



Northern Ireland
Fiscal Council

Bringing transparency to NI's public finances

#NIFCAnnualConference

Annual Conference

Creating space for conversations
on public finances



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Mark Simpson
BBC News Presenter &
Correspondent



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Overview of the Barnett Formula



Joanne McBurney



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Public sector transformation



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John O'Dowd MLA
Minister of Finance



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Department of

Finance

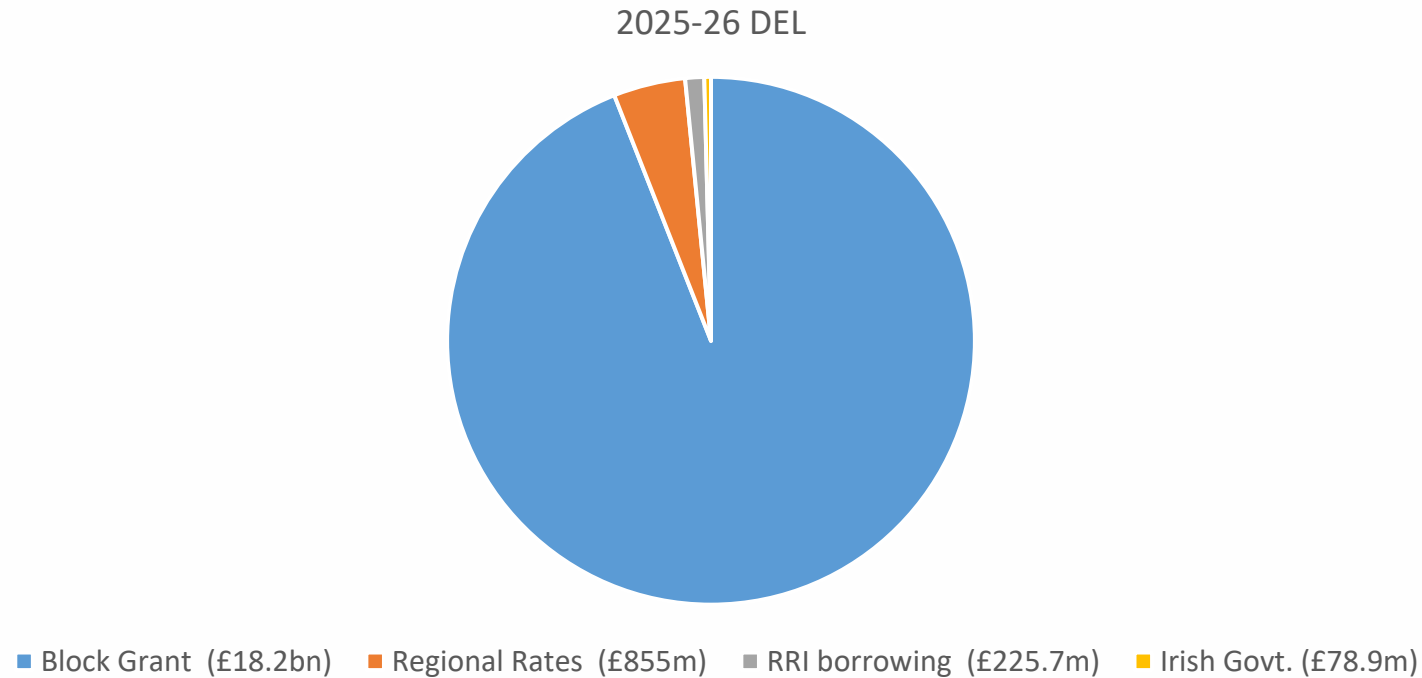
An Roinn

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Barnett Formula and the Block Grant

Joanne McBurney
Public Spending Group
Department of Finance (NI)

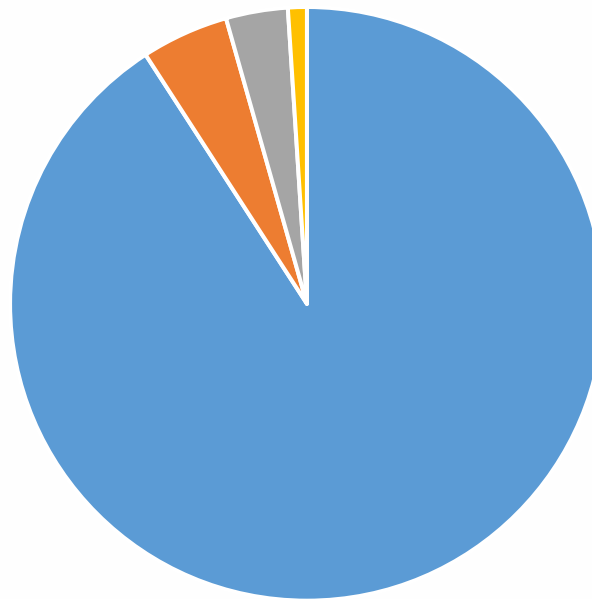
How DEL Expenditure is Funded



- There is also additional income from fees/charges (c£1bn) and EU income (£43.8m in 2025-26).

How is the Block Grant Derived

2025-26 Block Grant (£18.2bn)



■ Baseline (£16.6bn)

■ SR 2025 Barnett (£867.2m)

■ Non Barnett - Not earmarked (£614.6m)

■ Non Barnett - earmarked (£187.2m)

Barnett Formula

The Theory

(1)		(2)		(3)		(4)		(5)
Change to the UK Government department's DEL	X	Comparability percentage	X	Appropriate population proportion	X	Needs based factor	X	VAT Abatement

The Practice...

The Department of Health & Social Care in England receives £100 million for specialist drugs

£100 million	X	99.5%	X	3.33%	X	124%	X	97.5%	=	£4.006m
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Comparability varies for each Dept/Programme e.g. MOD is zero as UK wide

VAT abatement is unique to NI

Barnett Formula

Before Interim Fiscal Framework (without needs factor)

£100 million	X	99.5%	X	3.33%	X	97.5%	=	£3.231 million
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If NI funding is below need the needs factor is 124%

£100 million	X	99.5%	X	3.33%	X	124%	X	97.5%	=	£4.006 million
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If NI funding is above need the needs factor is 105% (Transition Rate)

£100 million	X	99.5%	X	3.33%	X	105%	X	97.5%	=	£3.392 million
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Impact of Needs Based Adjustment

- Total Additional Funding £1,339.2 million
 - 2024-25 & 2025-26
 - Interim Fiscal Framework - additional £576.4 million
 - SR2025 Phase 2 - £0.8 million
 - SR 2025 Phase 2 – Future Years
 - RDEL (3yrs) - £592.0 million
 - CDEL(4 yrs) - £170.0 million

Other issues

- Overall Funding for Public Services
- Different structures
- Devolved Policies
- Timing
- Limited Flexibility



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Patching up the Barnett Formula

Gerald Holtham

Northern Ireland ~ updating estimates of relative need

- The report in June 2025 updated the relative need element in the block grant for
 - New data on relative poverty, health and population sparsity since last NIFC assessment
 - *Indicators of the situation in Northern Ireland compared with England used to assess relative need*
 - The devolution of extended responsibilities to the Northern Ireland Executive in
 - Policing and justice
 - Agriculture and farm support

**NORTHERN IRELAND'S
LEVEL OF NEED**

**Professor Gerald Holtham
June 2025**

Matching responsibilities and funds

- When a responsibility is devolved the funds to exercise it should follow
- In both policing and agricultural support the UK government has spent more in Northern Ireland than in England per head of population for obvious reasons.
- Transferring the first-year funds is fine but spending cannot grow in line with need unless the Barnett formula allows it.
- That required increasing the needs factor from 124 to an estimated 128 per cent.
- The UK Treasury preferred to postpone devolution of farm support.

Issues not covered in the report - 1

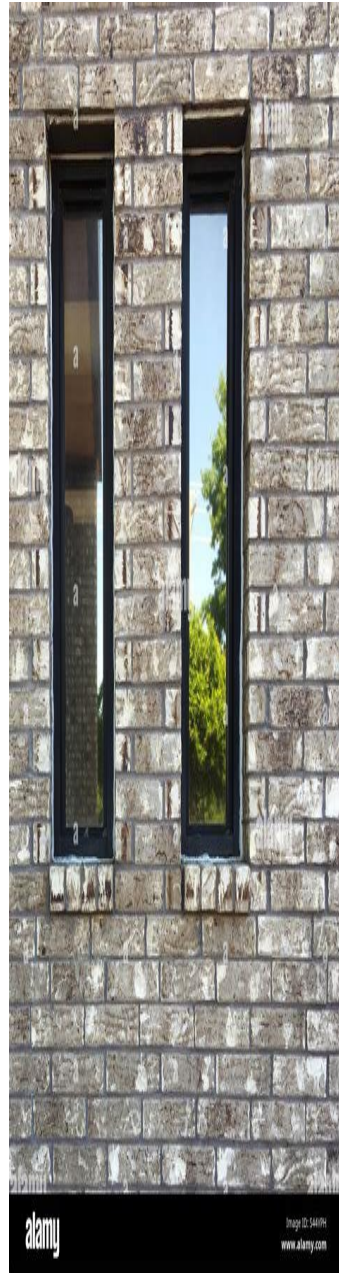
- Number One - what does the needs adjustment really mean:
 - That funding will support a given level of relative need
 - Or that changes in the grant will respect relative need
- The second does not ensure the first; it just stops shortfalls getting worse.
- Yet Barnett formula works on changes. Bygones are bygones
- Needs commitment needs to be clarified or:

??



Issues not covered in the report - 2

- If the NIE needs to spend more in the capital budget, e.g. on infrastructure, it cannot easily borrow to do so
- Worse still, it cannot save either. Unused funds are lost with very limited carry-over of underspent resources.
- So spending plans are confined to a narrow window which cramps longer-run planning.
- This is an archaic way to run any country and more flexible governors of spending are required.





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NI funding: Barnett & beyond

12 September 2025

NI Fiscal Council Conference

@TheIFS



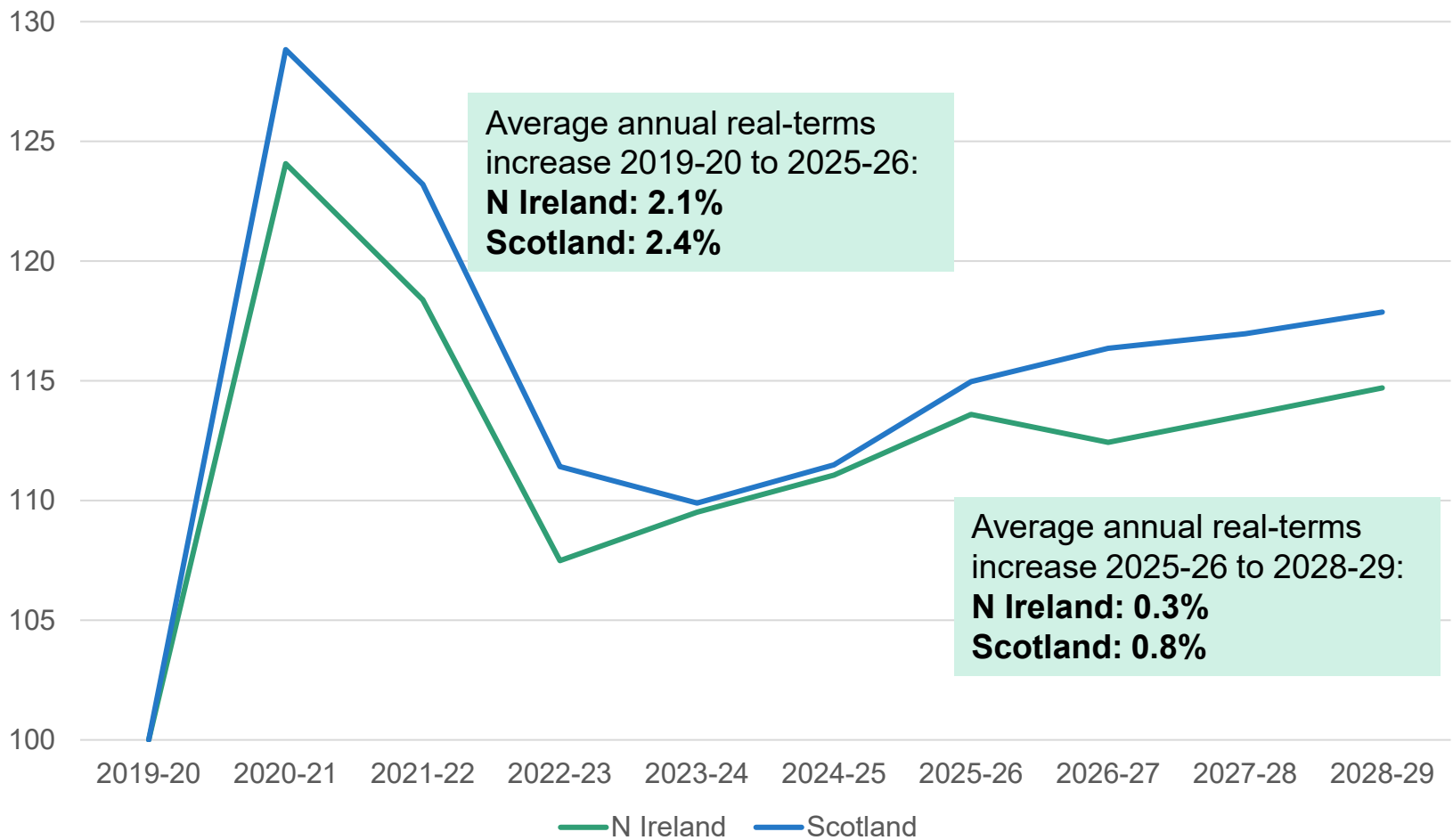
Economic
and Social
Research Council

Barnett reform: a good deal?

- New 'needs' factor provides a sizeable boost to NI Executive funding – highly likely preventing further convergence in funding
- Indeed, it may lead to NI's relative funding exceeding its relative needs as time goes by:
 - Health and social care spend is growing as a fraction of expenditure and NI's need for this likely below its 'average' need given demographics and health spending profiles
 - Spend on agriculture and justice likely to fall as a share of spending both UK-wide and in NI
- Rather than a single needs-based factor, service (or department-specific) needs factors would capture such effects
- Update not only the data but also the coefficients underlying needs factors on a periodic basis

Difficult funding outlook

Resource DEL excluding depreciation (2019-20 =100), real-terms

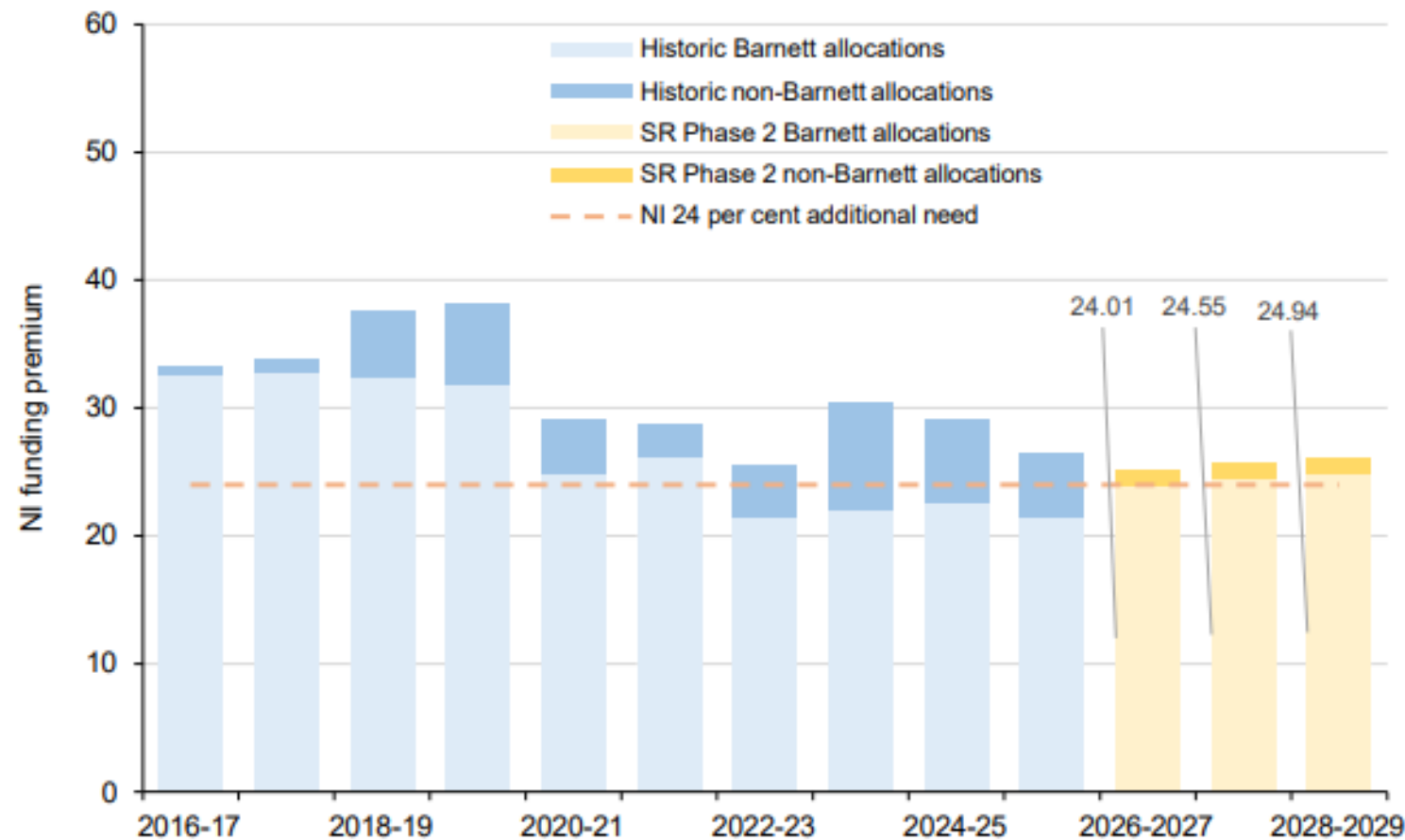


Sources: PESA (2024, 2025), Spending Review 2025, HMT GDP deflators.

NI funding: Barnett and beyond

Difficult funding outlook

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



Source: HM Treasury

Sources: NI Fiscal Council (2025).

NI funding: Barnett and beyond

Difficult funding outlook

Table 4.3: Spending projections

	Per cent of GDP						
	Forecast ¹		FRS projection				
	2023-24	2028-29	2033-34	2043-44	2053-54	2063-64	2073-74
Health	7.9	7.6	8.9	10.0	11.3	12.8	14.5
Adult social care	1.3	1.5	1.6	1.8	2.1	2.2	2.4
Education	4.4	4.2	4.0	3.8	3.8	3.7	3.6
State pensions ²	4.9	5.2	5.6	5.9	6.4	7.4	7.9
Pensioner benefits	0.7	0.7	0.8	0.8	0.9	1.0	1.0
Other welfare benefits	5.2	5.3	5.1	5.0	5.1	5.1	5.1
Public service pensions	1.9	1.9	1.8	1.5	1.4	1.4	1.4
Total age-related spending	26.3	26.4	27.7	29.0	31.0	33.6	36.0
Other current	8.5	8.3	8.2	8.1	8.1	8.0	8.0
Other capital	5.2	3.7	3.7	3.7	3.7	3.7	3.7
Debt interest	4.5	4.1	4.4	5.1	6.5	8.7	12.5
Total spending	44.5	42.5	44.0	45.9	49.2	54.0	60.1

¹ Spending consistent with the March 2024 *Economic and fiscal outlook*.

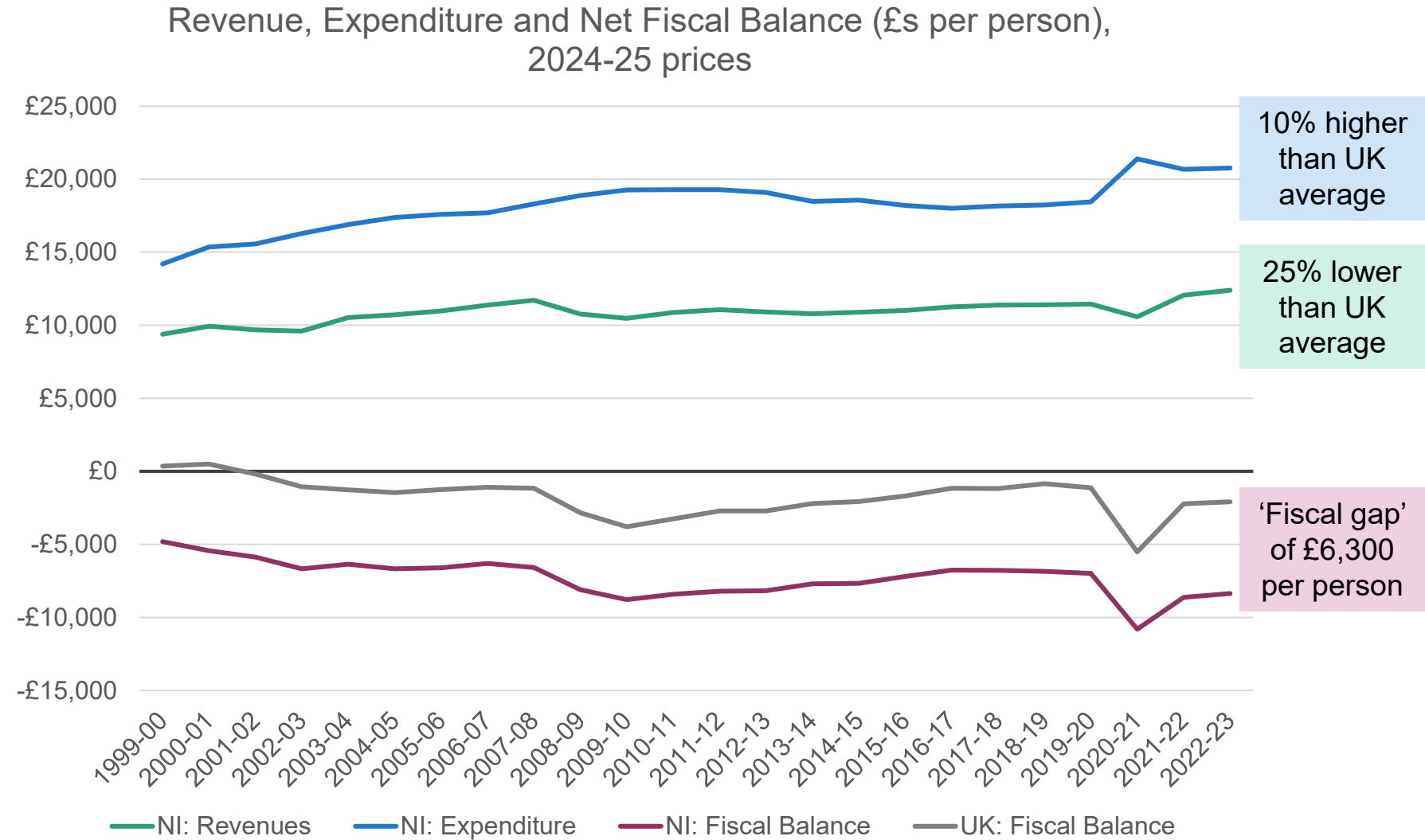
² Includes many items in addition to the basic state pension and single-tier pension, such as pension credit, winter fuel payments and the Christmas bonus.

Sources: OBR (2024).

Fiscal adjustment and reform

- UK-wide focus on increasing public sector productivity will be key
- NI specifically spends hundreds of millions a year on 'super-parity'
 - Water charges, HE tuition, lower property taxes, etc.
 - Not necessarily remove – but should be properly assessed
- Limited fiscal fire-power to raise or lower revenues at the margin
- NI Fiscal Commission identified options for fiscal devolution
 - Income tax as feasible and fiscally meaningful option
 - 1% on all tax rates raise approx. £200m a year
- Modest borrowing powers would provide additional certainty and flexibility to NI Exec budget, but not address fiscal sustainability

NI's overall fiscal balance



Sources: ONS (2024).

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Robert Watt
Secretary General
Department of Health, Ireland



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Mike Farrar

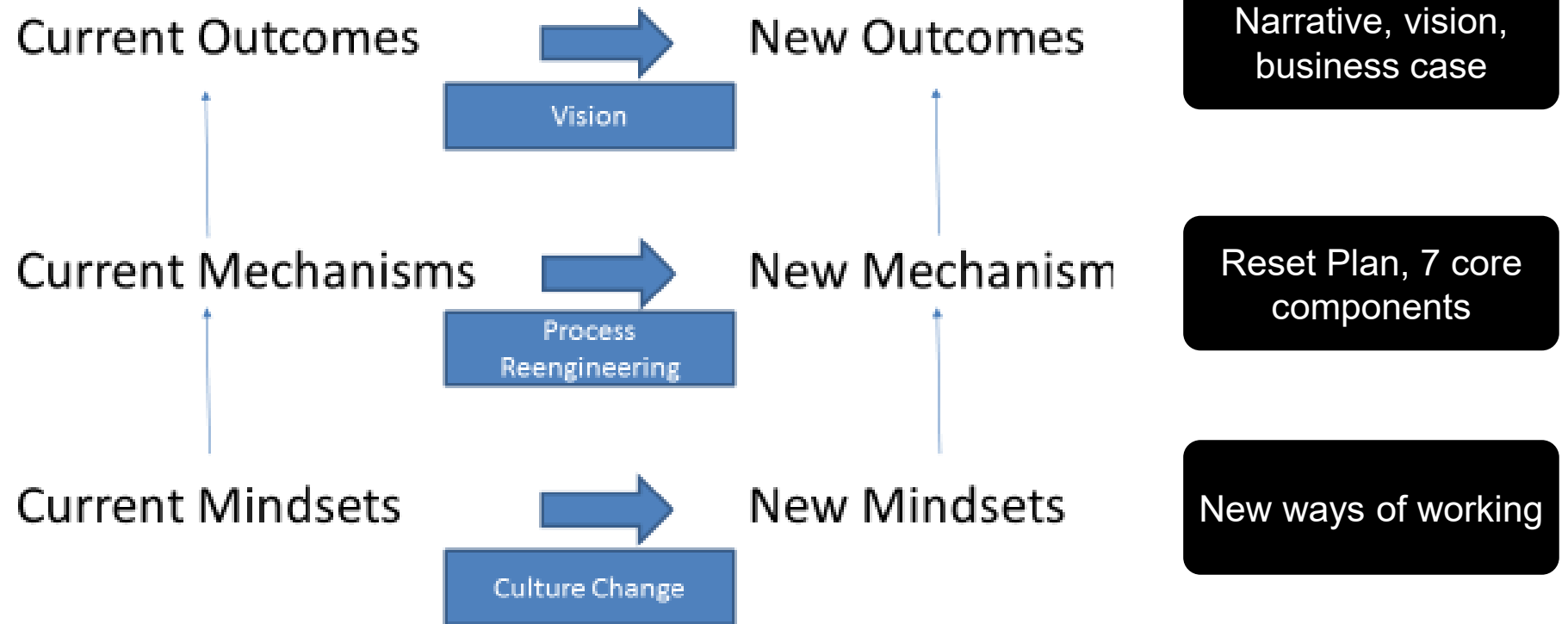


Prof Jodie Carson

Effective transformation in health and care systems

How NI is approaching *sustainable* change based on an evidence base of transforming both *what* and *how* services are delivered

THE NORTHERN IRELAND LEADERSHIP GROUP NEED TO OPERATE AT ALL THREE LEVELS TO CREATE A WORLD LEADING SYSTEM



THE KEY REQUIREMENT IS FOR LEADERS TO UNDERSTAND THAT VISION, PROCESSES AND MINDSETS HAVE TO BE **SHARED** IF THE PARTNERSHIP IS TO SUCCEED

7 Key Areas

Built on global evidence

- Prevention - citizen as asset
- Investing in new neighbourhood model
- Efficient use of resource and better value from existing spend (including cross Govt programmes)
- Whole systems approach and unwarranted variation
- Maximising digital and data
- Research, innovation and inward investment
- Creating a new operating model to deliver this



System Financial Management Plan

Overseen by new SFMG - 13 Jointly Led Workstreams

Trust Financial Control

Sickness Absence

Elective Care

Domiciliary and Social Care

Demand Management

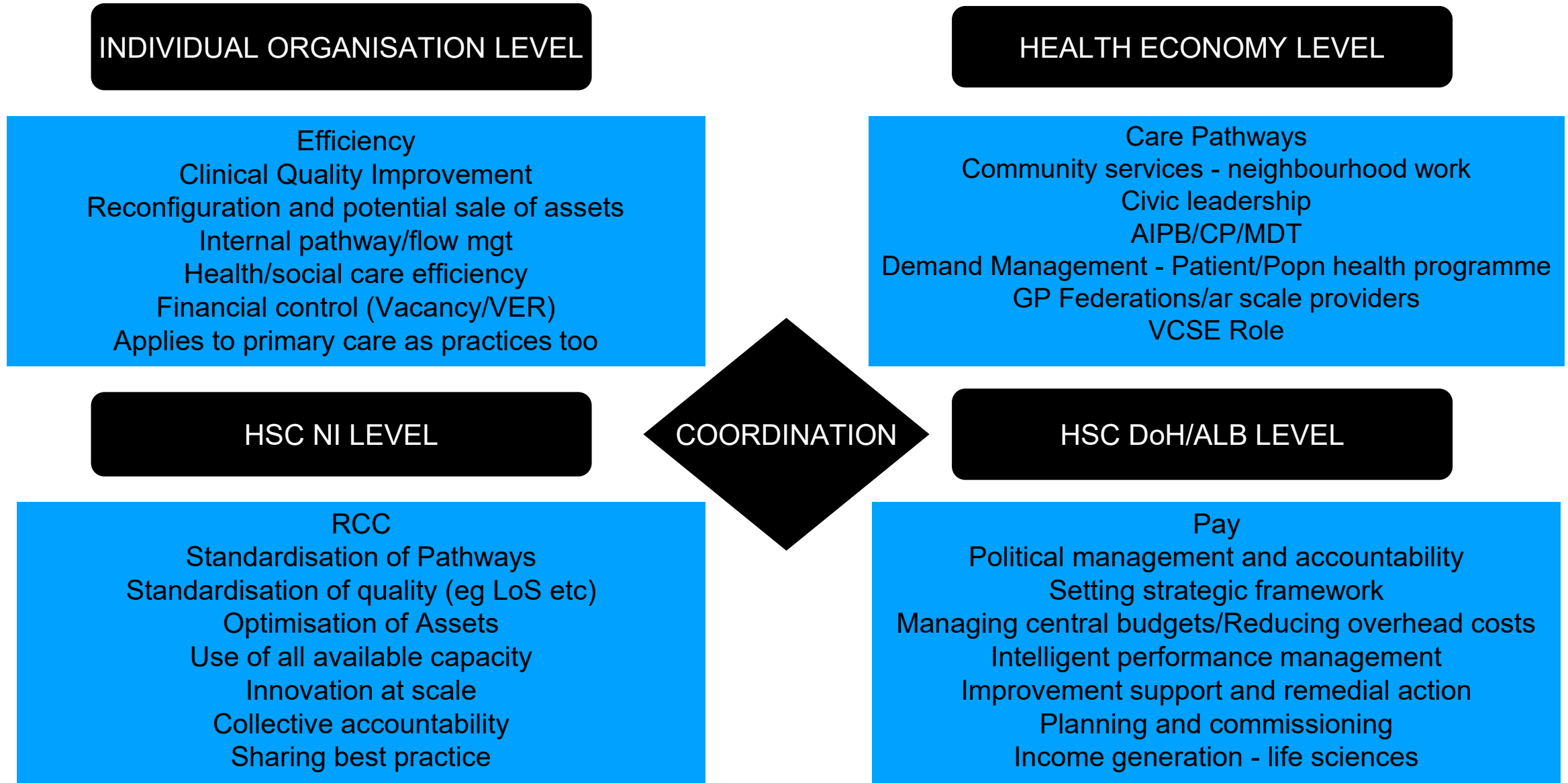
Diagnostics

**Public Dialogue - Help us to
help you - This is Health**

- **Unwarranted clinical variation**
- **Skill Mix**
- **Provider Collaboration**
- **Income Generation**
- **Central Budgets**
- **Medicines Optimisation**

AIM TO REDUCE £600m DEFICIT IN CURRENT BUDGET PLANS

Organising as One Team to Manage our Reset and Financial Situation



Cultural Shifts

Core Elements

- Operate as one system
- Decision making at the right level in the system
- Enhanced Trust Board accountability
- Improve clinical engagement and empowerment
- Leadership Development
- Openness and honesty and support for all staff
- Setting high ambitions



New ways of working

Core Change Elements

- Confident and empowered workforce
- Optimising benefits from Encompass and GPIP
- Efficiency - reduced cost base, improved sustainable run rates
- Simplicity of oversight and clarity of decision making
- Working collectively across Departments (eg economic inactivity, SEN, offending reduction, MH, life science investment)





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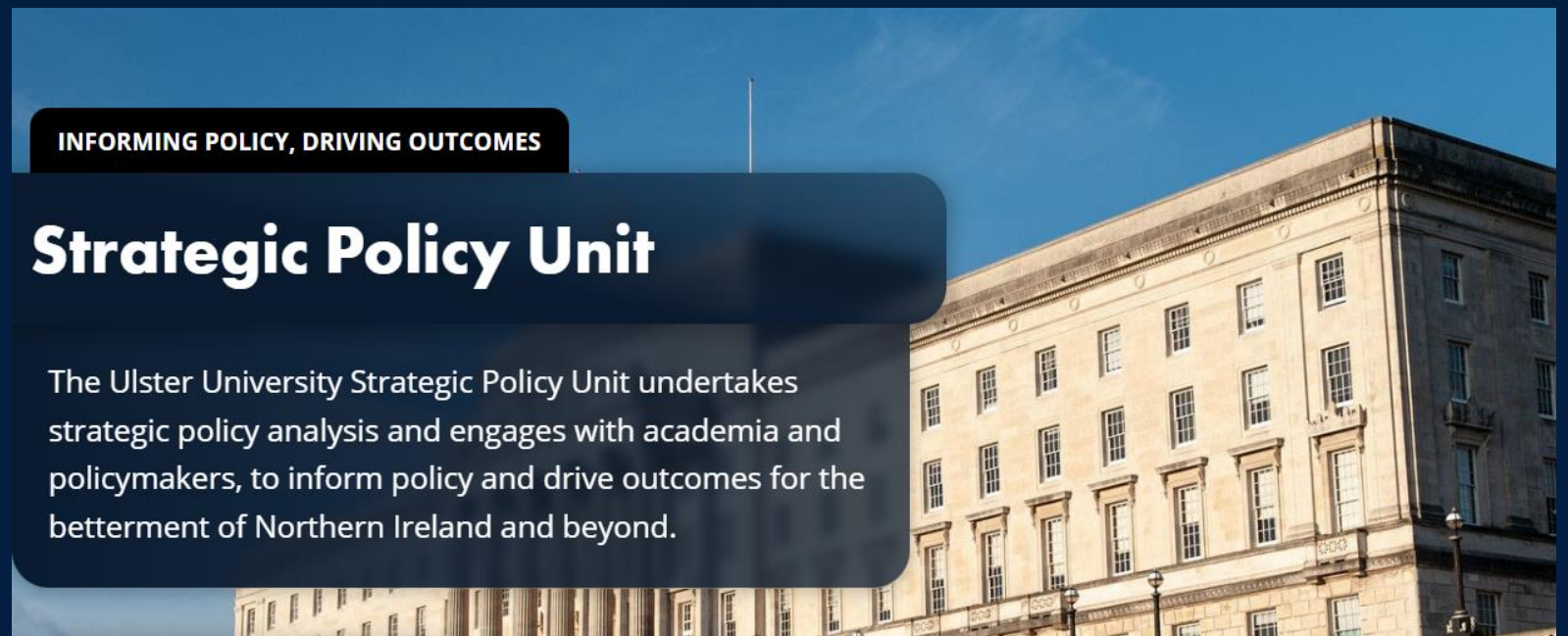


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Professor Jodie Carson
Co-Director of UU Strategic Policy Unit (UUSPU)

Strategic Policy Unit (SPU) Publications

- A Focus on Public Sector Transformation in NI (January 2025)
- A Strategic Overview for the Adoption of AI in NI (May 2025)



Public Finance Context

- **Fiscal Floor for NI**
- **Forthcoming UK Budget**



Insufficient to resolve pressures

Growing need for enhanced fiscal autonomy in NI

- **Sustainable and Inclusive Growth**
- **Transformation of Public Sector/Services**



Requisite to
safeguard NI's future

Hence SPU focus on transformation
Limited prospect of Revenue Raising...

A Conducive Environment?

- **Local Budgetary & Political Context**

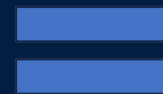
- Single Year Budgets
- Increasing Constraints
- Assembly Collapse
- Governance Gap
- Overspend



**Opportunities for
Strategic Investment**

Combined with

- Changing demographics
- Wider geopolitical pressures



**Pressurised Public
Services**

- Transformation Fund welcome, but as a starting point..

The Future of Transformation in NI?

- **Enabling a Transformative Culture:**
 - **Additional resource**
 - **Preventative DEL**
 - **Green Budgeting**
 - **Zero-Based Budgeting**
 - **Strategic utilisation of science & tech, including AI**
 - **Cohesive, cross-cutting and outward looking approach**
- **Experiences elsewhere:**
 - [A preventative approach to public services | Institute for Government](#)
 - [Scotland's Public Service Reform Strategy: Delivering for Scotland - gov.scot](#)

Incentivisation & Accountability

- **Relative Risk Aversion**
- **Executive (Dis) Incentive**
- **Overarching Remit for Executive Level Transformation? – Tsar?**



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