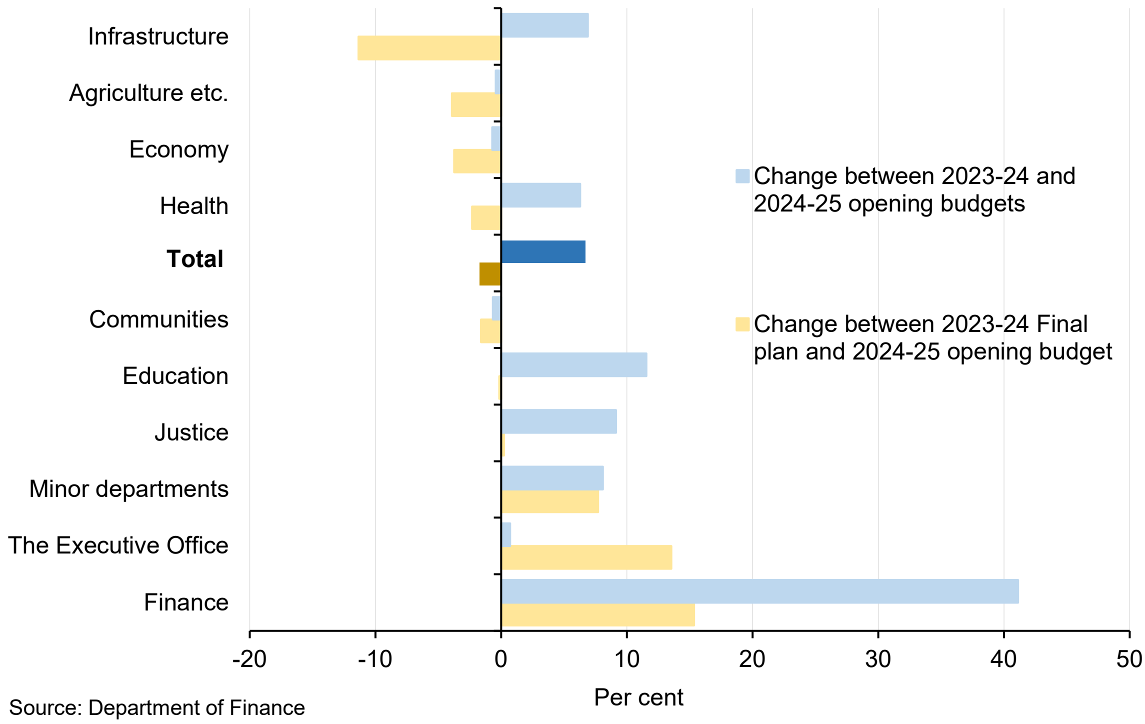
The total sum available for departmental resource spending (including centrally held items) is 7 per cent higher than the Secretary of State originally allocated for spending in 2023-24, but 2 per cent lower than the final plans departments were working to by the end of the year. This is due to the addition of funding in year, from two sources: the normal application of the Barnett Formula when additional spending takes place in England; and the UK Government financial deal accompanying the return of the Executive.

[2] https://assets.publishing.service.gov.uk/media/5a80a8a5e5274a2e8ab516ce/A_Fresh_Start_-_The_Stormont_Agreement_and_Implementation_Plan_-_Final_Version_20_Nov_2015_for_PDF.pdf

Whilst £520 million of short-term budget support was provided in the UK Government package for both 2024-25 and 2025-26 this is now largely committed to meeting the recurrent element of the pay settlement agreed in 2023-24.

Among the relatively big spenders, Education and Justice fare better than average, Communities broadly in line with average, Health slightly worse than average and Infrastructure, Economy and Agriculture etc worse still compared to average. The Department of Finance and The Executive Office receive relatively large increases, in part reflecting earmarked funding.

Chart 1.1 - Comparison of 2024-25 resource budgets with 2023-24 opening and closing positions



Source: Department of Finance

With £816 million of the £15,247 million total financing earmarked or held centrally, that meant the Executive could accommodate £958 million of bids while still balancing the resource budget. Bids from departments far exceeded this amount, totalling more than £3 billion. For the three fiscal years covered by the 2022-25 Draft budget, the bids ranged from £1.7 billion to £2.3 billion, and represented 1.6 to 1.8 times the funding available. The current budget has a much higher proportion and amount of unmet bids than in recent previous years.

As a result of the additional funding provided in the UK Government package for this year, most NI departments will see a smaller decrease in real terms spending than their nearest Whitehall equivalents. However, the two largest spenders, Health and Education, both see larger decreases than their Whitehall equivalents. This in part reflects the scale of the increase that they received in 2023-24 - a 10 per cent increase for Health in NI.

Capital spending

The Budget makes provision for £2,087 million of conventional capital spending in 2024-25, mostly financed by the Block Grant. Additional funding comes from £220 million of planned capital borrowing under the Reinvestment and Reform Initiative (RRI). The financing also includes £89 million of Irish Government funding specifically for the A5 road project. This is much higher than previous allocations for this project, reflecting planned progress and past underspending.

The conventional capital budget is 7 per cent lower than the Secretary of State's initial capital budget for 2023-24 and the budget that departments were working with at the end of the year. Almost all departments are facing a cut in conventional capital funding this year (Table 4.10), with only Economy, Justice, Finance and the Minor departments seeing increases relative to their final plan allocations last year.

Departments bid for capital funding against a zero baseline and with projects identified as inescapable, pre-committed, high priority or desirable. On this occasion the inescapable and pre-committed projects identified by departments exceeded the amount available for allocation by just over £120 million.

Financial Transactions Capital spending

Block Grant funding for Financial Transactions Capital spending arises largely from the 'Barnett consequentials' of UK Government action to support the housing market. It is almost always underspent as neither the Executive nor the other devolved administrations find loans to or equity injections in the private sector particularly convenient ways to address their investment priorities.

Block Grant funding has reduced from £66.4 million in 2023-24 to £62.2 million at the Executive's Budget, of which £40.9 million (65 per cent) has been allocated to departments (specifically to The Executive Office, Economy and Communities) with £21 million remaining at the centre for allocation in year.

Implications beyond 2024-25

The UK Government support package has provided three years of short-term financial support to help address the Executive's current budget crisis. The Executive is not expected to received confirmation of its block grant funding for 2025-26 and beyond until the completion of the next UK wide spending review. The plans set out in the Treasury Spring Budget document are that revenue spending for all UK departments will increase by 2.7 per cent in 2025-26 (economy wide inflation is projected to be 1.35 per cent) implying that there will not be significant relief from this source. The injection into last year's Budget was largely retrospective, addressing some but not all the cost of backdated public sector pay deals. Smaller but still significant sums have been made available for this year and next, although the ongoing costs of the pay awards will likely consume the non-earmarked additional assistance and more.

For next year:

- The support package provides a further **£520 million** for the stabilisation of public services. This can be used for any purpose the Executive determines, although in practice it will be swallowed up by pay. The package also includes **£94.6 million** of 'un-ringfenced' transformation funding.

- There remains **£47 million** available this year and each future year up to and including 2028-29 when a Public Sector Transformation Board is established and agrees how it should be spent.

- The Executive is awaiting confirmation from the Treasury around the application of the new 24 per cent uplift to future Barnett consequentials. This is yet to be applied to the £99 million of Barnett consequentials generated for this year at Spring Budget – worth **almost £24 million**. It would also apply to any further Barnett consequentials that arise next year.

- The UK Government has agreed to **pause debt repayments** from 2022-23 and 2023-24 of up to £559 million to allow the Executive to stabilise services and begin implementing its plan to deliver sustainable finances. It will no longer require these funds to be repaid if the Executive publishes a plan to deliver sustainable public finances and services by the end of Summer 2024 and demonstrating implementation by May 2025.

There are several interventions that could in principle ameliorate budgetary pressures in the coming years. In no particular order, these could include:

- Putting in place **a costed Programme for Government and an Investment Strategy** that provide prioritisation over the short-medium term.

- **Setting a Budget in advance** of the financial year. The longer departments have to plan, the wider the range of potential options they can deploy to address budget pressures.

- A further increase in the **Regional Rates**. But this would need to be large to make much of an impact on the overall resource funding envelope – a 10 per cent increase would yield only £70-75 million based on the gross income projections in the Draft Budget.

- The introduction of explicit **domestic water charges allied to an increase in the Regional Rate**. Introducing a charge (which we estimate could be roughly £800 per household) to bring the average level of the charge plus Regional Rates into line with the average level of water charges and council tax in England could raise £615 million, based on there being 768,900 NI households. This would be sufficient to increase total Executive spending by around 4 per cent in 2024-25 but no doubt at the cost of significant political controversy. Executive Ministers have since ruled out the introduction of domestic water charges.

- **Public sector pay restraint** could improve NI's public finances. Making use of temporary, one-off funding to initiate recurrent pay settlements causes long-term pressure on the Executive's finances.

- **Departmental savings** from improvements in efficiency and ceasing lower priority areas of expenditure.

- Uplifting or introducing other **fees and charges**.

Concluding reflections

Having produced substantial budget overruns over the past two years, the NI Executive's Budget for 2024-25 achieves balance by substantially reducing the overall position from where it ended last year. There will be challenges for departments to live within their means, but this is an integral part of the function of Accounting Officers, Ministers, and the Assembly scrutiny apparatus.

While an agreed and balanced budget (and earlier in the year than recent budgets) is a very welcome development, we notice a number of potential 'red flags' with the Executive's finances:

- The budget was unavoidably delivered **after the start of the fiscal year** to which it relates.
- The funding in the budget is allocated **in the absence of an agreed Programme for Government**.
- There is a medium-term **budgetary cliff-edge** facing the Executive. This adds to the uncertain context in which current decisions are being made.
- The **conditionality on the Executive's debt** from historic overspends, and the difficulty the Executive is having in meeting these conditions. The impact of having to repay the previous Reserve claims would be to bring forward the cliff edge by a year, into the 2025-26 fiscal year.
- The **lack of buy-in from the Health Minister**, responsible for the single highest spending department and around half of the Block Grant.
- A real-terms **fall in both resource and capital** from the position at the end of the last fiscal year. Difficult decisions will be needed in every department to ensure public services are delivered within the allocations.
- **Pay growth** is budgeted for at 3 per cent, but any pay awards must be met within departmental budgets meaning all departments start the fiscal year facing an in-built wage-cost pressure.
- The **potential for continued overspend**. As well as the risk of not meeting the conditionality around its debt write-off, there remains the potential for NI departments to overspend in this fiscal year. Although the Executive has sent a strong signal that it intends to balance its budgets, this is somewhat undermined by the suggestion that additional funding will be sought from Treasury as well as the Health Minister's refusal to accept the Budget. The cumulation of other risks could jeopardise this goal unless strong monitoring and control is reestablished now Executive Ministers have returned.

As each Minister considers the steps needed to deliver within their allotted budget, the Executive as a whole faces the same three key questions we raised in our first report on NI's finances:

- Should we in NI **raise more money** for public services. If so, how?
- Where should we look to **save money** through better efficiencies?

- Do we need to **reduce or completely stop delivering** any services?

The answers to these questions will hopefully be published in the Executive's Sustainability Plan which, as part of the recent financial package agreed with the UK Government, it had agreed to publish by May 2024 (which Treasury has since extended to August 2024) and demonstrate implementation of by May 2025. The UK Government's requirement for an additional £113 million in revenue raising, which was linked to production of the sustainability plan, has subsequently been extended with the agreement of the UK Government from 12 to 24 months.[3]

The current level of funding premium in NI over England

The Block Grant in NI was 40 per cent higher per head of population than equivalent UK Government spending as recently as 2018-19, but has been declining quickly compared to England. On 20 September 2023 the Secretary of State noted that "the Northern Ireland Executive receives around 20 per cent more per head than equivalent Government spending in other parts of the UK."[4]

We estimate that the current NI funding premium over comparable spending in England is 25-27 per cent, including the support package, although the precise number is hard to calculate. Without the package, it drops closer to 20 per cent.[5] The lack of precision with which we can estimate the premium means it is hard for us to draw any firm conclusions about the relationship between Budget 2024-25 and our earlier broad-brush estimate of need. We are able however, to make some observations with a reasonable degree of confidence:

- The funding premium for this year is most likely above the 24 per cent level of need, yet almost all the additional funding for last year and this has been applied to pay awards which will recur in future years without being funded.

- NI departmental spending continues to be squeezed compared to the nearest UK equivalent departments, as we show in Chapter 4.

The 'Barnett adjustment' included in the UK Government package has the effect of stopping the Barnett squeeze. Rather than tending to the same per-head funding level as England, NI's funding per head will instead now tend to its level of estimated need, 124 pounds per 100 pounds spent in England. This effect does not bring NI's funding up to this level overnight, as it applies to new funding only. The additional funding generated is relatively small in the initial years, but over time the adjustment will generate significant value for NI and help to address the

[3] https://committees.parliament.uk/publications/44014/documents/218038/default/ (para 82 page 31)
[4] https://www.gov.uk/government/news/secretary-of-state-writes-to-northern-ireland-civil-service-on-sustainable-public-finances
[5] Using the latest publicly available figures for UK comparable spending (from the 2021 Spending Review) gives a premium of 27 per cent for NI. However, there has been a considerable uplift in UK spending since 2021 so we know the actual premium figure will be lower than this. We have taken as a starting estimate that approximately £12 billion has been added to UK comparable spending since the 2021 Spending Review. That implies that without the financial package the current NI premium is closer to 22 per cent. To achieve a funding premium of around 20 per cent before the effect of the UK Government funding package (to which the Secretary of State has publicly referred) suggests another £5 billion of comparable UK spending, so we also took £17 billion as a scenario. This is plausible but uncertain, which is why we have estimated a range based on more than the single scenario.

sustainability of its public finances. We discuss the effect of the new adjustment in our publication on the UK Government deal. [6]

[6] https://www.nifiscalcouncil.org/publications/nis-public-finances-and-uk-governments-financial-support-package-restored-executive

2 How did we get here?

Much has happened in NI Budget setting and management in the period since December 2021, when the then Executive published (but failed to agree) a Draft Budget for 2022-25 and then shortly afterwards collapsed.

The Draft Budget for 2022-25

On 10 December 2021 the then Finance Minister put a Draft Budget to the Executive that set out departmental spending plans for the three financial years 2022-23, 2023-24 and 2024-25. This was the period covered by the UK Government's Spending Review in October 2021 and for which an initial Block Grant settlement was therefore agreed for each of the devolved administrations. However, the Executive failed to endorse the Draft and agreed only to publish it for consultation, which took place on 13 December 2021.[7] Before the consultation had time to conclude, or the parties were able to reach an agreement, the DUP's Paul Givan resigned as First Minister on 3 February 2022, collapsing the Executive.

The 2022-23 period with 'Caretaker Ministers'

Following the collapse of the Executive, the UK Parliament passed the NI (Ministers, Elections and Petitions of Concern) Act 2022 (MEPOC).[8] This left the members of the outgoing Executive in charge of their departments as 'Caretaker Ministers' until 28 October 2022. The Caretaker Ministers and Permanent Secretaries (in their capacity as Accounting Officers) managed departmental budgets based on informal indicative allocations outlined by the Department of Finance in the Draft Budget for 2022-25. When the Caretaker Ministers left office, the MEPOC Act left Permanent Secretaries in charge of managing individual departmental budgets, but they were only able to take a limited range of decisions permissible without an Executive. Overall responsibility for setting departmental budgets passed to the Secretary of State for NI in London. At around this time, according to the then Finance Minister's Written Ministerial Statement (WMS) on 11 October 2022,[9] NI departments were on course to overspend their resource budgets for 2022-23 by a total of £661 million (or 4.6 per cent), relative to their available funding.[10] In due course, departments were also on course to overspend in the following year.

At both the UK and NI level, likely overspends in individual departments can usually be managed by reallocating funding from other departments within the total DEL envelope. But in both years, most NI departments were set to overspend and it was clear that the total DEL envelope was set to be breached.

This overspending reflected a variety of factors. Some were UK-wide, including the impact of unexpectedly high inflation on the cost of providing public services and public sector pay demands. In NI, these were compounded by the ongoing impact of

---

[7] https://www.finance-ni.gov.uk/publications/2022-25-draft-budget
[8] https://bills.parliament.uk/bills/2858
[9] https://www.finance-ni.gov.uk/publications/written-ministerial-statement-2022-23-budgetary-position
[10] http://www.niassembly.gov.uk/globalassets/documents/official-reports/written-ministerial-statements/2022---2027/department_finance_budget-2022-23.pdf

the 'Barnett squeeze' on the Block Grant and past decisions on the relative generosity of public service provision, welfare payment and revenue raising.

These would have posed challenges at the best of times, but the absence of the Stormont institutions made them harder to manage. The Caretaker Ministers were free to take spending decisions knowing that they would not be in charge at the end of the financial year and neither Accounting Officers nor the Secretary of State felt that they had legal or political authority to take decisions sufficient to balance the budget (for example by reducing service levels or raising more revenue).

The Secretary of State's 2022-23 Budget

Following the departure of the Caretaker Ministers, the Secretary of State and the NI Civil Service did make inroads into the prospective overspend over the rest of the financial year, roughly halving the looming budget shortfall on resource spending.

When the Secretary of State finally set the Budget for 2022-23 (via WMS[11] at Westminster on 24 November 2022) he proposed to balance the budget for resource spending by making a £297 million claim on the Treasury Reserve (known as a Reserve claim) and for capital spending by borrowing the full £200 million then permitted by agreement with the Treasury in any one year rather than the £140 million that the Department of Finance had proposed in its Draft 2022-25 Budget.[12] Treasury rules normally require any call on the reserve to finance a departmental overspend to be repaid in full in the following financial year.

This Budget was legislated for through the NI Budget Act 2023 which authorised NI departments and other public bodies to continue spending and delivering services through the rest of the 2022-23 financial year and some way into 2023-24.[13] It received Royal Assent in Parliament on 8 February 2023.

The Secretary of State's 2023-24 Budget

In the continued absence of the Executive, the Secretary of State set a Budget for the 2023-24 financial year via a WMS on 27 April 2023.[14] This was legislated for through the NI Budget (No.2) Act 2023 which allocated over £14.2 billion of Resource DEL funding and £2.2 billion of capital funding to NI departments. It received Royal Assent on 18 September 2023. We commented on it in our publication '*The NIO's 2023-24 Budget for Northern Ireland: initial summary*'.[15]

The need to repay the 2022-23 Reserve claim implied an overall fall in funding for resource spending of 3.1 per cent in cash terms and 5.5 per cent in real terms in 2023-24, with a rebound in 2024-25. Even the Treasury recognised that this would not have been conducive to efficient or effective workforce and service planning. With its agreement, the Secretary of State committed "any future in year Barnett consequentials for 2023-24 to repaying the Reserve claim". If these did not amount to £297 million, he committed to working "with Treasury to reallocate funding from

[11] https://www.gov.uk/government/news/secretary-of-state-for-northern-irelands-statement-on-northern-ireland-finances-20222023
[12] https://www.finance-ni.gov.uk/publications/2022-25-draft-budget
[13] https://www.legislation.gov.uk/ukpga/2023/3/introduction/enacted
[14] https://questions-statements.parliament.uk/written-statements/detail/2023-04-27/hcws748
[15] https://www.nifiscalcouncil.org/publications/nios-2023-24-budget-northern-ireland-initial-summary

previously announced Northern Ireland funding packages, with the residual to be repaid in 2024-25".[16] (Barnett consequentials are the additions to the Block Grant that the Executive receives when the UK Government increases spending in England on services that the Executive delivers in NI.) This reduced the prospective reduction in resource spending to 0.7 per cent in cash and 3.2 per cent in real terms.

The NI departments continued to overspend during the 2023-24 financial year. This occurred while negotiations were underway to restore the Stormont institutions and was addressed by the UK Government funding package.

The UK Government's financial package

The UK Government led negotiations on a return to Stormont and, following discussion with all the NI parties, it put forward a potential financial support package for a returning Executive on 11 December 2023 superseded by a more generous one on 19 December. Following the DUP's decision to return there were further negotiations and the UK Government wrote to the new Finance Minister to outline the final settlement on 13 February 2024, although some details were left for further negotiation between her department and the Treasury.

Key elements of the package included: short-term funding support of £584 million in 2023-24 (to meet the cost of backdated public sector pay awards) and £520 million in both 2024-25 and 2025-26; writing off up to £559 million of debt repayments to the Treasury for the overspends in 2022-23 and 2023-24 (if the Executive raises £113 million in new revenue and takes other steps to strengthen its finances); giving the Executive greater access to £708 million of existing and new UK Government funding; higher capital borrowing limits and a 24 per cent top-up to future Barnett consequentials.

The UK Government said that this settlement would enable the Executive to stabilise public services, better manage public finances, increase opportunities for improved infrastructure and investment, and pave the way for transformation of public services. We noted in our publication '*NI's public finances and the UK Government's financial support package for the restored Executive*'[17] that the package does offer significant near-term support to help (but not completely) address the immediate budget crisis and also puts NI's finances on a more sustainable path over the long term by alleviating the 'Barnett squeeze'. But there is a funding 'cliff edge' in 2026-27 (or possibly a year earlier) that the Executive will likely find it difficult to navigate without further support even if it takes decisive action on revenue raising, finding savings and reforming public services.

We set out the main elements of the funding package in greater detail at Appendix A, and discuss their impact on the budget this year later in this report.

The Budget Bill for 2023-24 and the 2024-25 Vote on Account

Following the restoration of the Assembly and Executive in February 2024, the Finance Minister brought forward the Budget Bill 2024 to the Assembly via

[16] https://questions-statements.parliament.uk/written-statements/detail/2023-04-27/hcws748
[17] https://www.nifiscalcouncil.org/publications/nis-public-finances-and-uk-governments-financial-support-package-restored-executive

accelerated passage on Monday 19 February 2024 and this passed the Final Stage on Tuesday 20 February. The Bill received Royal Assent on 14 March 2024.

The Bill was progressed in the absence of the Spring Supplementary Estimates (SSE's), which normally set out the detail behind the figures in the Bill. Due to the timing of the restoration of the Executive and Assembly, there was an urgent need to bring forward a Budget Bill to ensure departments did not run out of cash before the end of March. The Finance Committee therefore agreed to pass the Budget Bill in advance of seeing the detail of departmental expenditure in the SSE's.[18] The SSEs were subsequently laid in the Assembly on 20 March 2024.

The NI Budget Act (as it now is), primarily confers final authorisation for some £28.8 billion[19] of DEL and AME spending by NI departments (both Ministerial and Non-Ministerial) and the associated provision of borrowing powers. However, it also provides similar authorisations for spending, service delivery and borrowing for a significant part of 2024-25 through the Vote on Account. The total authorisations and allocations are generally equal to 65 per cent of the totals for 2023-24, so they do not indicate the Executive's plans for the total size and composition of the NI Budget next year. This was higher than the 'normal' 45 per cent to give the new Executive time to set its priorities and agree a budget.

Summary of developments

Table 2.1 summarises how the funding position for 2024-25 has evolved since the 2021 Spending Review. Following the various fiscal events and as a result of the financial package the resource element of the Block Grant has risen by just under 9 per cent. The planned funding from Regional Rates has increased by £68 million or 11 per cent since the draft Budget 2022-25 plans published in December 2021.

Table 2.1 - Developments in 2024-25 Budget, since SR 21

£ million	**2024-25**
Block Grant	
Spending Review 21 Outcome	13,351
Position pre-UK Autumn Statement 2022	13,314
Autumn Statement 2022 Barnett consequentials	*283*
Spring Statement 2023 Barnett consequentials	*97*
Autumn Statement 2023 Barnett consequentials	*105*
January 2024 Financial Package	*649*
Spring Statement 2024 Barnett consequentials	*99*
Latest Block Grant position	14,548
Overall Funding	
Block Grant	14,548
Regional Rates	698
Total	**15,247**

Source: Department of Finance

[18] This is not the normal process. However, it is not unique. For example, Parliament passed a Budget Bill for the 2023-24 financial year in the same way.
[19] Of which, £10.5 billion is Annually Managed Expenditure (AME).

3 The Budget process

Budget setting in 'normal' times

The NI Executive's Budget has three main components: resource spending, which covers the day-to-day costs of public services and administration; conventional capital spending, which pays for infrastructure, buildings and the like; and financial transactions capital spending, which involves equity injections into or loans to private sector entities, including universities.

The NI Act 1998 requires the Executive to balance each of these component Budgets, so that spending does not exceed available financing. In practice, this means that the planned expenditure must be covered by a combination of:

- Agreed **UK Government funding through the Block Grant**. This is by far the largest source of funding for all three types of spending. It comprises a core element adjusted year by year according to the Barnett Formula, so the when the UK Government increases spending in England on services that the Executive provides in NI the grant rises by roughly the same cash amount per head. The Block Grant also includes 'non-Barnett additions', including funding for political packages and City and Growth Deals.
- **External funding**, such as that committed by the Irish Government for the A5 road project or by the European Union for PEACEPLUS programmes, which continue EU support to peace and prosperity across NI and the border counties of Ireland until 2027.
- **Income generated by the Executive** itself. The Executive's only major tax instrument is the Regional Rate, charged on domestic and non-domestic properties. Individual departments also levy fees and charges to cover some of the cost of some services. These are treated (rather untransparently) as negative spending within each department's DEL envelope, allowing it to undertake more positive spending without breaching its agreed limit. We discuss this in more detail in our *Guide to NI's public finances.*[20]
- **Permitted levels of borrowing** – notably the Reinvestment and Reform Initiative (RRI) to fund capital programmes. RRI borrowing is limited by agreement with the Treasury to £220 million in this year (set to rise in line with inflation) and by legislation to £3 billion cumulatively.

In several ways, the Treasury treats the Executive more like a Whitehall department than like the other devolved administrations in Scotland and Wales. For example, the Executive cannot run a reserve to smooth its spending in the face of funding fluctuations, but instead has recourse to the Treasury's Budget Exchange facility (which allows some underspending to be carried forward) or a Reserve claim in extremis. This reflects the fact that the UK Government has devolved more tax

[20] https://www.nifiscalcouncil.org/publications/public-finances-ni-comprehensive-guide-november-2021

powers to Scotland and Wales than to NI, giving them greater policy freedom but also exposing them to greater risk around their total funding envelopes.

Given stability at Stormont and a multi-year Spending Review at the UK level, the Executive might proceed to set a multi-year budget along the following more 'normal' or accepted lines:

- There would be a **bidding process** through which departments could request the resources they need. These bids are made to the Finance Minister. Requests would in aggregate inevitably exceed the amount of funding available.
- Proposed allocations would be included in a **Draft Budget**, consistent with the overall funding envelope.
- The draft would then go to **public consultation** (for 8 weeks or more in line with The Fresh Start Agreement).[21]
- Departments would carry out **Equality Impact Assessments** to determine any adverse impacts the draft budget would have on any group and put in place measures to mitigate these impacts such as additional allocations.
- Revised proposals would be brought to Ministers for consideration with the **Final Budget**. Agreement requires the assent of the majority of Ministers in the Executive.[22]

In practice, the process of setting the Budget for 2024-25 has evolved reflecting a very tight timetable between the restoration of the Executive and putting a draft Budget in place as discussed further below.

The 2024-25 Budget process

Commissioning departmental bids

Ahead of the start of the financial year, the Department of Finance asked departments to make bids for what they thought they needed to spend this year.

In the case of resource spending, rather than asking each department for the total sum they needed to spend the Department of Finance generally asks for itemised bids relative to a baseline allocation. For 2024-25 that baseline was essentially the amount each department was allocated in the Secretary of State's initial Budget for 2023-24 (the 'opening position'), minus funding already earmarked for specific purposes in that year either by the Treasury (e.g. post-Brexit support for farming and fishing) or collectively by the Executive (e.g. victims and welfare mitigations). Even including the earmarked items, these baselines were lower than the amounts departments had been allocated by the end of last year (the 'final plans'), reflecting

[21] https://assets.publishing.service.gov.uk/media/5a80a8a5e5274a2e8ab516ce/A_Fresh_Start_-_The_Stormont_Agreement_and_Implementation_Plan_-_Final_Version_20_Nov_2015_for_PDF.pdf

[22] The NI Act 1998 states "The Minister of Finance and Personnel shall, before the beginning of each financial year, lay before the Assembly a draft budget, that is to say, a programme of expenditure proposals for that year which has been agreed by the Executive Committee in accordance with paragraph 20 of Strand One of the Belfast Agreement".

the additional spending financed by additional Barnett consequentials through the year and the call on the Treasury Reserve. In the circumstances, the Executive was provided with options on how to apply the departmental baselines, and opted to use the 'opening position' as is the norm.

Requiring departments to bid against these lower baselines helped the Executive send a signal that spending last year was excessive and unsustainable. Consistent with this approach, the Written Ministerial Statement setting out the Executive Budget compared departmental bids and allocations to the opening position for 2023-24. But in order to assess the quality and quantity of public services departments are likely to be able to deliver, most stakeholders (including the departments themselves) will be interested in whether departments will have funding to spend more or less this year than last. As we show in the next Chapter, departments have been allocated more money than they were allocated at the beginning of last year, but less than had been allocated by the end.

For capital bids, the approach is different. Capital allocations are determined on a zero-based approach, with no baselines set. Each department must submit bids for all their capital requirements indicating the priority of each item as inescapable, pre-committed, high priority or desirable. As with resource, there is also funding earmarked for specific purposes, such as Casement Park, sub regional stadia and Strule Shared Education Campus amongst others, as shown in the next Chapter.

Timings

As outlined above, the Executive's Budget is normally set in advance of the beginning of the next financial year on 1 April. Given that the Executive was only restored on 3 February 2024, the timetable for the Budget process for 2024-25 has inevitably been constrained. On 15 February 2024, the Executive agreed to extend the usual timeframe to ensure that the information provided by each NI department to the Department of Finance reflected the views of each incoming Minister. An update on 2024-25 Budget was provided to the Executive for consideration at its meeting on 11 April, with the 2024-25 Budget agreed on 25 April 2024. The Assembly was notified by WMS on the same day. Once the Budget document is published, an Assembly debate and vote will take place (expected to be held before the Assembly's summer recess).

Following the publication of the Budget, the Department of Finance typically revises departmental allocations periodically as the total amount of funding changes and as the relative needs of departments change. These revisions take place at In-year Monitoring Rounds. The Department of Finance sets out this process in its *In Year Monitoring Guidance* which is usually issued at the start of each financial year. The last Executive held monitoring rounds three times a year in June, October and January. The new Executive plans to drop the October round due to resourcing constraints and the largely technical nature of that monitoring round, which should still allow the Department of Finance to reflect any overall funding changes arising from the Westminster Main and Supplementary Estimates in June and January.

Legislating for this Budget

As described in our Comprehensive Guide,[23] it is usual for the Assembly to pass two Budget Acts in each fiscal year, each with a detailed accompanying Estimate showing the anticipated spending within each department:

- The first or **Main Estimate** is usually published in June or July. The Budget it accompanies sets statutory limits on the net resources that can be expended by each department, the income they are authorised to retain ('accruing resources') and their net cash limit. Together the Act and Estimate provide the statutory authority for the expenditure and associated financing within the ambit of each department.

- During the fiscal year, the amount of financing available changes and (partly as a result) so too do departmental budgets. These are authorised by the Assembly towards the end of the fiscal year (often around February) in a **Spring Supplementary Estimate**, mirroring the process at Westminster.

This legislation authorising NI departments to spend and deliver services will be enacted by the Assembly in 2024-25 unlike the previous two years when it was enacted by Westminster.

The Assembly, like the UK Parliament, is unusual by the standards of other legislatures in considering its budget legislation once the fiscal year is already under way, rather than beforehand. This is only possible because of a 'Vote on Account', a legal mechanism by which the Assembly allows departments to spend some money in the first few months of the coming fiscal year before the full Budget legislation is passed. The Department of Finance usually includes the Vote on Account in its Spring Supplementary Estimate legislation. The Vote generally authorises spending equal to 45 per cent of the allocation for each department for the previous year. At Main Estimate, this initial percentage limit is replaced with figures based on the agreed budget for that fiscal year.

The Assembly passed the Vote on Account for 2024-25 (included in the NI Budget Act 2024) at a higher level than usual of 65 per cent (as it was in 2023-24). This means that, all else being equal, departments will be able to access funding for longer into the fiscal year than usual before they reach the statutory percentage limits. Under this higher limit, it is likely that no budget legislation would be needed to authorise further spending until the autumn, meaning there is more time for the Executive to bring forward its Budget Bill, should this be required.

Developments anticipated following the Commissioning process

The transparency of the Budget and bidding process is hampered by the fact that the Department of Finance already expects some additional funding to arise during the year that it could not reflect in the spending envelopes published in the Written Ministerial Statement. This stems from additional UK Government funding, such as under the NI Protocol/Windsor Framework and funding from the New Decade New Approach agreement. These pots can only be formally incorporated once they are officially confirmed by the Secretary of State, which generally follows the start of

[23] https://www.nifiscalcouncil.org/publications/public-finances-ni-comprehensive-guide-november-2021

the financial year. These (relatively small) sums will likely be allocated in the first monitoring round in June. The application of the 24 per cent uplift to the £99 million of Barnett consequentials generated at the UK Spring Budget should also generate £24 million for the Block Grant if the Treasury and the Department of Finance can agree the methodology for these uplifts. Any further changes in UK Government spending this year could also generate more consequentials.

This year's £47 million tranche of the £708 million of ring-fenced transformation funding awaits the creation of a new Public Sector Transformation Board. Therefore, there will be a separate process for the allocation of this funding and this has not been included in this Budget.

Equality impact assessments

NI departments will conduct equality screening (and if appropriate impact assessments) once they have been formally provided with their Resource and Capital DEL funding envelopes for the 2024-25 financial year. These assessments will take place around the first in-year monitoring round. Any equality impact assessments should be completed by late summer or autumn 2024. This will allow the Executive to consider (perhaps around September 2024) if any changes to funding allocations are required in light of those assessments.

The Programme for Government (PfG) and Investment Strategy

It is widely agreed among stakeholders that in an ideal world the Executive would set multi-year Budgets[24] aligned with medium term strategic priorities and if possible underpinned by multi-year Block Grant settlements announced at UK Government Spending Reviews. In 2021 the NI Audit Office in its Report into the NI Budget Process[25] found that there is currently limited evidence of budgetary alignment with multi-year planning and goal setting.

The Belfast/Good Friday Agreement requires the Executive to agree a Programme for Government (PfG) to which spending plans could be aligned.[26] There is no explicit legislative requirement determining the timeframe for the PfG, however the Stormont House Agreement and Implementation Act extended the period for appointment of Ministers from 7 to 14 calendar days after the first meeting of the Assembly following an election, in order to allow a fortnight for the agreement of a joint PfG by parties entitled to form an Executive.[27] The intent is for a PfG to be in place from the start of each mandate and for the budget to align with it. This has not been the case to date. Work on a PfG is underway, but not yet agreed.

In addition to the political challenges of reaching agreement, the parties will be aware that there is a UK General Election looming that could affect the outlook for UK public spending and thus the level of the Block Grant and the potential ambition of a PfG. If there is a change of Government, a Labour administration might feel that it is sensible to begin with a single year Spending Review before moving to multi-

[24] Under Section 64 of the NI Act 1998, a 'Budget' must total to the amount set out by the Secretary of State. This means that without a multi-year Spending Review outcome, the Executive cannot produce a multi-year 'Budget'. But there is nothing to stop the Executive having its own multi-year 'Fiscal plans' as long as these are not presented as a formal Budget.
[25] https://www.niauditoffice.gov.uk/files/niauditoffice/NIAO_Report_NI%20Budget%20Process%20Report_Combo_4_WEB.pdf
[26] https://cain.ulster.ac.uk/issues/politics/programme/pfg2000/draftpfg.pdf
[27] https://www.legislation.gov.uk/ukpga/2016/13/section/6/enacted

year plans itself. Agreeing a PfG and medium-term Budget is also complicated by the 'cliff-edge' in funding support currently pencilled for 2026-27 as a result of the structuring of the UK Government support package.

In our report on the 2022-25 Draft Budget we commented that an Investment Strategy alongside the Budget, or as soon as possible thereafter, would be helpful. We understand that an Investment Strategy is expected shortly.

2024-25 contribution from the UK Government's financial package

Appendix A describes the full set of measures contained in the UK Government's deal, published on 13 February 2024. A number of the measures impact on the funding total available this year, and 2024-25 explore these further in the next section. Those elements are:

- A Welsh-style 'needs-based factor' that will apply from 2024-25 and see **future Barnett consequentials received by NI increased by 24 per cent**.[28] This would move NI's total funding per head gradually towards 124 per cent of spending in England, but not take it straight there. It is currently at an estimated 125-127 per cent of spending in England but would be closer to 120 per cent without the financial package.

- An additional one-off **£520 million of funding in each of 2024-25 and 2025-26**, roughly the amount that the NI Department of Finance estimates that departments would have gained had the proposed 24 per cent Barnett uplift been put in place at the last UK Spending Review in 2021.

- **Deferring up to £559 million of debt repayments** for two years. This includes the £297 million claim on the Reserve to cover the overspend in 2022-23, and £262 million towards 2023-24 pressures (including pay pressures). This debt will be written off entirely if the Executive publishes a plan to deliver sustainable public finances and services then implements it. The initial deadline for this was May 2024,[29] but the timeframe has been extended with the agreement of the UK Government.

- The Executive will have **increased spending power of up to £708 million** generated through the reprioritisation of existing UK Government funds (£623 million) and new UK Government funding streams (£85 million), with £235 million earmarked for public services transformation. This funding will be available over a five-year period starting in 2024-25, with the earmarked public services transformation element to be released at the discretion of a (yet to be established) Public Sector Transformation Board.

- An extra **£34 million to tackle hospital waiting lists** exacerbated by Covid.

- A **10 per cent increase in the £200 million annual limit on capital borrowing** by the Executive under the Reform and Reinvestment Initiative

[28] In our *Updated estimate of relative need* Technical Paper (May 2023) we presented updated estimates of the relative need for public spending in NI based on changes over the past decade. We concluded that the inclusion of policing and justice powers in the Holtham analysis would increase the overall relative need for public spending in NI from 120 to around 124.
[29] https://www.finance-ni.gov.uk/publications/letter-finance-minister-chief-secretary-treasury

(RRI) in 2024-25, followed by increases in line with inflation. This is forecast to provide around £135 million of additional borrowing capacity by 2028-29.

4 The NI Budget position in 2024-25

As noted above, the NI Budget has three main components that the Executive (or the Secretary of State in its absence) are required by legislation[30] to 'balance': non-ringfenced resource spending, conventional capital spending and financial transactions capital spending. In this Chapter we look at these three funding envelopes for 2024-25 and the decisions that the Executive has taken about departmental allocations within them in light of the bids they presented.

The funding envelopes for 2024-25 began to take shape with the announcement of an initial three-year Block Grant settlement at the UK Spending Review in October 2021. The core Block Grant settlement has been revised in light of subsequent UK Government spending decisions at the Spring and Autumn Budgets in 2022, 2023, and 2024 that generated Barnett consequentials. The Block Grant has also been supplemented by 'non-Barnett additions' from the UK Government support package. The amount available for the Executive to allocate also includes anticipated Regional Rates revenue in the case of resource spending and RRI borrowing and Irish Government support for the A5 in the case of capital spending.

The resource budget

The funding envelope

Table 4.1 shows the funding envelope for resource spending in 2024-25. This amounts to £15,247 million (around £19,800 per household) of which the core Block Grant accounts for 91 per cent with the remainder split evenly between the support package and Regional Rates. Almost all was available for allocation to departments, with just £79 million held centrally for debt interest and other items. As we shall see, £728 million was effectively pre-allocated to departments for items earmarked by the Treasury or the Executive collectively. In addition, some support package funding has also been earmarked, for example the £34 million for waiting lists support. A further £9.2 million was set aside for allocations to the oversight bodies (NI Assembly, NI Audit Office and the NI Public Services Ombudsman) as directed by the Assembly's Audit Committee. The allocations for these bodies are agreed outside the usual budget process.

There is also a further £47 million potentially available from the £708 million allocated in the financial package that has been ringfenced for transformation. But this money is subject to approval by a new Public Sector Transformation Board and will therefore be allocated via a separate process later in the financial year.

[30] https://www.legislation.gov.uk/ukpga/2016/13/section/9/enacted

Table 4.1 - Non-ringfenced resource spending and financing, 2024-25

£ million	NIO's 2023-24 Budget	2023-24 Final Plan	Executive's 2024-25 Budget
FINANCING			
Core Block Grant	13,634	14,001	13,900
add			
UK Government financial package funding	-	846	696
of which			
Stabilisation of public services	-	-	*520*
Health waiting lists support	-	-	*34*
Un-ringfenced transformation funding	-	-	*95*
less			
Ringfenced public sector transformation funding[1]	-	-	47
Block Grant	13,634	14,847	14,548
Regional Rates (post debt repayment)	650	665	698
TOTAL FINANCING	**14,284**	**15,512**	**15,247**
pays for			
SPENDING			
Departmental spending	14,212	15,433	15,168
Overcommitment[2]	-	-13	-
Centrally held[3]	20	42	26
Debt interest (RRI)	52	50	53
TOTAL SPENDING	**14,284**	**15,512**	**15,247**

Note:

[1] To be allocated by the Public Sector Transformation Board, once established. It is therefore not available for allocation as part of the 2024-25 Budget process

[2] To be offset by forecast underspends

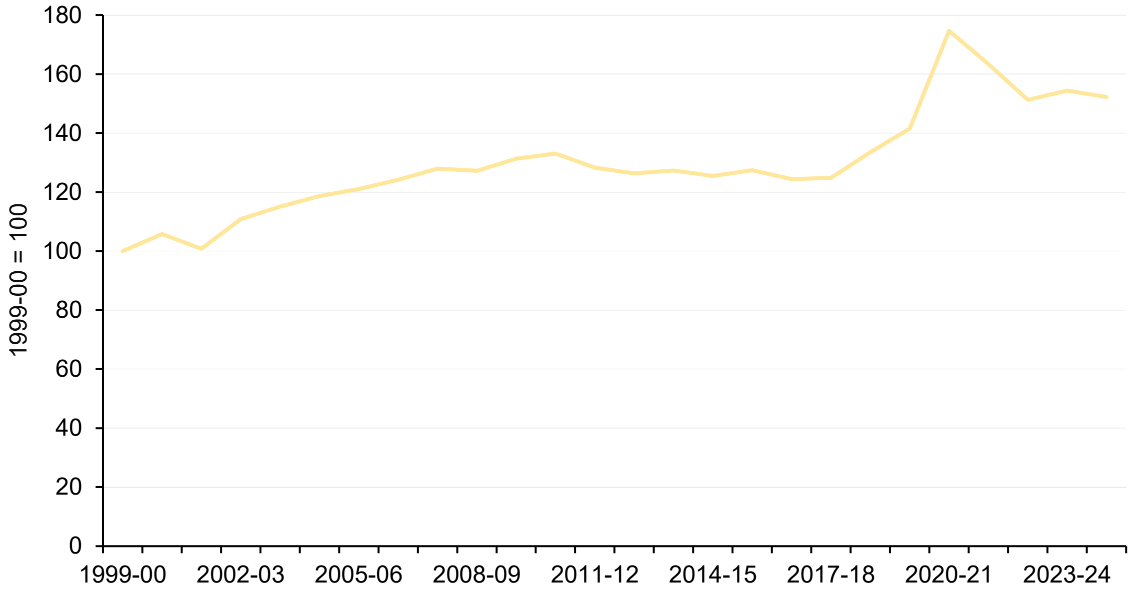
[3] HM Treasury granted exceptional flexibility to carry forward a late Barnett consequential received 14 February 2024 into 24-25

Source: Department of Finance & HM Treasury

The total sum available for departmental resource spending (including centrally held items) is 7 per cent higher than the Secretary of State originally allocated for spending in 2023-24, but 2 per cent lower than the final plans departments were working to by the end of the year. In real terms, adjusting for inflation, these were an increase of 6 per cent and a fall of 2.5 per cent respectively.

Without the Government support package in either 2023-24 or 2024-25, the fall in funding this year relative to the final plans for last year would be 0.5 per cent in cash terms and 1.3 per cent in real terms. This shows that there is a minor cliff-edge in funding support for 2024-25 with a larger drop expected in 2026-27.

Chart 4.1 - RDEL Block Grant over time, in real terms[31]



Notes:
[1] RDEL Block Grant for 2025-26 as shown in Table 4.1 as Latest
[2] Changes for the years prior to 2007-08 reflect the real-terms change in near-cash resource DEL, as published in PESA prior to PESA 2011
Source: HM Treasury PESA, Department of Finance, HM Treasury GDP deflators (December 2024)

Of the £846 million added to the resource budget last year through the UK Government support package, £584 million was to cover the cost of backdated pay awards (which were projected to cost over £600 million). An element of the award was non-consolidated and applied only to that year, but the majority was consolidated and thus adds to the Executive's pay bill this year and in subsequent years. This means that the £520 million of short-term budget support provided in the UK Government package for both 2024-25 and 2025-26 is now largely, if not completely, committed to meeting this pay settlement.

The Department of Finance have advised us that as part of the final plans for 2023-24 departments were provided with one allocation to cover both forecast overspends and pay awards. Each Minister then conducted pay negotiations within those funding envelopes in the knowledge that decisions on pay for 2023-24 would have recurrent impact in future years, but that the associated funding from the UK Government would end in 2025-26. A paper outlining the Approach to Budget 2024-25 was considered by the Executive alongside the 2023-24 Final Plan paper. This set out clearly that funding for pay awards would consume most, if not all, the additional funding available, and departments would be expected to manage the cost of pay awards within their opening baseline for 2024-25. Departments were therefore advised not to bid for pay in their Budget 2024-25 returns but to meet any new pay and pension increase from within their allocated baselines (for example by making savings elsewhere) and has suggested that they assume 3 per cent pay cost growth each year. Now that the Executive has agreed the Draft Budget 2024-25, Ministers will need to prioritise within their budget allocations to manage the recurrent costs of pay, or indeed provide a pay award in 2024-25. Health however did

[31] This is a corrected version of Chart 4.1. The original version contained a methodological error

include pay pressures of over £460 million within its bids for 2024-25. Given they were impacted most significantly by the award set in 2023-24 subsuming these further pressures will be extremely challenging.

Table 4.2 shows how the resource financing available to the Executive has been allocated across departments. As noted above, the financing envelope for departmental spending is almost 2 per cent lower than the final plans for 2023-24 and most departments see their budgets fall. Among the relatively big spenders, Education and Justice fare better than average, Communities broadly in line with average, Health slightly worse than average and Infrastructure, Economy and Agriculture etc worse still compared to average. This is in contrast to the 2023-24 allocations by the Secretary of State where Education and Justice fared worse than average while Health was slightly above average. The Department of Finance and The Executive Office receive relatively large increases, in part reflecting earmarked funding for the Integr8 project to provide civil service finance and HR services and the Historical Abuse Inquiry, Victims Payments and Truth Recovery Programme. The position for Finance is a reversal from 2023-24 when it had by far the largest reduction in funding.

Health remains by far the largest resource spender, being allocated 50.9 per cent of the financing pot, down marginally from 51.2 per cent in the final plans for 2023-24. Robin Swann, the UUP Health Minister, was the one member of the Executive not to vote in favour of the overall Budget settlement.

Table 4.2 - Non- ringfenced resource budgets for NI departments, 2024-25

£ million	NIO's 2023-24 Budget	2023-24 Final Plan	Executive's 2024-25 Budget	Change between 23-24 Final plan and 24-25	Change in per cent (%)	Change between NIO opening 23-24 budget and 24-25[3]	Change in per cent (%)
Health	7,301	7,943	7,760	-183	-2.3	459	6.3
Education	2,577	2,879	2,874	-4	-0.2	298	11.6
Justice	1,157	1,259	1,262	3	0.2	106	9.1
Communities	862	870	856	-14	-1.6	-6	-0.6
Economy	772	796	767	-30	-3.7	-5	-0.7
Agriculture etc.	580	601	577	-23	-3.9	-3	-0.4
Infrastructure	523	631	560	-72	-11.3	36	6.9
Finance	147	180	208	28	15.3	61	41.1
The Executive Office	182	161	183	22	13.6	1	0.7
Minor departments	112	112	121	9	7.7	9	8.1
Departmental allocations	**14,212**	**15,433**	**15,168**	**-265**	**-1.7**	**956**	**6.7**
Centrally held[1]	20	42	26	-16	-39	6	29.0
Overcommittment[2]	-	-13	-	-	-	-	-
Debt interest (RRI)	52	50	53	2	4.9	1	1.2
Total	**14,284**	**15,512**	**15,247**	**-265**	**-1.7**	**963**	**6.7**

Note:

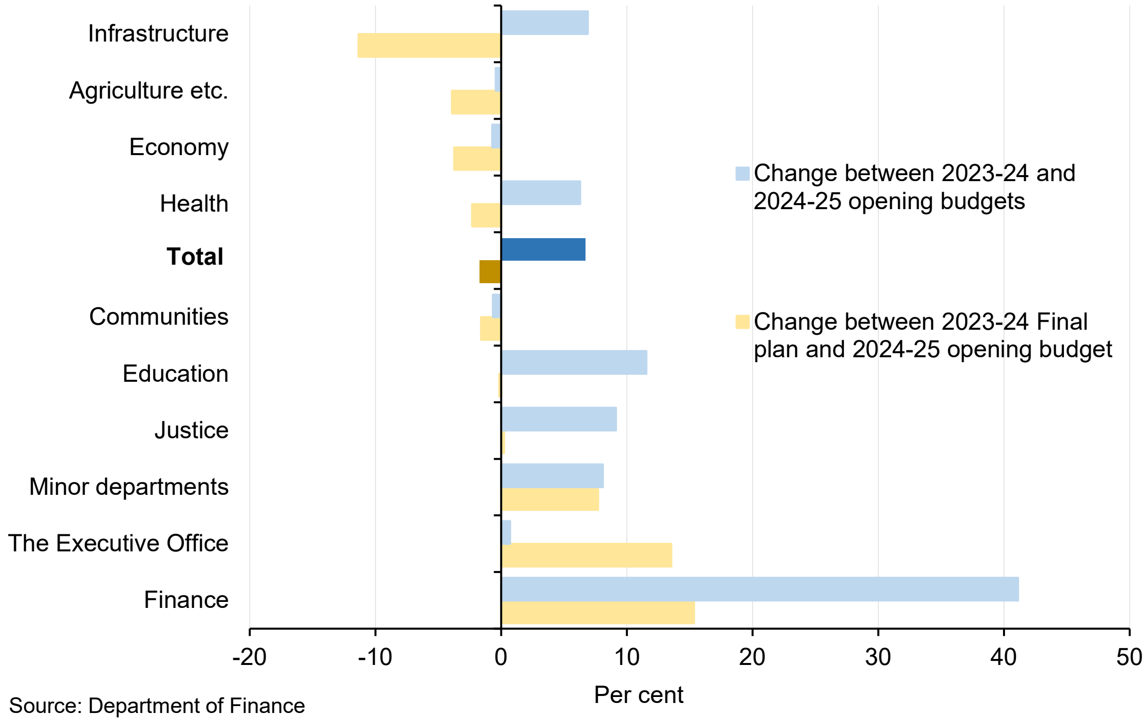
[1] Centrally held 2023-24 Final Plan: HM Treasury granted exceptional flexibility to carry forw ard a late Barnett received 14 February 2024 from 2023-24 into 2024-25

[2]To be offset by forecast underspends

[3]These figures are caveated by the fact that technical transfers betw een departments have been treated differently this year compared to last year and may inflate/deflate some departmental positions w hen comparing opening baselines. This w ill have a greater impact on smaller departments.

Source: Department of Finance

Chart 4.2 - Comparison of 2024-25 resource budgets with 2023-24 opening and closing positions



Source: Department of Finance

Table 4.3 shows the amount of each department's budget allocation that had already been earmarked for particular purposes by the Treasury or the Executive collectively. Among the significant spenders, Agriculture has the largest proportion of its allocation earmarked, reflecting the UK Government's post-Brexit commitment to match EU funding for farming and fisheries over the remainder of this Parliament. TEO has a significant proportion of its resource allocation earmarked by the Executive for payments to victims of historical institutional abuse and truth recovery.

Table 4.3 - Earmarked Resource Items

£ million Department	Total RDEL allocation	Earmarked funds within RDEL	Earmarked as proportion of allocation (%)
Agriculture etc.	577	333	57.8
The Executive Office	183	101	55.3
Finance	208	58	27.9
Communities	856	141	16.5
Justice	1,262	44	3.5
Economy	767	5	0.7
Health	7,760	44	0.6
Education	2,874	1	0.0
Infrastructure	560	-	-
Minor Departments	121	-	-
Total	**15,168**	**728**	**4.8**

Source: Department of Finance

Departmental bids and allocations

The departmental baselines set by the Department of Finance (taking the 2023-24 opening budget position and excluding all opening 2023-24 earmarked or one-off allocations) totalled £13,473 million. With £816 million of the £15,247 million total financing earmarked or held centrally, that meant the Department could accommodate £958 million of bids while still balancing the resource budget.

As Table 4.4 shows, the bids from departments far exceeded this amount, totalling more than £3 billion. Education, Justice, Infrastructure and Agriculture all bid for sums in excess of 30 per cent of their baselines, with Health and Communities bidding for almost 20 per cent. The Health Minister has expressed concern that departments used different criteria to define inescapable pressures.[32] Health and Education received almost 70 per cent of the available budget between them with Health alone receiving over 51 per cent. For the three fiscal years covered by the 2022-25 Draft Budget, total bids ranged from £1.7 billion to £2.3 billion, and represented 1.6 to 1.8 times the funding available. So the current Budget has a much higher proportion and amount of unmet bids than those of recent years.

Table 4.4 - Additional resource spending requested by Departments versus allocations

£ million	**Bids[1]**		**Allocations**	
	Amount	**Amount requested as a % of baseline**	**Amount**	**% of available budget**
Health	1,293	17.8	7,760	51.2
Education	910	35.3	2,874	19.0
Communities	130	18.5	856	5.6
Justice	446	39.6	1,262	8.3
Economy	104	13.9	767	5.1
Infrastructure	157	30.1	560	3.7
Agriculture etc.	96	41.5	577	3.8
Finance	26	16.0	208	1.4
The Executive Office	8	9.1	183	1.2
Minor Departments	17	15.5	121	0.8
Total	**3,185**	**23.6**	**15,168**	**100**

Note:

[1] Excluding earmarked bids

Source: Department of Finance

Another way to calibrate departments' bids is to compare the total of their baseline, their bids and their earmarked spending and compare it to their final plan allocations for 2023-24 (Table 4.5) This shows that all departments were seeking to increase their budgets from last year with Justice, Finance and Education all seeking over 20 per cent more. Notably Health requested only 8 per cent more (although Health's high baseline means the absolute level of funding requested was still the highest of any department).

[32] https://www.bbc.co.uk/news/uk-northern-ireland-68924191

Table 4.5 - Departmental resource requirements compared to 2023-24 and 2024-25 allocations

£ million	Baseline	Earmarked	Bids	Total Requirement	Final Plan 2023-24	2024-25 Requirement as a % of 23-24 Final plan
Health	7,244	44	1,293	8,581	7,943	108.0
Education	2,576	0	910	3,486	2,879	121.1
Justice	1,123	44	446	1,614	1,259	128.1
Communities	702	141	130	974	870	111.9
Economy	742	5	104	851	796	106.9
Infrastructure	520	-	157	677	631	107.2
Agriculture etc.	229	333	96	658	601	109.5
Finance	149	58	26	232	180	128.9
The Executive Office	81	101	8	190	161	117.6
Minor Departments	108	-	17	124	112	110.7
Total	**13,473**	**728**	**3,185**	**17,386**	**15,433**	**112.7**

Source: Department of Finance

Table 4.6 below shows that the minor departments were the most successful in securing allocations followed by Health and the Economy, all receiving over 90 per cent of the amount they requested.[33] On the other end of the scale were Justice and Infrastructure who received only 78.2 per cent and 82.7 per cent of their requirements. This will inevitably create a challenging budgetary environment for these departments.

Table 4.6 - Departmental resource requirements versus allocations received

£ million	Total Departmental Requirement	Total Allocation	Allocation vs requirement (%)	Allocation vs 23-24 Final Plan (%)
Health	8,581	7,760	90	97.7
Education	3,486	2,874	82	99.8
Justice	1,614	1,262	78	100.2
Communities	974	856	88	98.4
Economy	851	767	90	96.3
Infrastructure	677	560	83	88.7
Agriculture etc.	658	577	88	96.1
Finance	232	208	90	115.3
The Executive Office	190	183	97	113.6
Minor Departments	124	121	97	107.7
Total	**17,386**	**15,168**	**87.3**	**98.3**

Source: Department of Finance

[33] The Executive Office appears on this measure to have over 90 per cent of its requirements allocated, however it did not have its earmarked requirements met in full. This leaves the department with a forecast £28 million pressure on a demand-led funding stream (victims' pensions). The department has received an Executive commitment that this funding will be provided in-year should the full funding pressure materialise (in previous years it has been underspent).

Table 4.7 identifies the proportion of non-earmarked bids met for each department. The table illustrates a clear difference in success rate between minor departments (whose budget is not set by Executive) and NICS departments, none of whom had more than around a third of their total non-earmarked bids met. Setting aside the minor departments we see that bigger spenders generally do better for non-earmarked bids, a pattern not prevalent in the allocation of earmarked funds.

Table 4.7 – Proportion of submitted non-earmarked bids met

£ million	Bid submitted	Bid met[1]	% of bid met
Health	1,293	472	36.5
Education	910	298	32.7
Communities	130	13	10.0
Justice	446	95	21.3
Economy	104	20	19.2
Infrastructure	157	40	25.5
Agriculture etc.	96	15	15.6
Finance	26	1	3.8
The Executive Office	8	1	12.5
Minor Departments	17	13	76.5
Total	**3,185**	**968**	**30.4**

Note:

[1]Includes budget increase for Oversight bodies

Source: Department of Finance

Comparison with UK Government spending in England

Under the Barnett Formula, increases in UK Government spending in England on items for which the Executive is responsible in NI generate less-than-proportionate increases in the Block Grant to fund equivalent spending in NI. Table 4.8 shows that thanks to the additional funding provided in the UK Government package for this year, most NI departments will see a smaller decrease in real-terms spending than their nearest Whitehall equivalents. However, the two largest spenders, Health and Education, both see larger decreases than their Whitehall equivalents. It should be noted that departmental responsibilities do not always match very closely.

Table 4.8 – Real terms spending increases from 2023-24 (final plan) to 2024-25 (opening position)

	NI department (%)[1]	Nearest equivalent UK Government department(s) (%)[1]	Difference (percentage points)
The Executive Office	6.6	-74.4	80.9
Finance	8.3	-37.2	45.5
Infrastructure	-16.8	-34.5	17.7
Justice	-5.9	-19.4	13.5
Minor departments	1.1	-11.7	12.8
Economy	-9.6	-20.6	11.0
Agriculture etc.	-9.8	-17.7	7.9
Health	-8.3	-5.5	-2.8
Education	-6.3	-2.7	-3.6
Communities	-7.6	2.9	-10.5
Total[2]	**-7.8**	**-7.1**	**-0.7**

Notes:

[1] Per cent change is calculated in real terms using March 2024 HMT GDP deflators. Change in NI departments from 2023-24 final plans i.e. including the UK Government's financial package. Change in UK 'nearest equivalent' from UK departmental final plans for 2023-24 to 2024-25 as at Spring Statement 2024

[2] The total real terms decrease show n for UK Government departments is for equivalent UK Government departments only, and excluding UK Treasury reserves. The NI departmental total for 2023-24 excludes a £13 million reallocation betw een departments w hich is yet to be confirmed.

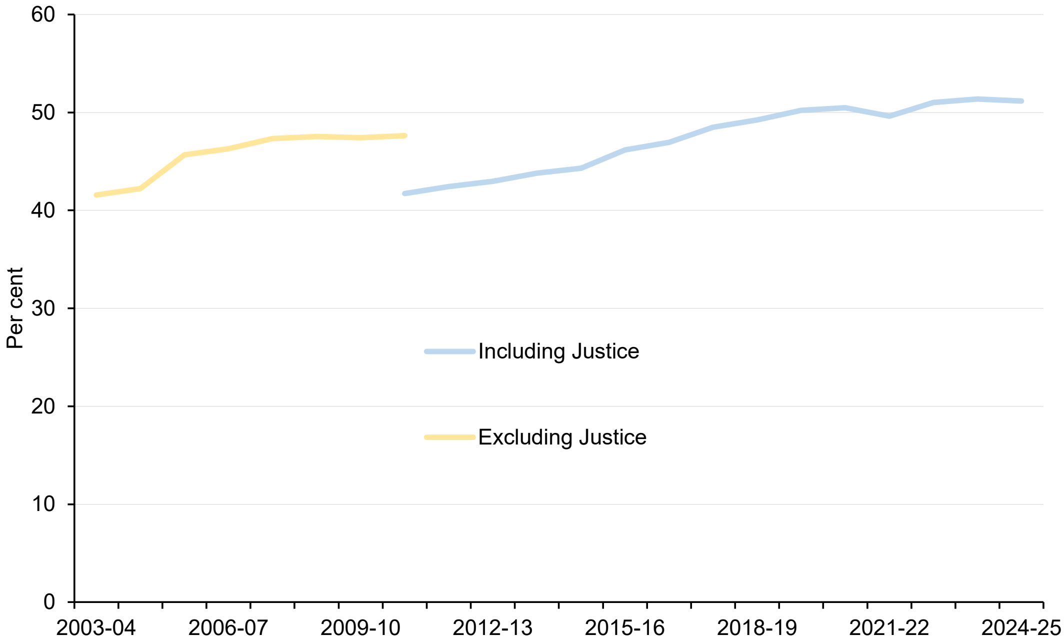
Source: HM Treasury & Department of Finance

Box 4.1 Update on relative funding and need for Health in NI

Apart from Covid-19 this is the first time that the Department of Health (previously the Department of Health Social Services and Public Safety) share of total planned spend has fallen over the Budget period. However, when compared to the level of funding premium estimated to be needed above England, the level is still towards the higher end of the range of estimated need used in our *Sustainability Report: 2022 special focus: Health*.[1]

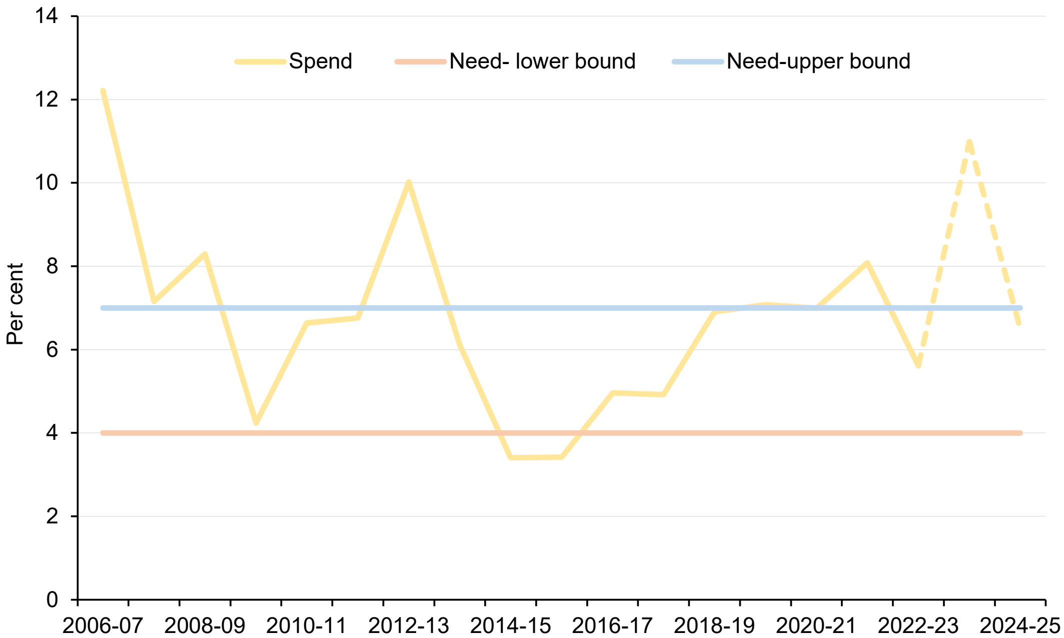
The lower bound figure for health need, of 4 per cent, reflects the longer-term growth rate for net health and social care spending in NI. A 4 per cent figure (4.45 per cent, unrounded) was used by Treasury in its 1994 Needs Assessment Study[2] to represent the higher need in NI than England per head of population for expenditure on health care services. The figure of 7 per cent for the higher bound arises from Professor Appleby's estimates for NI health need in his Rapid Review of NI Health and Social Care Funding.[3]

Chart 1 - Planned Health spend as a percentage of total planned NI departmental spend (RDEL)



Source: Department of Finance & Northern Ireland Office

Chart 2 - NI health spending premium and relative need compared with England



Source: HM Treasury Country and Regional Analysis, Spring Budget & Department of Finance

Although Health's funding level relative to England appears manageable in this budget period (and was relatively high last year) the degree of change within a single financial year (around 2 per cent lower than final plan) is likely to be difficult to manage. Health pay was the largest element of the public sector pay settlement. As a recurrent cost, pay pressure will be difficult to reduce within the fiscal year. Health have bid for over £460 million to meet these pressures in 2024-25 despite departments being asked to subsume these pressures within their allocated budgets. Given the scale of the impact of previous pay awards on the Health budget the residual unmet pressures in Health (of around £300 million against the Health Minister's expressed minimum viable budget) will be challenging.

The Health Minister has recently highlighted the 15.7 per cent increase in health and social care staff between 2018 and 2023,[4] but there is no indication that the level of hospital activity has increased as a result. It is critical that addressing the efficiency gap with England is a focus of the ongoing transformation programme for Health and for the Public Service Transformation Board in order to improve the performance of the NI health and social care service.

Chart 1 shows that the budget allocations to Health have been increasing over time reflecting the demands from an ageing population, technological change and rising public expectations. This is consistent with the experience in the rest of the UK as well as the projections by the OBR for the UK and the OECD for the rest of the world that healthcare spending will consume an increasing proportion of national income in the years ahead. Although it has been possible to increase the share of funding allocated to Health in recent years in NI in part due to a reduction in the large funding premium for Justice, this will become more challenging in the future. The budget allocation for Health in 2024-25 represents the first time that its share of the total allocation to NI departments has fallen over the period covered by an NI budget, outside of the exceptional situation of Covid-19. Going forward the Executive will be faced with the choice between unprecedented and radical change to the health and social care service or severe constraints on other parts of the public sector unless there is an increase in overall funding for public services either from an increase in UK taxes or enhanced revenue raising by the Executive.

[1] https://www.nifiscalcouncil.org/publications/sustainability-report-2022-special-focus-health See page 10
[2] https://www.nifiscalcouncil.org/publications/sustainability-report-2022-special-focus-health See pages 22 and 97
[3] https://www.health-ni.gov.uk/sites/default/files/publications/dhssps/appleby-report-2011.pdf See page 28
[4] https://www.health-ni.gov.uk/news/minister-announces-training-places-0

The conventional capital budget

The public and political debate around budget pressures and potential overspending has understandably focused on resource spending, as this is at the forefront of people's minds when thinking about keeping public services running. But the capital budget, although smaller, is integral to the long-term ability to deliver public services, supporting investment in infrastructure and research.

As Table 4.9 shows, the Budget makes provision for £2,087 million of conventional capital spending in 2024-25, mostly financed by the Block Grant. Additional funding comes from £220 million of planned capital borrowing under the Reinvestment and Reform Initiative (RRI). This is a higher figure than was routinely available in previous years, reflecting the 10 per cent increase to the annual borrowing agreed with the Treasury limit under UK Government package. The financing also includes £89 million of Irish Government funding specifically for the A5 road project (the statutory decision-making process for this project is ongoing). This funding is part of the Irish Government's €600 million commitment to the A5 under the Shared Island Funding programme (which totals €800 million and also includes Casement Park and other projects).

Table 4.9 - Capital DEL capital spending and financing

£ million		NIO's 2023-24 Budget	2023-24 Final Plan	Executive's 2024-25 Budget
FINANCING				
	Block Grant	2,040	2,097	1,779
	Irish Government Funding	-	-	89
	RRI Borrowing	200	150	220
TOTAL FINANCING		**2,240**	**2,247**	**2,087**
pays for				
SPENDING				
	Departmental spending	2,240	2,242	2,087
	Centrally held	1	5	-
TOTAL SPENDING		**2,240**	**2,247**	**2,087**

Source: Department of Finance

The conventional capital budget is 7 per cent lower than the Secretary of State's initial capital budget for 2023-24 and the budget that departments were working with at the end of the year. In real terms this is a drop of 8 per cent. (In contrast to resource funding, the initial budget last year was not topped up materially either by Barnett consequentials or the UK Government support package. But the relatively large decrease against the 2023-24 final plans is explained in part by a one-off adjustment of £139 million due to a change in the accounting treatment for leases).

Table 4.10 shows that almost all departments are facing a cut in conventional capital funding this year, with only Economy, Justice, Finance and the Minor departments seeing increases relative to their final plan allocations last year.

Table 4.10 – Capital spending allocations by department for 2024-25

£ million	NIO's 2023-24 Budget	2023-24 Final Plan	Executive's 2024-25 Budget	Change between 23-24 final plan and 24-25	Change in per cent (%)	Change between NIO opening 23-24 budget and 24-25	Change in per cent (%)
Infrastructure	792	825	820	-5	-0.6	28	3.5
Health	469	469	417	-52	-11.1	-52	-11.1
Economy	246	217	222	5	2.5	-24	-9.7
Communities	216	216	133	-82	-38.2	-83	-38.2
Education	219	277	254	-23	-8.2	36	16.3
Agriculture etc.	116	97	95	-2	-2.5	-21	-17.9
Justice	129	90	92	2	2.5	-37	-28.6
Finance	38	35	39	4	11.4	1	2.6
The Executive Office	12	12	11	-2	-15.6	-1	-12.2
Minor departments	4	4	5	1	16.3	1	19.6
Departmental allocations	**2,240**	**2,242**	**2,087**	**-154**	**-6.9**	**-152**	**-6.8**
Centrally held[1]	-	5	-	-	-	-	-
Total	**2,240**	**2,247**	**2,087**	**-160**	**-7.1**	**-152**	**-6.8**

Note:

[1] Centrally held 2023-24 Final Plan unallocated. This w ill be eligible for Budget Exchange into 24-25.

Source: Department of Finance

As noted above, departments bid for capital funding against a zero baseline and with projects identified as earmarked, inescapable, pre-committed, high priority or desirable. On this occasion the total cost this year of the inescapable and pre-committed projects identified by departments exceeded the amount available for allocation by just over £120 million (Table 4.11). Departmental bids[34] ranged from over £1 billion for Infrastructure to £14 million for The Executive Office and exceeded the funding available by 33 per cent. The proportion of inescapable and pre-committed bids accepted ranged from 100 per cent of total bids for Health to 56 per cent for Justice meaning that there is little funding left for new projects. As in previous years Infrastructure have received the vast majority (over 39 per cent or around £820 million) of the capital funding available. This was less than the amount requested to cover their inescapable and pre-committed bids and lower than the closing position for 2023-24. A number of other departments similarly received less than the total of their inescapable and pre-committed bids including Communities, Economy, Education, Finance and the Executive Office. As a consequence, both departmental and project spending profiles may have to be adjusted.

The Department of Finance made recommendations on departmental capital allocations, within the capital envelope available to the Executive. To do this it gathered information through engagement with departments, at both Ministerial level and at official level, on project expenditure profiles and the ability of

[34] Excluding earmarked bids

departments to scale their capital investment. The Department used the information to come to a judgment on projects where there is potential to re-profile expenditure in order to live within a constrained funding envelope.

Table 4.11 - Capital bids versus allocations by department

£million	Bids (excluding earmarked)	*of which* Inescapable and Pre committed	Inescapable or precommitted bids as a % of total bids	General Allocations	Total Allocations (General plus Earmarked)	Total Allocations as a % of available budget
Infrastructure	1,024	822	80.3	631	820	39.3
Communities	298	286	96.1	115	133	6.4
Health	364	364	100.0	336	417	20.0
Economy	295	245	83.1	204	222	10.6
Education	446	272	60.9	234	254	12.2
Justice	126	71	56.3	92	92	4.4
Agriculture etc.	155	95	61.2	95	95	4.6
Finance	50	42	84.7	39	39	1.9
The Executive Office	14	13	91.3	10	11	0.5
Minor departments	1	0	30.3	5	5	0.2
Total	**2,773**	**2,211**	**100.0**	**1,761**	**2,087**	**100.0**
As a % of total budget available for allocation	*133*	*106*	-	-	-	-

Source: Department of Finance

As with resource spending, some capital funding (almost 16 per cent) has already earmarked by the Executive for specific purposes such as Casement Park, sub regional stadia, the A5 Road, the Strule Shared Education Campus the City/Growth Deals amongst others, as shown in Table 4.12 below. Any funding which is not used for these purposes must be returned to the centre to be reallocated where applicable.

Table 4.12 - Earmarked Capital Items

£ million Department	Total CDEL allocation	Earmarked funds within CDEL	Earmarked as proportion of allocation (%)
Infrastructure	820	189	23.0
Health	417	81	19.4
Communities	133	18	13.5
The Executive Office	11	1	9.5
Economy	222	18	8.1
Education	254	20	7.9
Agriculture etc.	95	0	0.2
Justice	92	-	-
Finance	39	-	-
Minor Departments	5	-	-
Total	**2,087**	**327**	**15.7**

Source: Department of Finance

The financial transactions capital (FTC) budget

As we have discussed in previous publications, Block Grant funding for Financial Transactions Capital (FTC) spending – which can only be spent on loans to or equity injections in private entities (including institutions like universities) – arises largely from the Barnett consequentials of UK Government measures to support the housing market. Neither the Executive nor the other devolved administrations have found it easy to spend as FTC-enabled loans or equity stakes in the private sector are not particularly convenient ways to address their investment priorities.

Table 4.13 shows that the Budget includes £62 million of Block Grant funding for FTC spending this year, with £41 million allocated to departments and the rest held centrally. Departmental bids for FTC funding totalled just over £40 million. All were met with allocations going to Communities, Economy and The Executive Office.

Table 4.13 – FTC financing and spending 2024-25

£ million	NIO's 2023-24 Budget	2023-24 Final Plan	Executive's 2024-25 Budget
FINANCING			
Block Grant	66	41	62
TOTAL FINANCING	**66**	**41**	**62**
pays for			
SPENDING			
Departmental spending	28	29	41
Unallocated	38	3	21
NI Investment Fund	-	9	-
TOTAL SPENDING	**66**	**41**	**62**

Source: Department of Finance

Does the budget balance?

The funding pressures this year are very significant, especially when viewed through the perspective of departmental funding levels at the close of the last financial year, only a few months ago. Relative to that position, departments will need to make savings or efficiencies to remain within budget. However, despite this difficult funding picture, the Executive has agreed a Budget that meets its target. Money in and planned money out are balanced, *ex ante* at least.

The Department of Finance anticipates some further allocations from Treasury in relation to various financial packages. But these are relatively small and already earmarked, as we noted earlier, and will not have a material effect on the budget position. The challenge remaining for this fiscal year will be for individual departments to balance their own budgets in order to live within these Executive allocations, especially since no Minister received all that they asked for.

With the return of the Executive and Assembly and normal budgetary processes, one would expect the in-year management of departmental budgets and scrutiny of the forecast outturn position to reduce the risk of overspending that materialised in the last two years when the Executive and Assembly were not functioning. Committees will be able to scrutinise departmental expenditure and this will offer

Ministers and the Executive an opportunity to take action if required, generally during in-year monitoring rounds. But individual Ministers will still have to take decisions on how to best allocate the funding envelopes offered to them and closely manage their own department's position.

One concern is that the experience of the last two years may have diminished the political stigma of over-spending against budget, especially if you know that you are not going to be the only Minister or department to do so. The parties know that the Treasury has been willing to step in and provide additional resources rather than allow the collapse of public services in NI and they may expect it to do so again, a situation of 'moral hazard'. The 'cliff-edge' in funding implied by the support package in 2026-27 may also undermine any claims by the Treasury that the Executive has received all the help that it needs and is going to get.

5 Implications beyond 2024-25

The UK Government support package has provided three years of short-term financial support to help address the Executive's current budget crisis. The injection into last year's Budget was largely retrospective, addressing some but not all the cost of backdated public sector pay deals as well as the projected overspend. Smaller but still significant sums have been made available for this year and next, although the ongoing costs of the pay awards will likely consume all the non-earmarked additional assistance and more.

As regards next year:

- The support package provides a further £520 million for the stabilisation of public services. This can be used for any purpose the Executive determines, although in practice it will be swallowed up by pay. The package also includes £94.6 million of 'un-ringfenced' transformation funding.
- There remains £47 million available this year and each future year up to and including 2028-29 when a Public Sector Transformation Board is established and agrees how it should be spent.
- The Executive is awaiting confirmation from the Treasury around the application of the new 24 per cent uplift to future Barnett consequentials. This is yet to be applied to the £99 million of Barnett consequentials generated for this year at Spring Budget – worth almost £24 million. It would also apply to any further Barnett consequentials that arise next year.

The UK Government has agreed to pause debt repayments from 2022-23 and 2023-24 of up to £559 million to allow the Executive to stabilise services and begin implementing its plan to deliver sustainable finances. The UK Government will no longer require these funds to be repaid if the Executive publishes a plan to deliver sustainable public finances and services by the end of Summer 2024 and demonstrating implementation by May 2025. If these conditions are not met, in principle the Treasury would require repayment in 2025-26, bring forward the funding cliff edge by a year. But stakeholders may wonder if this is a credible threat.

In this context, difficult decisions remain to be taken by the Executive, and by individual Ministers, to ensure that each of the NICS departments lives within the allocations determined at Executive level for their remaining pay and non-pay pressures – both this year and next.

There are several interventions that could in principle ameliorate budgetary pressures in the coming years. In no particular order, these could include:

- Putting in place **a costed Programme for Government and an Investment Strategy** that provide clear prioritisation and align with the Budget over the short-medium term.

- **Setting a Budget in advance** of the financial year. The timing of this year's Budget was constrained by the timing of the Executive's restoration. The Executive's work to agree and put this in place as soon as possible at the start of the fiscal year will give departments more time to plan for and deliver within their allocations. In future years the Executive should aim to have this in place prior to the start of the fiscal year. The longer departments have to plan, the wider the range of potential options they can deploy to address budget pressures.

- A further increase in the **Regional Rates**. But this would need to be large to make much of an impact on the overall resource funding envelope – a 10 per cent increase would yield only £70-75 million based on the gross income projections in the Draft Budget. The UK Government has indicated to the parties that it estimated a 15 per cent increase in the regional rate would yield approximately £113 million per annum for the Executive.[35]

- The introduction of explicit **domestic water charges allied to an increase in the Regional Rate**. Introducing a charge (which we estimate could be roughly £800 per household) to bring the average level of the charge plus Regional Rates into line with the average level of water charges and council tax in England could raise £615 million, based on there being 768,900 NI households. This would be sufficient to increase total Executive spending by around 4 per cent in 2024-25 but no doubt at the cost of significant political controversy. The Minister for Infrastructure has ruled out the introduction of domestic water charges.

- **Public sector pay restraint**, however unpopular and difficult, would improve the manageability of the NI public finance. The UK Government committed £584 million to provide public sector pay awards in NI for 2023-24, leaving it up to the Executive to decide on the levels of pay awards and to balance these costs against other priorities. A pay award was agreed for 2023-24 which cost over £600 million a significant proportion of which was consolidated and therefore recurrent. This will utilise most if not all the non-earmarked funding available from the financial package for 2024-25.

- **Departmental savings** from the cessation of lower priority areas of expenditure.

- Uplifting or introducing other **fees and charges**. While Rates and domestic water charges are potentially large revenue-raising levers, there are many other public services where fees could be increased up to full cost recovery or where charges could be levied where costs are not currently recovered.

[35] https://www.bbc.co.uk/news/uk-northern-ireland-68282329

6 Concluding reflections

We have set out in this report how the NI Executive's Budget for 2024-25 achieves balance – *ex ante* at least. The onus is now on the Executive to live within it.

A number of potential 'red flags' have become apparent in the build up to and development of the Executive's draft Budget:

- Least concerning, in one sense, is the **timing** this year with the Budget delivered only after the commencement of the fiscal year to which it relates. This is far from ideal, as we have previously warned, but in this case is directly linked to the restoration of the Executive towards the end of the preceding fiscal year. This significantly shortened the timelines available for the 'normal' processes we described in Chapter 3.

- The **lack of an Executive-agreed Programme for Government** means that departmental allocations are being made in the absence of a definitive and published strategic position.

- The medium-term **budgetary cliff-edge** facing the Executive. While this is not currently anticipated to bite in the current or next fiscal year, it sets a bleak context for the current budget, and adds to the uncertain context in which decisions are being made.

- The **conditionality on the Executive's debt** from historic overspends, and the difficulty the Executive is having in meeting these conditions. The impact of having to repay the previous Reserve claims would be to bring forward the cliff edge by a year, into the next fiscal year.

- The **lack of buy-in from the Health Minister**, responsible for the single highest spending department, and consequentially around half of the Block Grant.

- A real-terms **fall in both resource and capital** from the position at the end of the last fiscal year. Executive Ministers have been open about the fact that no Minister is starting the year in a fully funded position having their bids met. So decisions will be needed in every department to ensure public services are delivered within the Executive budget allocations.

- **Pay growth** is budgeted for at 3 per cent awards, but any pay awards must be met within departmental budgets. This might require further headcount reductions in some departments or could result in further strike action.

- The **potential for continued overspend**. As well as the risk of not meeting the conditionality around its debt write-off, there remains the potential for NI departments to overspend in this fiscal year. Although the Executive has sent a strong signal that it intends to balance its budgets, the cumulation of other risks could jeopardise this goal unless strong monitoring and control is reestablished now Executive Ministers have returned.

In the previous Chapter of this report we described several actions that could improve NI's public finances in future years. At a strategic level, the restored Executive faces the same three key questions we raised in our first Budget assessment:[36]

- Should we in NI **raise more money** for public services. If so, how?
- Where should we look to **save money** through greater efficiencies?
- Do we need to **reduce or completely stop delivering** any services?

The Executive in its letter to the Prime Minister on 5 February 2024 agreed to progress a Fiscal Framework and develop a plan for fiscal sustainability. In their letter the Executive advised that officials would commence the process of developing a sustainability plan, which will include a focus on:

- A productivity plan;
- Long-term (budget) planning;
- Additional funding (revenue raising and other sources); and
- A capital plan.

In their letter, the Executive also called for discussions around the capital funding package to enable the Executive to look at its own capital allocations. They have also asked for the need for a 'significant tranche of transformation funding to enable the Executive to invest to save thereby delivering long term sustainability'.[37]

In our commentary on the financial package we highlighted that the NI Executive has in the past tended to take decisions on public service provision, welfare payments and revenue raising that are on balance more generous than in GB, imposing costs that crowd out other potential calls on the resource budget. These include the absence of domestic water charging, lower levels of rates and greater rate reliefs, welfare reform mitigations, lower tuition fees, more generous concessionary travel, free prescriptions and covering domiciliary care costs. These 'super-parity' decisions cost more than £600 million in 2021, far outweighing the rarer 'sub-parity' decisions, notably less generous financial support for childcare. This is another area that the Executive may need to consider when looking at long term financial sustainability.

The 'Barnett adjustment' included in the UK Government package has the effect of stopping the Barnett squeeze. Rather than tending to the same per-head funding level as England, NI's funding per head will instead now tend to its level of estimated need, 124 pounds per 100 pounds spent in England. This effect does not bring NI's funding up to this level overnight, as it applies to new funding only. The additional funding generated is relatively small in the initial years, but over time the

[36] https://www.nifiscalcouncil.org/publications/ni-executives-2022-25-draft-budget-assessment
[37] https://www.executiveoffice-ni.gov.uk/news/executive-discuss-financial-stability-prime-minister#_ftn1

adjustment will generate significant value for NI and help to address the sustainability of its public finances.[38] We discuss the effect of the new adjustment in our publication on the UK Government deal.

[38] https://www.nifiscalcouncil.org/publications/nis-public-finances-and-uk-governments-financial-support-package-restored-executive

Appendix A - The UK Government's financial package

The 2024-25 Budget includes financial support provided by the UK Government as part of the recent political deal to encourage the Democratic Unionist Party to return to Stormont. That package offered upfront financing to deal with the near-term budget problem as well as an adjustment to the operation of the Barnett Formula that would move funding towards our broad-brush estimate of relative need and end the long-term Barnett squeeze.

The package published on 13 February 2024 has eight main components. These are:

- **One-off funding of up to £584 million to meet pay pressures** in 2023-24 through a claim on the Treasury Reserve that the Executive need not repay. For 2023-24, this funding covered much of the £634 million that a leaked letter from the Head of the NI Civil Service[39] indicated would be needed annually to maintain "broad parity" between pay in the NI public sector and in Great Britain, the majority of which relates to health and social care staff.

- A Welsh-style 'needs-based factor' that will apply from 2024-25 and see **future Barnett consequentials received by NI increased by 24 per cent**.[40] The Secretary of State indicated this is worth £785 million over the next 5 years. This would move NI's total funding per head gradually towards 124 per cent of spending in England, but not take it straight there.

- An additional one-off **£520 million of funding in each of 2024-25 and 2025-26**, roughly the amount that the NI Department of Finance estimates that departments would have gained had the proposed 24 per cent Barnett uplift been put in place at the last UK Spending Review in 2021.

- **Deferring up to £559 million of debt repayments** for two years. This includes the £297 million claim on the Reserve to cover the overspend in 2022-23, and £262 million towards 2023-24 pressures (including pay pressures). This debt will be written off entirely if the Executive publishes a plan to deliver sustainable public finances and services then implements it. The initial deadline for this was May 2024,[41] but the timeframe has been extended with the agreement of the UK Government.

- The Executive will have **increased spending power of up to £708 million** generated through the reprioritisation of existing UK Government funds (£623 million) and new UK Government funding streams (£85 million), with £235 million earmarked for public services transformation. This funding

[39] https://www.irishnews.com/news/northern-ireland/urgent-action-needed-civil-service-head-jayne-brady-tells-heaton-harris-5PQZWJUBAJOQJCRCNFSPOWHDUQ/

[40] In our Updated estimate of relative need Technical Paper (May 2023) we presented updated estimates of the relative need for public spending in NI based on changes over the past decade. We concluded that the inclusion of policing and justice powers in the Holtham analysis would increase the overall relative need for public spending in NI from 120 to around 124.

[41] https://www.finance-ni.gov.uk/publications/letter-finance-minister-chief-secretary-treasury

will be available over a five-year period starting in 2024-25, with the earmarked public services transformation element to be released at the discretion of a (yet to be established) Public Sector Transformation Board. The main sums left unspent are from the Stormont House Agreement and New Decade New Approach in 2020 (the most recent such agreement). More detail on this is available in our publication on the UK Government deal.[42]

- An additional **£34 million to tackle hospital waiting lists** exacerbated by Covid.

- A **10 per cent increase in the £200 million annual limit on capital borrowing** by the Executive under the Reform and Reinvestment Initiative (RRI) in 2024-25, followed by increases in line with inflation. This is forecast to provide around £135 million of additional borrowing capacity by 2028-29.

- The UK Government committed to open **discussions with the Executive on a new Fiscal Framework**. The Framework would need to put in place the precise details of how the needs based adjustment would work. It might also consider how the Treasury would treat the uplift at any future point where total funding was to exceed relative need, either as a result of population changes or non-Barnett additions. The discussions might also cover tax devolution; the Executive's resource borrowing powers; and whether the Executive should run a contingency reserve (like Scotland and Wales) to smooth its spending rather than relying on Budget Exchange which only limited underspends to be carried forward from one year to the next.

[42] https://www.nifiscalcouncil.org/publications/nis-public-finances-and-uk-governments-financial-support-package-restored-executive

Appendix B

Reconciliation of the Block Grant to the amount available to departments for allocation

£ million	
Block Grant	14,548
Regional Rate Income	698
Total Funding to Allocate	**15,247**
Less: Centrally held	
Childcare	*25*
Delivering social change	*1*
Debt Interest RRI	*53*
Total departmental planned spend per Written Ministerial Statement	**15,168**
Less: Opening Departmental Baselines	13,515
Less: IFRS Adjustment	-42
Revised Departmental baselines	**13,473**
Balance remaining after baselines	**1,695**
Less Earmarked funds:	
HMT Earmarked	
Farm & Fisheries	*332*
Security	*31*
Tackling Paramilitarism	*5*
Financial Package	
Waiting lists	*34*
Executive Earmarked	
HIA, Victims Truth Recovery	*100*
Welfare Reform Mitigations	*45*
Rates Rebate	*124*
EU Peace Match	*7*
Tackling Paramilitarism Match funding	*8*
Increase in de rating grant	*10*
Office of building safety	*2*
Graduate Entry Medical School	*13*
Integr8	*17*
Total Earmarked	**728**
Budget Increase for Oversight Bodies	9
Available for allocation per Written Ministerial Statement	**958**

Source: Department of Finance