Northern Ireland Fiscal Council

Bringing transparency to NI's public finances

NI Fiscal Council response to 2025 Spending Review

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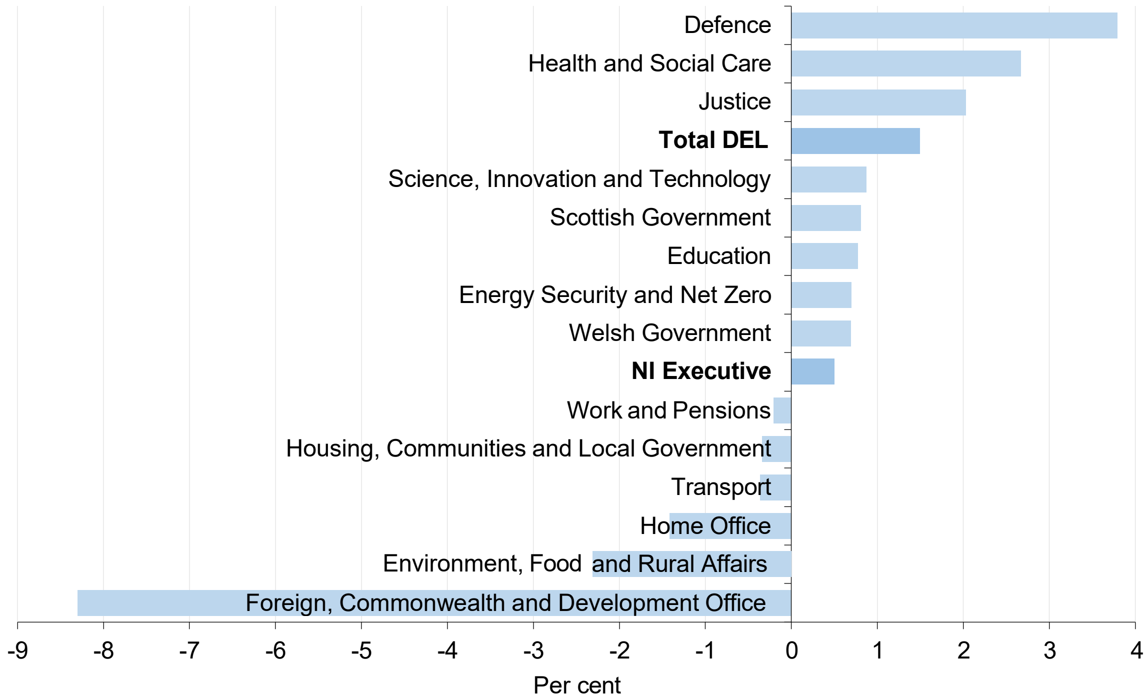
The Settlement for NI

On 11 June 2025, the Chancellor of the Exchequer announced the outcome of the Spending Review.[1] This sets planned day-to-day spending (RDEL) totals for all UK Government departments for the three financial years from 2026-27 to 2028-29, and investment spending (CDEL) plans for a further year (from 2026-27 to 2029-30).

The Treasury has also published plans for the Block Grant to the NI Executive for this period, with changes relative to 2025-26 mostly resulting from the operation of the Barnett formula.

On average, UK Total DEL (TDEL) is set to increase by 1.5 per cent per annum in real terms, with corresponding average annual NI Executive Block Grant growth at 0.5 per cent in real terms.

Chart 1 - Average annual UK TDEL growth in real terms (2025-26 to 2028-29)



Source: HM Treasury

[1] https://www.gov.uk/government/collections/spending-review-2025

The relatively lower growth of the NI Executive Block Grant from 2025-26 to 2028-29 reflects the fiscal 'cliff edge' in 2026-27 we highlighted in our report on the 2024 restoration package.[2] The one-off stabilisation funding for public services (resulting in a higher baseline) that falls away after 2025-26 has the effect of lowering the relative growth rate for NI funding. Given that previous political funding packages have included an element for pay, this lower growth rate is likely to make pay parity progressively harder for the NI Executive to maintain.

As part of this SR, UK departments are also planning to deliver at least 5 per cent savings and efficiencies by 2028-29. The Office for Value for Money has worked with departments to agree efficiency targets and delivery plans.[3]

Barnett funding

Relative to the 2025-26 baseline, the Spending Review confirmed the following additional funding through the Barnett formula:

- £533.0 million RDEL and £223.8 million CDEL in 2026-27
- £1,015.5 million RDEL and £183.4 million CDEL in 2027-28
- £1,510.0 million RDEL and £220.4 million CDEL in 2028-29
- £250.8 million CDEL in 2029-30

The Spending Review includes the cumulative effect of baselining. We have separated out the annual additional Barnett consequentials in Table 1 to show the year-on-year growth.

Table 1: Annual Barnett consequentials

£ million	2026-27	2027-28	2028-29	2029-30
Resource DEL	533.0	482.5	494.5	-
Capital DEL (of which)	223.8	-40.3	36.9	30.5
General CDEL	*189.4*	*-41.2*	*10.9*	*8.4*
Financial Transactions Capital (FTC)	*34.4*	*0.9*	*26.0*	*22.0*
Total DEL consequentials	**756.8**	**442.2**	**531.5**	**-**

Source: HM Treasury

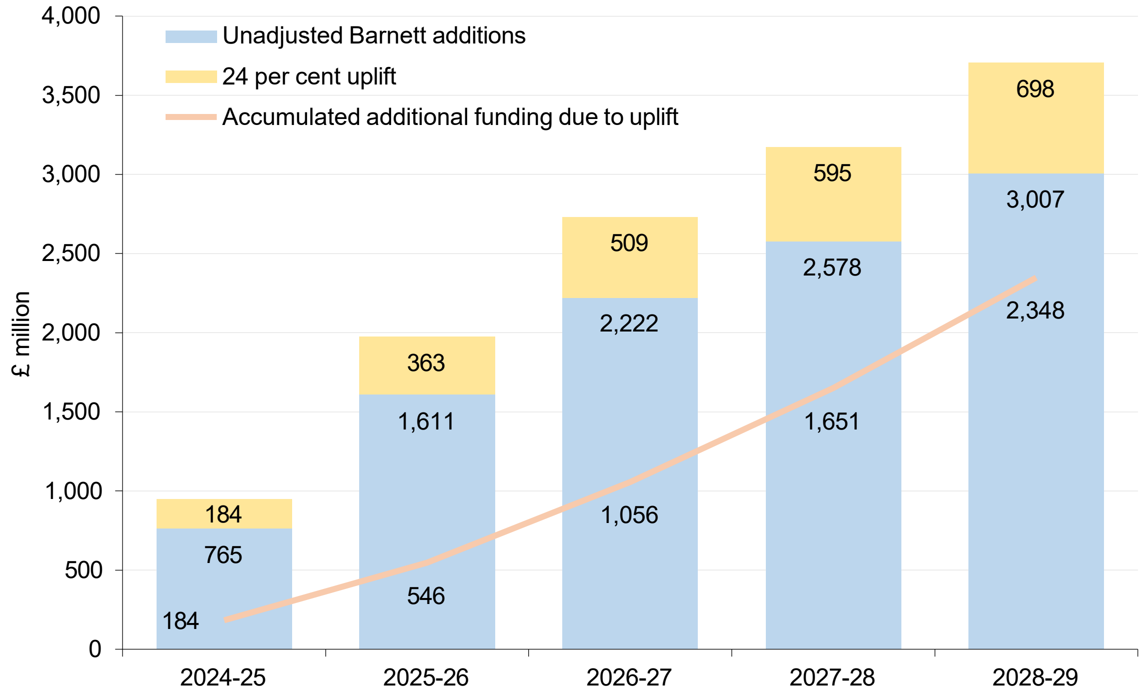
The Treasury figures also assume the operation of the 124 per cent uplift factor throughout the SR period. The figures project that the NI Executive's funding will exceed its relative need of 124 per cent of comparable UK Government spending by 2027-28. Our understanding of the Interim Fiscal Framework is that this would trigger the application of the transitional 105 per cent uplift factor. But this is not factored into the SR DEL plans and remains to be confirmed at a future UK fiscal event.

[2] https://www.nifiscalcouncil.org/publications/nis-public-finances-and-uk-governments-financial-support-package-restored-executive
[3] https://www.gov.uk/government/publications/departmental-efficiency-delivery-plans

Based on the published figures, we estimate that, by the end of the SR period, the 124 per cent uplift would have generated £2.3 billion of additional Block Grant funding for the NI Executive, as shown in Chart 2. This figure is uncertain because:

- As mentioned above, we would expect the 105 per cent transitional uplift factor to kick in by 2027-28; and
- Spending plans evolve over time and this means the further into the future we look, the less certain the plans become. This may impact on relative funding levels and when the 24 per cent pr 5 per cent uplifts could apply.

Chart 2: Barnett additions to the TDEL Block Grant since Spring Budget 2024



Source: HM Treasury, NIFC calculations

Non-Barnett allocations

The RDEL and conventional CDEL non-Barnett additions are shown below in Table 1.

Table 2: Non-Barnett funding (RDEL and conventional CDEL)

£ million	2026-27	2027-28	2028-29	2029-30
Resource DEL (of which)	**318.2**	**322.4**	**327.5**	**-**
2024 Restoration Package	94.6	94.6	94.6	-
Private Schools VAT compensation	0.3	0.3	0.3	-
R&D Compensation	2.5	2.5	-	-
Air Passenger Duty BGA	-2.6	-2.7	-2.8	-
Windsor Framework	115.6	117.9	122.2	-
Public sector transformation	59.3	61.3	64.6	-
Additional Security Fund (ASF)	37.8	37.8	37.8	-
Executive Programme on Paramilitarism and Organised Crime	8.0	8.0	8.0	-
Debt Advice	2.8	2.8	2.8	-
Capital DEL (of which)	**99.8**	**109.9**	**93.1**	**78.6**
City and Growth Deals	87.8	83.9	66.4	71.4
Windsor Framework	5.3	4.6	4.8	5.1
Northern Ireland historic funding packages (Medical School)	6.0	20.5	21.0	2.1
Northern Ireland historic funding packages (An Ciste)	0.7	0.9	1.0	-
Total DEL	**418.0**	**432.3**	**420.6**	**-**

Source: HM Treasury

RDEL

The NI Executive will receive £318 million of non-Barnett RDEL funding in 2026-27, £322 million for 2027-28 and £327 million for 2028-29, of which:

- **2024 restoration financial package:** £94.6million in each year from 2026-27 to 2028-29. This funding is un-ringfenced.
- **Private Schools VAT compensation:** £0.26 million in each year 2026-27 to 2028-29. These figures are based on estimates provided by the NI Executive.
- **R&D compensation:** £2.5 million in 2026-27 and in 2027-28. This funding is un-ringfenced.
- **Public Sector Transformation:** £59.3 million in 2026-27, £61.3 million in 2027-28 and £64.6 million in 2028-29. This funding is from the restoration financial package and is ringfenced for transformation. It will be allocated to projects with approval by the Public Sector Transformation Board and the Chief Secretary.
- **Executive Programme on Paramilitarism and Organised Crime:** £8 million in each year 2026-27 to 2028-29.
- **Additional Security Funding:** £37.8 million in each year 2026-27 to 2028-29.

- **Windsor Framework:** £115.6 million in 2026-27, £117.9 million in 2027-28 and £122.2 million in 2028-29. Ringfenced for Windsor Framework implementation.
- **Debt Advice:** Provisional allocations related to a change in approach to debt advice funding.

CDEL

The NI Executive is also receiving £99.8 million of non-Barnett CDEL funding in 2026-27, £109.9 million in 2027-28, £93.1 million in 2028-29 and £78.6 million in 2029-30, of which:

- **City Deals:** £87.8 million in 2026-27, £83.9 million in 2027-28, £66.4 million in 2028-29 and £71.4 million in 29-30.
- **Windsor Framework:** £5.3 million in 2026-27, £4.6 million in 2027-28, £4.8 million in 2028-29 and £5.1 million in 2029-30.
- **Historical Funding Packages:**
- Medical School - £6.0 million in 2026-27, £20.5 million in 2027-28, £21.0 million in 2028-29 and £2.1 million in 2029-30
- An Ciste[4] - £0.7 million in 2026-27, £0.9 million in 2027-28 and £1.0 million in 2028-29.

Financial Transactions Capital

The SR states that £50 million is available over four years to the NI Executive to support the redevelopment of Casement Park. Financial Transactions Capital (FTC) spending can only be spent on loans to or equity injections in private entities. 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 generally not particularly convenient ways to address their investment priorities.

The funding profile for this allocation of FTC funding to Casement is to be agreed with the Executive, to allow it to be drawn down within this SR period. For clarity, it is £50 million in total, not £50 million per year. There is the additional caveat that this funding is subject to sufficient finance being raised elsewhere to deliver the project.

In Committee on 18 June, Finance officials confirmed that the FTC for Casement was additional to the Barnett-derived SR settlement totals, and that the £50 million would not need to be repaid. This implies that the UK Government will be taking an equity stake[5] as reported by the media, rather than making a repayable loan.[6]

[4] An Ciste is a capital development fund to assist the development of Irish language communities.
[5] UK Government Investments, the body which advises on and analyses the UK government's financial instruments and transactions, explains that equity refers to an investment in the capital of a company, the value of which can increase or decrease depending on the businesses expected performance. https://www.ukgi.org.uk/what-we-do/contingent-liabilities/#:~:text=At%20Autumn%20Budget%202024%20the%20Chancellor%20announced%20changes,invest%20alongside%20businesses%20in%20the%20UK%E2%80%99s%20growth%20sectors.
[6] https://feeds.bbci.co.uk/news/articles/ce8zd16lgr9o

The Council previously raised the prospect of greater use of FTC being incentivised by the Treasury's new fiscal rule for debt given that financial assets can now be counted on the balance sheet and netted off against total debt.[7] The new fiscal rules mean that the FTC DEL injection for Casement will not score as borrowing. However, it might be expected that the UK Government will expect a return on its equity stake. [8] Quite what form that return on investment could take is not yet known as the details remain to be worked out.

NI's level of need and the NI Premium

NI's level of need - Professor Holtham's independent review

The Council welcomes Prof. Holtham's updated analysis and considers the work to be a valuable and credible addition to the evidence base on NI's relative need.

Prof. Holtham included agriculture in his revised estimate in light of the recent removal of the farm support ringfence in NI. He consequently places NI's need at around 128 per cent of England's. This is closely aligned with the Council's own earlier analysis (127 per cent when including agriculture), despite differences in data sources and methodology. This convergence reinforces the robustness of the overall conclusion.

At a summary level:

- Agriculture is the largest element of Prof. Holtham's new findings.
- Prof. Holtham has used spending figures for agriculture (as the council did for policing and justice) rather than the 2001 figure the council used from an older needs study.
- There are intrinsic uncertainties and ranges involved in each individual factor making up the overall needs indicator (the Council has recognised that reasonable people could take different views on these);
- There is some value in the use of the 2021 Census data on relative incidence of LLI, especially given the paucity of other up-to-date measures;
- Prof. Holtham's analysis arrives at a central estimate (including agriculture) that is within one percentage point of the Council's own estimate including agriculture;
- Prof. Holtham arrived at this value using different data and taking different methodological approaches from the Council in the areas of agriculture, policing and justice, the use of a weighted average, limiting long standing illness (LLI).

The Council notes that Prof. Holtham's factor for agriculture is based on more recent spending data (compared to older figures previously used). Although this means the

[7] https://www.nifiscalcouncil.org/publications/ni-executives-2025-26-draft-budget-assessment

[8] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/methodologies/publicsectornetfinancialliabilitiespsnfl

figure is much more up to date, historic funding levels do not necessarily equate to objective need. It can be hard to distinguish previous policy choices from the underlying need and therefore care must be taken in interpreting past expenditure as a direct measure of need.

While the use of new Census data on LLI is a reasonable step, Prof. Holtham has acknowledged it is not fully comparable between NI and England (due to a variation in the question).

Other specific observations include:

- The Council agrees strongly with the perspective that agriculture should either be included in both or excluded from both the needs and the premium estimates – to ensure a 'like for like' comparison. In the longer term it may be more appropriate to include agriculture in both (it is currently excluded) but the difference is likely to be marginal in the short-term while this is considered by Treasury.
- The methodological differences between the Council's overall approach and that of Prof. Holtham tend to cancel each other out, arriving at a very similar overall figure, which should provide assurance to the Executive and the UK Government that a figure of around 127/128 is relatively robust.
- Professor Holtham's figure excluding agriculture at 123 is marginally lower than the Council's 124 per cent. As discuss below, the Treasury has continued to operate the uplift at the higher figure.
- The report sets out a reasonable case for incorporating the new census data on LLI, despite known comparability difficulties. The evidence provided by NISRA - and the regression analysis that was shared separately with the Council - indicate that the new data would lead to an upward movement in the estimate. The report attempts to handle this in a balanced way, acknowledging limitations and avoiding full reliance on the data.

Considering the above, the Council is of the opinion that this review usefully informs and reinforces the evidence-base that NI's need is significantly greater than that in England, at around 127/128 when agriculture is included and while noting the challenges in comparability

DoF officials have argued in evidence to the Finance Committee on 18 June 2025 that the review leant weight to their argument that agriculture should be excluded from the relative need calculations for this SR period. Treasury has agreed to consider the review as part of the discussions on the Final Fiscal Framework, including the finalisation of the need/relative funding methodology for the longer term.

The premium calculation methodology and its approach to agriculture

NI's relative funding premium methodology

As required under the Interim Fiscal Framework, the Treasury has published the relative funding methodology (agreed with the NI Executive) to determine whether the full 124 per cent uplift factor is applied to Barnett consequentials, or the transitional 105 per cent factor.

The methodology sets out that transitional factor of 105 per cent will apply when the Executive's per head (Barnett-based) funding is above 124.05 per cent of that in England. The NI Executive's relative funding level compared to equivalent UK Government spending in the rest of the UK over the SR period is as follows (see Chart 3 below):

- 2026-27 – 124.01 per cent
- 2027-28 – 124.55 per cent
- 2028-29 – 124.94 per cent

For this SR period the NI spending premium (initially at 124.01 per cent of England's) is just under the threshold of 124.05 per cent where the 105 per cent uplift factor would apply. This means that the 124 per cent uplift factor will apply at the outset rather than the 105 per cent figure. However, this will be reviewed at fiscal events and the 105 per cent transitional rate may kick in during the SR period should NI's funding exceed the threshold as projected.

How the methodology deals with agriculture funding

The methodology now excludes agriculture from the calculation of the funding premium – mirroring its exclusion from the 124 per cent needs estimate. A brief summary of how this issue arose and its impact is included at the Appendix. While this change has the effect of reducing the NI premium, other methodological changes on population effectively offset this as we discuss below.

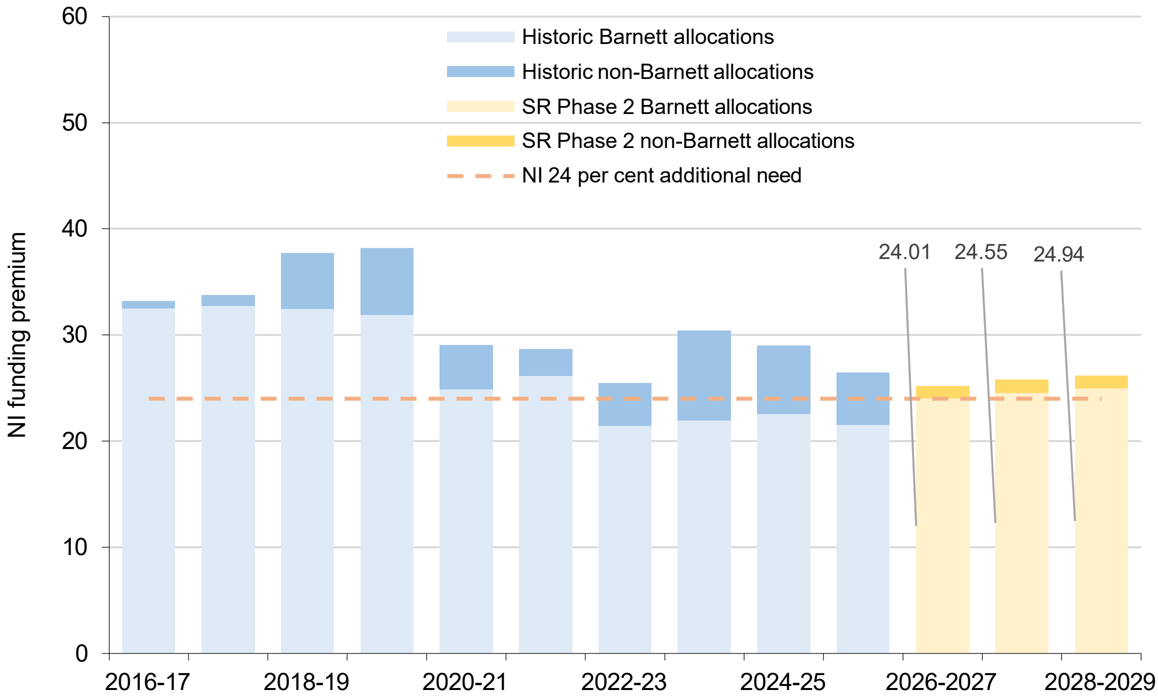
Treasury officials have confirmed that agriculture has not been excluded from the premium calculations for Scotland or Wales. This means that the premium figures are not directly comparable across the devolved administrations. Seasoned observers of UK devolution may not be surprised by this: the asymmetric nature of devolution is regularly commented upon.

The current level of the NI funding premium

Excluding non-Barnett allocations to the Block Grant, the premium is set to be between 24 and 25 per cent from 2026-27 to 2028-29. This rises to between 25 and 26 per cent with non-Barnett allocations included.

In the previous Treasury calculation (at Autumn Budget 2024) the premium was 20 per cent excluding non-Barnett funding, and 24 per cent including the non-Barnett funding. The SR calculations now show the premium at 24 per cent excluding non-Barnett funding.

Chart 3: The NI premium over time (with and without non-Barnett allocations)



Source: HM Treasury

The factors leading to this change from the previously published NI premium are:

- **Updated population projections** (this would have affected the premium even under the original methodology);
- **New population methodology**;
- **The removal of agriculture** from the premium calculation;
- Updated figures for **English business rates** growth, which also reflect new population figures;
- The inclusion of **some unringfenced non-Barnett funding** under the new methodology (this is negligible).

Under the updated methodology, agriculture is now excluded from the premium – to mirror its exclusion from the 124 per cent relative funding needs estimate. As NI spends about four times as much per head as England on agriculture, removing it from the calculation decreases the funding premium. This effect is broadly offset by a different change to the methodology. When comparing NI Executive funding to comparable UK Government spending, the Treasury now takes account of the fact that some comparable UK Government spending also benefits Wales and Scotland, not just England. The new methodology includes the Welsh and/or Scottish population for relevant areas of spend, decreasing comparable UK Government spending on a per-capita basis and pushing up NI's relative funding premium.

These two methodological changes broadly cancel each other out, and we estimate that the new methodology has minimal effect on the calculated premium over the course of the Spending Review period.

The reason why the Treasury's new analysis of NI's historic funding premium (excluding non-Barnett) is higher for some of the same fiscal periods than the same analysis they carried out last year (but lower in other years) is largely the updated population projections. The jump of the relative funding premium from around 20 per cent in 2025-26 to 24 per cent in 2026-27 broadly reflects slower-than-expected population growth in NI relative to England. In other words, NI's funding premium has risen due to other factors (primarily slower population growth) rather than due to increased funding.

Based on current plans, the premium will be 24.01 per cent in 2026-27, narrowly below the 24.05 per cent threshold, meaning that the 124 per cent uplift factor will continue to apply. The premium is projected to cross this threshold in 2027-28, triggering the application of the transitional 105 per cent uplift factor. This is not factored into published DEL plans and would be confirmed at a future UK fiscal event.

Other/miscellaneous issues

As part of the Spending Review, the Chancellor announced changes to the rating system in England. These included rates reliefs for green technologies, and for heat networks

Debt Write-Off - As part of the 2024 restoration financial package, the UK Government agreed to write off £559 million of debt subject to the NI Executive delivering a balanced budget and raising at least £113 million in additional revenue. The Chief Secretary has now agreed to write-off the debt subject to final outturn data.

Full Fiscal Framework - the publication of the relative funding methodology closed out the actions required under the Interim Fiscal Framework, and the UK Government and NI Executive have agreed now to begin negotiations on a full Fiscal Framework. This will cover the Holtham Review of NI's relative need; whether un-ringfenced fisheries funding is in scope of the relative funding calculation; and the borrowing powers of the NI Housing Executive.

Winter fuel payments - the SR confirmed that the threshold for the means test will be increased to £35,000 from 2025-26. In a statement to the Assembly, the Communities Minister confirmed that everyone over the state pension age in NI will receive a winter fuel payment, then any with income above £35,000/year will then have the payment recovered automatically by HMRC.[9] He also confirmed that these payments are met through demand-led AME funding, and so there is no additional DEL cost to the NI Executive unless it chooses to go beyond the level set for the rest of the UK.

[9] https://www.northernireland.gov.uk/news/ministerial-statement-minister-gordon-lyons-mla-update-winter-fuel-payments

The Green Book - The Treasury is due to publish a revised Green Book following a recent review. This will emphasise place-based analysis, clarify the role of benefit-cost ratios, review the discount rate for appraisal and require Outline Business Cases to be published after approval.[10] While this may have some implications for NI public spending approvals, DoF is responsible for producing NI-specific guidance so its recent Better Business Cases guidance may need to be reviewed in future.

[10] https://www.gov.uk/government/publications/green-book-review-2025-findings-and-actions

Appendix – Agriculture in NI's needs and premium calculations

Agriculture funding

Agriculture was not included in the original Holtham needs assessment for Wales, because the funding was provided by the EU, rather than from UKG. Similarly, when the Council updated Holtham's analysis, we omitted agriculture from the needs calculation, because it was subject to a separate funding arrangement (non-Barnett) from UKG. However, in our sensitivities paper, we did note that NI has received ~400% of the average funding in England under both the EU and the post-Brexit arrangement (spend on average 473 per cent higher in NI than England from 2010-11 to 2021-22).

Treasury has since removed the ring-fence on Agricultural Support Funds and provided funding at 2024-25 levels in the Executive's baseline funding for 2025-26. This ran the risk that agriculture was not included in 'needs' estimate but might have been included in the 'premium' estimate (from which it was excluded prior to the removal of the ring-fence) along with the rest of the non-rinfenced Block Grant. The Executive continued to treat the allocation as quasi-ringfenced, earmarking the funding to DAERA for Agriculture, Agri-environment, Fisheries and Rural Development in 2025-26 and future years.

The Council is on the record that agriculture needs to be treated consistently across 'both sides' of the equation, i.e. either included in or excluded from both the needs and premium calculations.[11] The outcome of the SR is that agriculture is excluded from both. This is a fair and consistent approach. Finance had been seeking the inclusion of agriculture in both methodologies. That may have some longer-term advantages, but the difference is marginal in the short term.

The remaining question now that growth in agriculture funding is determined by the Barnett formula is whether in future it will be included in both the needs and the premium estimate as part of a full framework.

[11] https://committees.parliament.uk/oralevidence/15190/pdf/