Northern Ireland Fiscal Council
Bringing transparency to NI's public finances

The NI Executive's 2025-26 Draft Budget:
an assessment

March 2025

www.nifiscalcouncil.org
info@nifiscalcouncil.org

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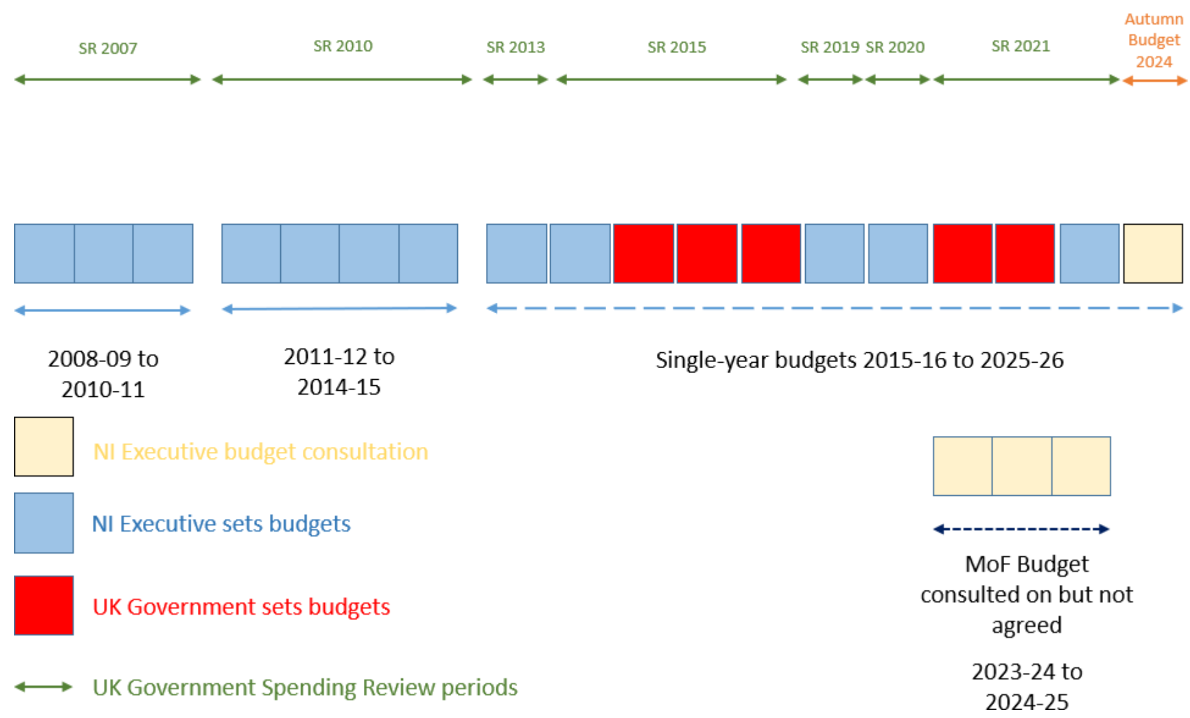
Foreword

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, Professor Alan Barrett and Dr Esmond Birnie. Our aim is to bring greater transparency and independent scrutiny to the region's public finances, focusing on the Executive. In doing so we hope to inform 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 sixth report dealing with NI budgets[1] and the eleventh year in a row when a single-year budget has been set as Figure 1 illustrates. For NI to set a multi-year Budget requires both a multi-year Budget (and therefore Block Grant settlement) at Westminster, and a sitting Executive and Assembly to set and legislate for it at Stormont. These conditions should be in place for 2026-27 to 2027-28, as the UK Government is expected to set out spending plans extending over those two years in June. But by the time the Executive comes to discuss a Budget for 2026-27, the NI parties will already have one eye on the Assembly election expected in March 2027. So the Executive will have to decide whether to put in place a multi-year Budget that exceeds the duration of its own mandate.

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



[1] Not including the supplementary note on the impact of International Financial Reporting Standard 16 which we published on 8 August 2024 - https://www.nifiscalcouncil.org/publications/ni-executives-2024-25-budget-assessment

In this paper we:

- Provide an overview of **developments since the return of the Executive** in February 2024 and how these affect the 2025-26 Budget.
- We outline **the Budget process** and, in particular, the process for 2025-26.
- Describe the changes to the **funding and spending position** this year implied by the Executive's Budget.
- Review the potential implications for **future Budgets**.

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.)[2] 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.

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

1 Executive Summary

How did we get here?

The NI Executive set out its Draft Budget for 2025-26 on 31 January 2025. The amount of money available to allocate to departments next year reflects numerous recent political and fiscal developments in the NI and UK. Among them:

- In December 2021, the Executive published (but did not agree) a Draft Budget for 2022-23 to 2024-25. Then it collapsed in early 2022.

- Departments overspent relative to available funding in 2022-23 and 2023-24, requiring the Treasury to provide £559 million in short-term loans to balance the books via calls on its Reserve.

- The UK Government financial package that accompanied the restoration of the Stormont institutions contained short-term budget support through to 2025-26, plus a 24 per cent top up to future 'Barnett consequentials' – the additions made to the Block Grant when the UK Government increases spending in England on services that the Executive delivers in NI. There is a funding 'cliff edge' in the package in 2026-27 when the short-term support runs out but the 24 per cent top-up has not had time to reach a similar level.

- An 'Interim Fiscal Framework' fleshed out the details of the package in May 2024. The Treasury said it would be willing to review the cliff edge in the upcoming UK Spending Review, and also the 24 per cent top-up if "multiple independent and credible" sources suggest the figure should be different. The Department of Finance (henceforth 'Finance') has commissioned a review by Professor Gerry Holtham, which it hopes will suggest an increase.

- The Minister of Finance has said the Barnett top-up delivered an additional £248 million in 2025-26 for the Executive at the Budget, taking the total benefit so far to £431 million. Barring further changes in UK spending plans, the Block Grant is set to be 2.4 per cent higher in 2025-26 than it would have been without the top-up.

- In October 2024 the Executive published a 'Budget Sustainability Plan', required under the Framework. This included plans to raise an additional £130 million in revenue in 2025-26, with Regional Rates the main contributor. The Treasury has offered to write off its £559 loan if the Executive raises at least £113 million and balances the Budget in 2024-25. Otherwise repayment of the debt would advance the cliff edge to 2025-26.

- The unexpectedly large spending increases announced in the October 2024 UK Budget yielded Barnett consequential additions to the Block Grant of £640 million (resource) in 2024-25 and £1.2 billion (resource) and £270 million (capital) in 2025-26. The additional Grant funding in 2024-25 has reduced the prospective resource overspend by departments this year from a peak of almost £900 million in July to a negligible £25 million.

- The restoration package and the October 2024 Budget have together significantly increased the amount of funding that the Executive has available to allocate in the 2025-26 Budget.

The Budget process

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 investment in physical assets like infrastructure and buildings; and financial transactions capital spending, which can only be used to make 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).

When preparing the Budget, Finance conducts an information gathering exercise. For resource spending it asks for bids relative to a baseline based on the previous year's allocation minus earmarked and one-off items. For capital, bids are zero-based (i.e. all spending must be justified) and departments are asked if they are consistent with the Executive's overall investment strategy.

Table 1.1 - Timings for the Budget process 2025-26

	Date
Information gathering returns due from departments	4 October 2024
Chancellor announces Spending Review outcome	30 October 2024
Written Ministerial Statement (WMS) on SoSNI settlement letter	13 November 2024
Draft Budget agreed by Executive	19 December 2024
WMS on Draft Budget 2025-26	19 December 2024
WMS, factsheet and summary document issued for consultation	19 December 2024
Draft Budget document published	31 January 2025
Consultation ends	13 March 2025
Final Budget agreed by Executive	*Expected late March 2025*
Budget Document issues	*Expected late March 2025*
Assembly Debate	*Expected late March 2025*

Source: Department of Finance

Finance published a Written Ministerial Statement and a Draft Budget summary document on 19 December 2024. We welcome the additional transparency and relatively early publication, allowing the Final Budget to be agreed before the end of the financial year with a proper consultation period. But some material on the Draft Budget was delayed, hampering our and others' assessment.

Stakeholders have long argued that the Executive's Budgets should be linked as closely as possible to its Programme for Government (PfG) and Investment Strategy (ISNI). The Draft Budget was not linked particularly strongly to the nine "immediate priorities" in the draft PfG published by the Executive on 9 September.

The final PfG was brought to the Assembly and published on 3 March 2025. It included targets to be achieved this year and others to be achieved by 2027 (the end of the current Assembly mandate). Some are costed, such as spending up to £135 million a year until 2027 to reduce waiting lists by treating an additional 70,000 patients and a further £80 million a year to increase elective care capacity. Others are not, such as delivering better support for children and young people with special educational needs and building over 5,850 new homes. The final PfG includes a funding section but does not actually specify how priorities will be funded. It says work will continue "with the UK Government to secure a fair funding settlement based on need and to advocate for multi-year budgets".

The NI Budget position in 2025-26

Resource spending

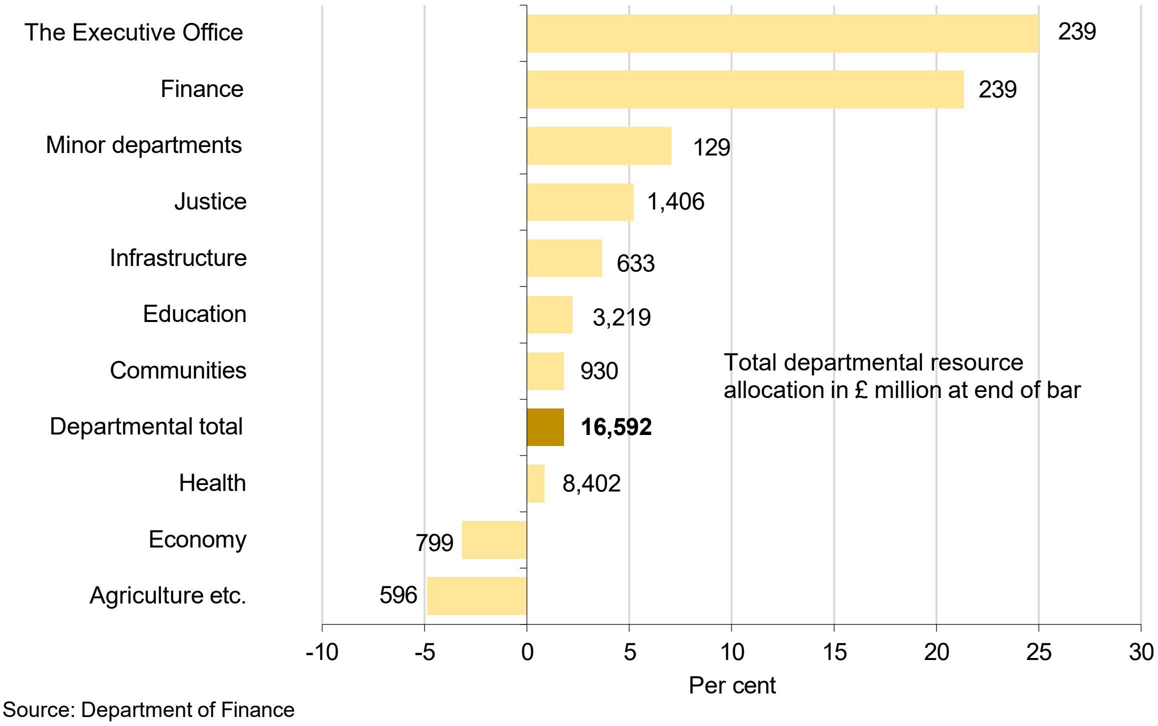
The funding envelope for resource spending in 2025-26 is £16.8 billion (around £21,800 per household). Of this £927 million (5.6 per cent) was in effect already earmarked for specific purposes by the Treasury or the Executive and £123 million is held centrally by Finance for later distribution.

The funding/spending envelope is 2.6 per cent larger in cash terms and 0.2 per cent larger in real terms than the final plan for 2024-25. If the Executive had to repay the £559 million owed to the Treasury next year, the available funding would instead fall by 1 per cent in cash terms or 3 per cent in real terms.

Although the UK Government provided £520 million of short-term support in the restoration package for both 2024-25 and 2025-26 this is already largely committed to meeting the recurrent element of the pay settlement agreed in 2023-24. Further pay increases since then will need to be funded from the core Block Grant.

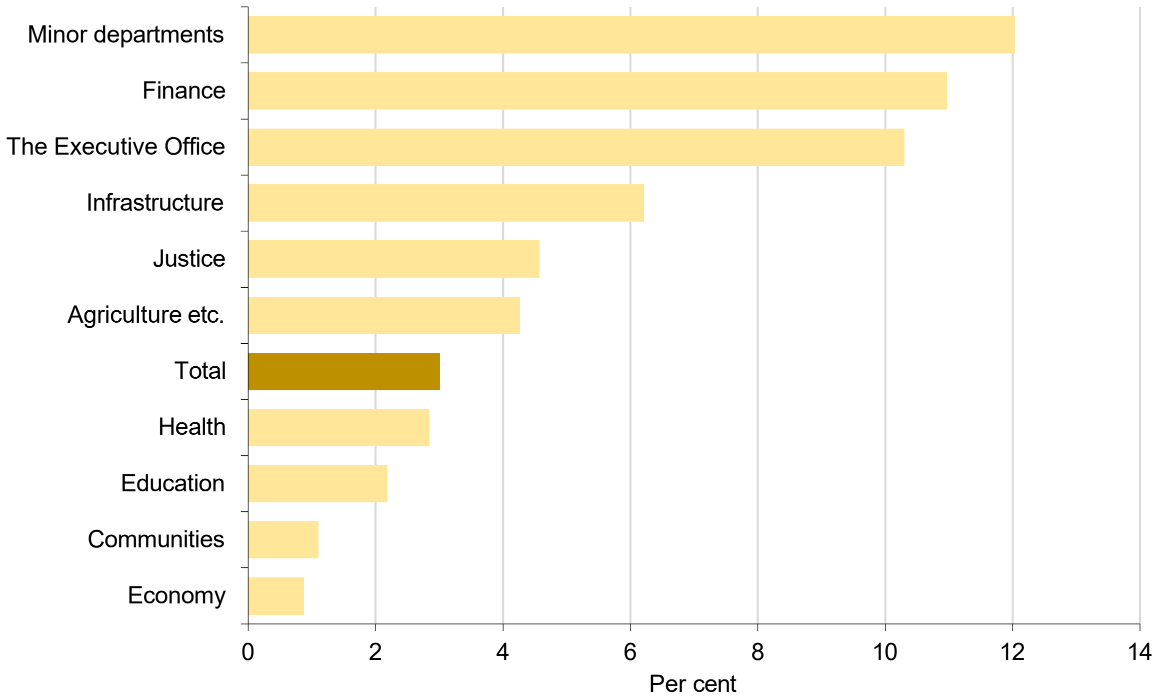
Chart 1.1 shows the resource budgets for each department in 2025-26 and the percentage change relative to the final plan for 2024-25. (The increases are generally smaller than the opening-budget-on-opening-budget comparisons published by Finance because most departments had their resource budgets topped up in-year during 2024-25 as more funding became available.) For the purposes of comparison, Chart 1.2 shows the change from an adjusted 2024-25 final plan to 2025-26 budget, excluding earmarked allocations.

Chart 1.1 –Change 2024-25 final plan to 2025-26 budget



Source: Department of Finance

Chart 1.2 – Change 2024-25 final plan to 2025-26 budget, excluding earmarked allocations



Source: Department of Finance

The Executive has previously prioritised Health in its resource spending allocations, as the UK Government has done. However in this Budget it receives a lower uplift than average, faring less well than either Education or Justice when earmarked allocations are taken into account. But it remains by far the largest component of the resource budget (51 per cent of the total). The uplifts for Finance and The Executive Office (TEO) are particularly high, reflecting time-limited and one-off items and a relatively small baseline budget. Even excluding earmarked items this 'smaller baseline' effect remains marked for Finance, TEO and the minor departments.

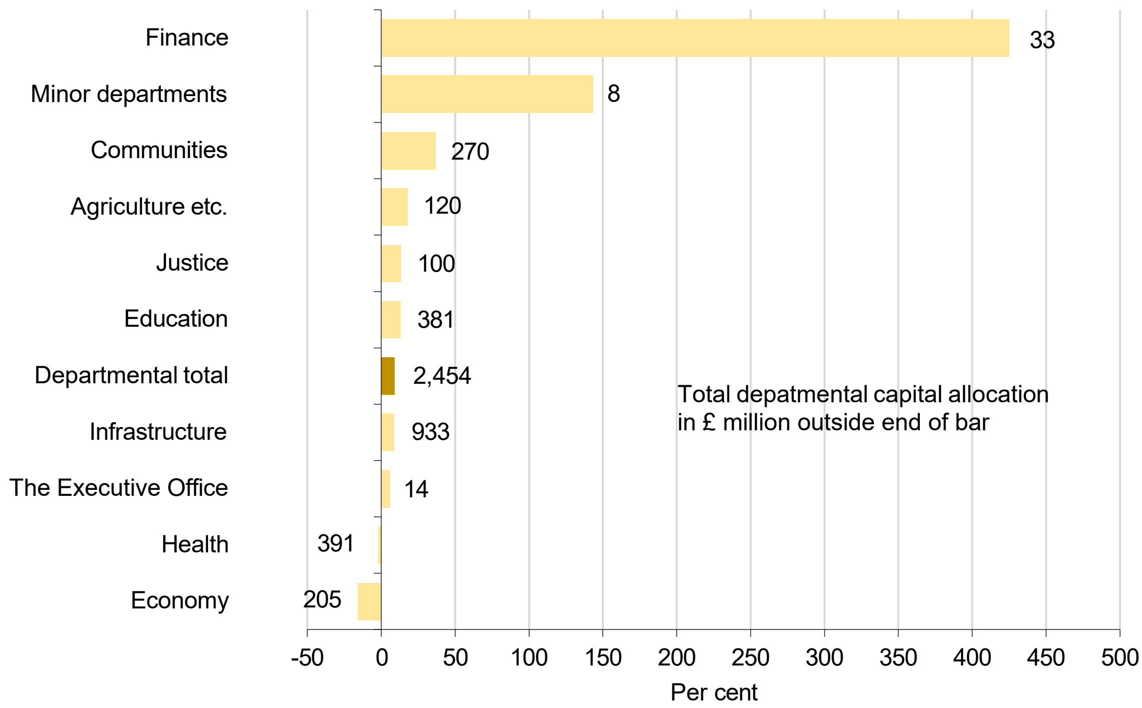
After excluding funding earmarked or held centrally, the Executive had capacity to accommodate £1,257 million of bids from departments relative to their baselines while still balancing the resource budget. Bids far exceeded this amount, topping £4.2 billion, so less than 30 per cent were met.

Known potential pressures on departmental budgets in 2025-26 include the costs of a PSNI data breach, and claims relating to holiday pay and the McCloud pensions case. These are one-off costs which Finance has tried (so-far unsuccessfully) to persuade the Treasury to cover from the Reserve. Others include public sector pay pressures and the cost of higher employers National Insurance Contributions, both of which hit NI harder than England because of its relatively large public sector. The Budget balance is also resting on some significant assumptions, most notably in Health where the position 'bakes in' a reliance on Trusts raising £200 million of additional savings.

Capital spending

The Budget provides for £2.5 billion of conventional capital spending, up 9.3 per cent from the final plan for 2024-25. In addition to the Block Grant, capital financing includes £226 million in Reinvestment and Reform Initiative (RRI) borrowing and £87 million from the Irish Government for the A5 road project.

Chart 1.3 - Change 2024-25 final plan to 2025-26 budget



Source: Department of Finance

Capital spending profiles are by their nature lumpy and so comparisons of percentage changes against baselines can be less informative than for resource. The huge percentage increases shown in Chart 1.3 for Finance and minor departments for example correspond to relatively small cash sums (£33 and £8 million respectively).

Communities' allocation is a 37 per cent increase up on 2024-25 final plan and 103 per cent up on its opening budget last year. Communities remains the second biggest 'winner' with an additional £72 million capital just behind Infrastructure which received £74 million more than its 2024-25 final plan.

Departments bid for capital funding against a zero baseline and with projects identified as earmarked, inescapable, pre-committed, high priority or desirable. Health received 90 percent the value of its inescapable or pre-committed bids, so while it received nearly 16 per cent of the total available capital budget, its allocation is still below what the Department said it really needed.

Overall, 26 per cent of total capital allocations are already earmarked. The highest proportions are Education at 43 per cent and Infrastructure at 30 per cent.

Financial Transactions Capital spending

Funding for Financial Transactions Capital (FTC) can only be spent on loans to or equity injections in private entities (including institutions like universities). Total financing for FTC is £58 million. £8 million (15 per cent) of this remains unallocated, reflecting the difficulty departments often have in spending it. In the 2024-25 final plan, 55 per cent of FTC funding remains unallocated.

Does the budget balance?

On the basis of the final plans for 2024-25 and the Draft Budget for 2025-26 the Executive's Budget balances across the three main categories of departmental spending in both years. At this point of the year, and largely because of the unexpectedly large spending increases in the October 2024 UK Budget, it looks unlikely that the Executive budget for 2024-25 will 'unbalance', but we have noted that there are significant potential pressures to contend with in 2025-26.

Implications beyond 2025-26

The funding cliff edge built into the restoration package could result in an uneven overall spending profile that would not be ideal from the perspective of public service delivery, workforce and transformation planning, especially as the Executive is not permitted to run a reserve to smooth its spending. This is presumably why the Treasury has agreed to review it in the Spending Review.

The Treasury could take the view that the uneven profile is something that the Executive will simply have to live with. This might be the case in particular if it judges that resource funding per head even in the 2026-27 'dip' is above the Council's 124 per cent estimate of relative need. We are still waiting for the Treasury to agree and publish a detailed methodology for this calculation and a back series for the spending premium. The working assumption is that funding is currently above need including the package and below it excluding the package.

Calculating the spending premium and relative need will now be complicated by the Treasury's decision in the October Budget no longer to earmark agricultural support – for which NI is assumed to has a relative need greater than 124 per cent – and to put it into the Executive's Block Grant funding instead.

If the Treasury accepts the case for providing additional financial support to help smooth out the cliff edge, there are at least three options:

- Baselining a sum of funding that smooths the profile and keeps funding per head at least 24 per cent above equivalent spending in England;
- Setting the Block Grant as a whole (and not just additions to it) at 24 per cent above equivalent spending per head in England; or
- Continuing with short-term 'dollops' of one-off funding, like those which have accompanied the restoration and earlier political agreements.

If we assume that the Executive's resource Block Grant grows in line with the 3.4 per cent cash growth in resource spending projected in the UK for 2026-27, this would generate around £520 million in Barnett consequentials (including the boost from the 24 per cent uplift). This would offset the loss of the short-term budget support in the restoration package and deliver a flat cash settlement in that year but a 1.9 per cent fall in real terms. Subsequently there would be some growth in the cash Block Grant over the rest of the five-year forecast period for which the Treasury has provided tentative spending plans. However, this does not represent a substantial increase from the previous decade once inflation is taken into account.

The Block Grant depends not just on overall spending growth at the UK level but on how 'Barnett-rich' its composition is. A significant switch from public services spending for which the Executive is responsible in NI to defence spending would, for example, reduce NI's Barnett consequentials, other things being equal. If higher defence spending were to be funded in part by welfare cuts, the Executive would have to decide whether to implement these cuts or fund the cost of not doing so from the resource budget.

Whilst multi-year budgets are preferred to single-year ones for planning purposes, recent experience shows that even over relatively short periods, initial budget allocations can be amended significantly as the overall funding position changes and as resources are reallocated between departments. Resource Block Grant funding for 2024-25 is now 17 per cent higher in cash terms than at Spending Review 2021.

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

- The **introduction of explicit domestic water charges and/or a equivalent increase in the Regional Rate** The new Minister for Infrastructure has ruled out domestic water charges as her predecessor did, but it is difficult to see how the provision of water services can continue on the current basis especially given Ofwat's view that substantial real increases in water charges are now required in England and Wales. The

Department for Infrastructure provides NI Water with a subsidy in lieu of domestic charges and would not have the funding to match this.

- **Public sector pay restraint** may be required because when the UK Government spends more to finance pay deals in England the resulting Barnett consequentials do not cover the cost of an equivalent percentage pay deal in NI because of its larger public sector. As a result, services have to be squeezed to match English pay rises. Moving away from a policy of parity with English pay deals would improve the manageability of the NI public finances, but would no doubt be unpopular among those affected.

- Other potential areas for releasing funding or raising more revenue include further **departmental savings** from the cessation of lower priority areas of expenditure and **uplifting or introducing other fees and charges**.

2 How did we get here?

The amount of money that the Executive can distribute to departments next year reflects a number of recent political and fiscal developments in NI and the UK. The bulk of the Executive's spending is financed from the Block Grant it receives from Westminster. This comprises a core component that changes (according to the Barnett formula) when the UK Government changes the amount that it spends in England on items for which the Executive is responsible in NI, plus 'non-Barnett additions' that include funding linked to political deals. Both have yielded additional resources for the Executive over the past year, because of the funding package to restore the Stormont institutions in February 2024 and the significant UK Government spending increases in the Labour Government's October 2024 Budget.

In this chapter we summarise the impact that these and related developments have on the size of the Executive's Budget envelope for the current year and 2025-26. We focus here on the resource budget, which pays for the day-to-day costs of public services and administration. We describe the capital budget in later chapters.

Summarising in brief the events prior to the restoration of the Executive:

- In December 2021, the Executive published (but did not agree) a Draft Budget for 2022-23 to 2024-25. It then collapsed in early 2022.
- Departments overspent relative to available funding in 2022-23 and 2023-24, requiring the Treasury to provide loans (through calls on its contingency Reserve) of £297 million and £262 million respectively to balance the books. The overspending began when 'Caretaker Ministers' were in charge of the Budget and continued when responsibility passed to the then Secretary of State (SoSNI), although he did manage to rein in the prospective overspend.

The restoration package

UK Government negotiations with the DUP to restore the Assembly and Executive were accompanied in late 2023 and early 2024 by talks with all the local parties over a financial package that could help address the short-term overspending crisis as well as putting the Executive's finances on a more sustainable long-term footing. The Treasury wrote to the then Finance Minister to outline the final settlement on 13 February 2024, although some details were left for further negotiation.

Key elements included:

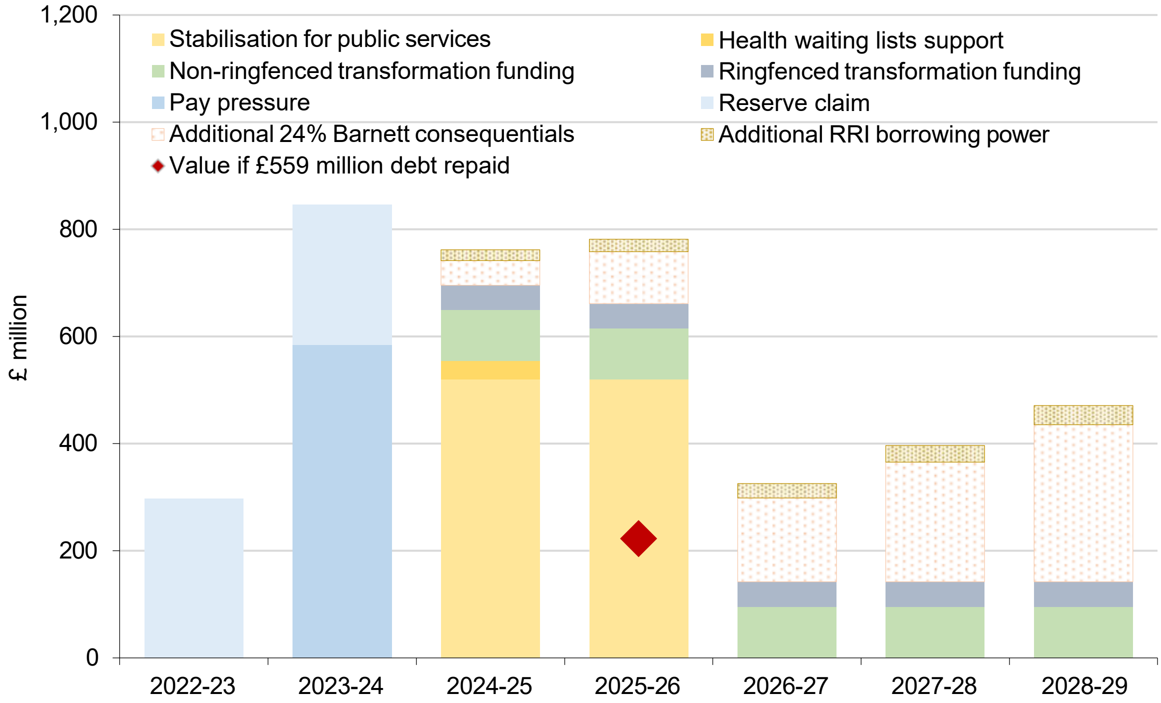
- Writing off up to £559 million of debt repayments due to the Treasury for covering the overspends in 2022-23 and 2023-24 (subject to the Executive raising £113 million in new revenue and balancing the 2024-25 budget);
- Short-term funding support of £584 million in 2023-24 (to cover backdated public sector pay awards) and £520 million in both 2024-25 and 2025-26;

- Giving the Executive greater access to £708 million of existing and new UK Government funding, largely recycling unspent and underspent funds from previous political packages;
- An increase in the amount the Executive can borrow from the UK Government to help finance capital spending, with an initial uplift in the annual limit followed by indexation in line with inflation; and
- A 24 per cent top-up to future Barnett consequentials – the additions to the Block Grant that arise when the UK Government spends more in England on items for which the Executive is responsible in NI. (To be clear, the top-up only applies to future consequentials, not to the Grant as a whole.) The 24 per cent figure is based on an assessment by the NI Fiscal Council that NI needs to spend 24 per cent more per head than England to deliver public services and outcomes of equivalent quality and quantity.

The package did offer significant near-term support to help (but not completely) address immediate spending pressures and also put NI's finances on a more sustainable long-term path by alleviating the so-called 'Barnett squeeze' that results because the Barnett formula matches UK spending increases with additional Block Grant in cash per head but not percentage terms. But, as Chart 2.1 illustrates, there is a funding 'cliff edge' in 2026-27, when the short-term support runs out but the Barnett top-up has only been operating for a limited time.

That cliff edge could arrive a year earlier (in 2025-26) if the Executive fails to meet the £113 million revenue raising requirement or to balance the 2024-25 budget, thereby requiring it to repay next year the £559 million provided by the Treasury to balance the budget in 2022-23 and 2023-24. The impact of this on the total value of the package in 2025-26 is shown as a diamond in Chart 2.1.

Chart 2.1 - The UK Government package, showing the impact of repayment of the reserve in 2025-26



Source: HM Treasury, NIFC calculations

The Interim Fiscal Framework

As an additional component of the restoration agreement, the UK Government and NI Executive published an 'Interim Fiscal Framework' for NI on 21 May 2024. This fleshed out aspects of the restoration package, although some critical points remain to be agreed.[3] This moves NI closer to the way in which Scotland and Wales are treated, where frameworks governing the fiscal relationship between the devolved administration and the UK Government were already in place.

The Interim Fiscal Framework consists of seven main elements:

- Operational details of the 24 per cent Barnett top-up.
- An option to review the 24 per cent figure if "multiple independent and credible sources provide evidence" that it should be different. These terms are not further explained or defined). Finance recently commissioned fresh work on the NI level of relative need from Gerry Holtham (whose assessment in Wales formed part of the Welsh Fiscal Framework and upon whose work the Council's estimate for NI was based).
- An agreement to review the 2026-27 funding cliff edge in the upcoming Spending Review.

[3] https://www.gov.uk/government/publications/northern-ireland-executives-interim-fiscal-framework

- Formalisation of the proposed increases to the Executive's annual capital borrowing capacity, initially moving from £200 million to £220 million per annum in 2024-25 and then rising in line with inflation from 2025-26.
- Delivery of the non-Barnett funding under the restoration financial package.
- Updates on the Budget Sustainability Plan, Strategic Infrastructure Plan and Public Sector Transformation Board required under the agreement.
- A summary of the components to be included in a final Fiscal Framework.

The Budget Sustainability Plan

In October 2024 the Executive published the Budget Sustainability Plan required by the Framework, including details of how the Executive will raise at least £113 million of new revenue. Annex D of the plan lists 20 measures that the Executive is taking to raise this sum. The larger measures include:

- £43 million in 2024-25, rising to £86 million in 2025-26, from a 5 per cent increase in the domestic and a 3 per cent increase in the non-domestic Regional Rate.
- £6.7 million in 2024-25 and £7.5m in 2025-26 from Translink fare increases.
- £4.5 million per year from NIW non-domestic customer charge increases.
- £2.4 million in 2024-25, rising to £3.6 million in 2025-26, from increasing court fees in line with inflation.

Finance estimated in December 2024 that in total the measures listed in the plan would raise £77 million a year of additional revenue by 2024-25 and £130 million a year by 2025-26, comfortably meeting the required sum.

The October 2024 UK Budget

In October 2024 the spending increases announced in the UK Autumn Budget resulted in additional Barnett consequentials for 2025-26 of £3.4 billion for the Scottish Government, £1.7 billion for the Welsh Government, and £1.5 billion for the NI Executive (£1.2 billion resource - which includes the baselining of £609 million from 2024-25 - and £270 million capital).

The Barnett top-up delivered an additional £248 million in 2025-26 for the Executive at the Budget, taking the total benefit so far to £431 million.[4] Barring further changes in UK Government spending plans, the Block Grant is set to be 2.4 per cent higher in 2025-26 than it would have been without the top-up.

The Budget brought total Barnett funding for the NI Executive in 2025-26 (resource and capital) up to £18.2 billion. The UK Government is also providing NI with £760 million of non-Barnett funding in 2025-26 (£670 million resource and £90 million

[4] https://aims.niassembly.gov.uk/officialreport/report.aspx?&eveDate=2024/11/04&docID=415336#4625271

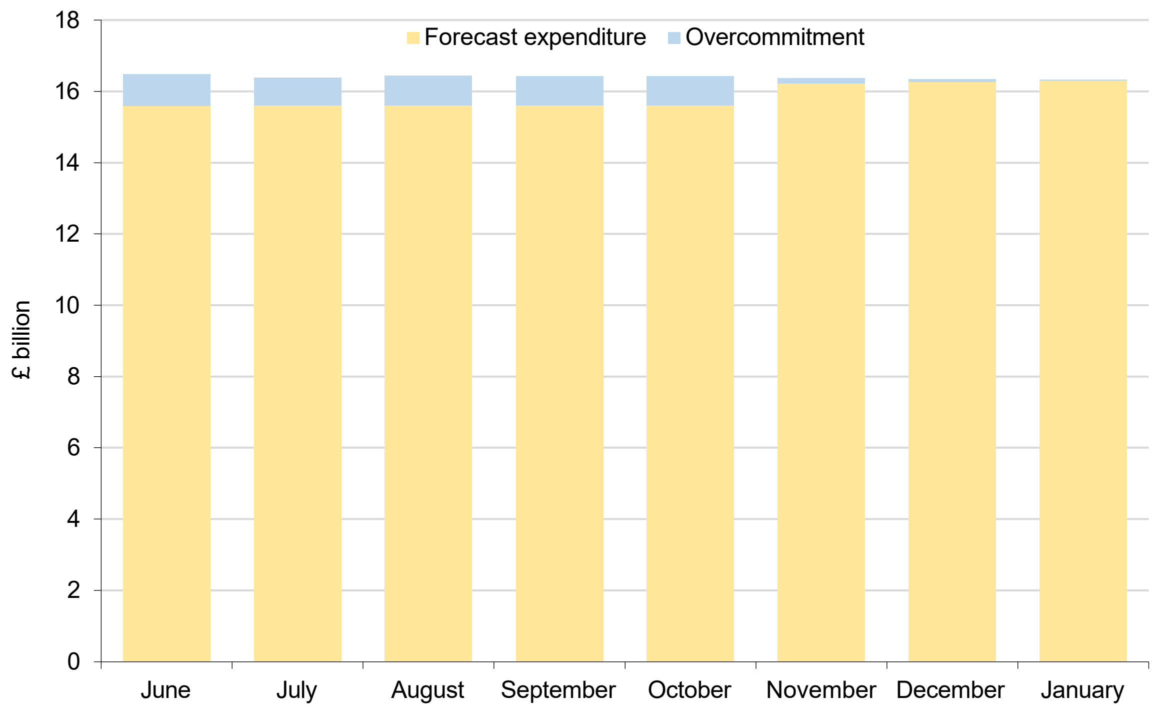
capital) via the 2024 restoration package, historic funding packages, and additional security funding (£37.8 million for the PSNI's Additional Security Fund and £8 million for the Executive's Programme on Paramilitarism and Organised Crime).

The UK Government also confirmed it would proceed with the Mid South West and Causeway Coast and Glens City and Growth Deals, with the Budget confirming £162 million of investment over 15 years.

Departmental spending so far this year

Earlier this fiscal year a third successive overspend relative to available funding looked likely in 2024-25, but departmental overcommitments have fallen significantly as a result of the additional Barnett consequentials received following the October 2024 UK Budget. In additional to the additional funding for 2025-26 noted above, this generated £640 million for 2024-25. From a peak of £896 million (5 per cent of the combined forecast total RDEL spending) in July, the Executive's projected overcommitment for this year fell to a negligible £25 million in January, as Chart 2.2 shows.

Chart 2.2 - Projected resource spending and available funding



Source: Department of Finance

The Budget Bill for 2024-25 and the 2025-26 Vote on Account

The Finance Minister brought the Budget Bill 2025 to the Assembly via accelerated passage on 17 February 2025 and this passed the Final Stage on 25 February. The Bill is expected to receive Royal Assent in March 2025.

The NI Budget Act (when it receives Assent) confers final authorisation for both all spending by NI departments (both Ministerial and Non-Ministerial) in 2024-25, and the associated provision of borrowing powers. It is not unusual for departments to risk running out of cash before the second Budget Bill of the year receives Royal Assent, especially if there has been a significant budget allocation in-year resulting in higher levels of spending in-year. This year this applied to a number of departments and the Finance Minister has provided additional cash reserves over the initial spending limits via a cash advance from the Consolidated Fund under Section 6(1) of the Financial Provisions (NI) Order 1998. These advances will be repaid and in the majority of cases the amount of the advance is deducted from the new cash balance available to the department once the Budget Bill 2025 receives Royal Assent.

Critically, the Bill/Act also provides similar authorisations for spending, service delivery and borrowing for a significant part of 2025-26 through the Vote on Account which supports spending in the early part of the financial year. The total authorisations and allocations are generally equal to 45 per cent of the totals for 2024-25, so they do not indicate the Executive's plans for the size and composition of the NI Budget next year. This is discussed in more detail in Chapter 3.

The evolution of resource funding for 2024-25 and 2025-26

Table 2.1 summarises how the resource funding position for 2024-25 has evolved since the October 2021 Spending Review. Following the various fiscal events, (including the October 2024 Budget), and as a result of the restoration package, this element of the Block Grant has risen from £13.4 billion to £15.7 billion or by just over 17 per cent in cash terms, but only by 0.8 per cent in real terms. This demonstrates that whilst multi-year budgets are helpful for planning purposes, the initial position is not written in stone and can change significantly.

In terms of changes since the 2024-25 Budget was published on 25 April 2024, Block Grant funding has increased by just under 8 percent in cash terms as a result of the additional Barnett consequentials received in the October Budget. Expected revenue from the Regional Rate is now £6 million higher than initially forecast at opening Budget, or just under 1 per cent (in cash terms).

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

£ million	2024-25	
	nominal prices	2023-24 prices
Block Grant		
Spending Review 21 Outcome	13,351	15,171
Position pre-UK Autumn Statement 2022	13,314	14,129
Autumn Statement 2022 Barnett consequentials	*283*	301
Spring Statement 2023 Barnett consequentials	*97*	97
Autumn Statement 2023 Barnett consequentials	*105*	105
January 2024 Financial Package	*649*	649
Spring Statement 2024 Barnett consequentials	*99*	97
Main Estimate 2024 Barnett consequentials	*186*	181
Spring Statement 2024 24% uplift	*24*	23
Non-Barnett Main Estimates and Autumn Statement 2024	*258*	252
Adjustments post-October 2024 Monitoring	*32*	31
Autumn Statement 2024 Barnett consequentials	*609*	595
Latest Block Grant position	15,657	15,294
Locally raised revenue		
Regional Rates revenue (before repayment of RRI principal)	818	799
Repayment of RRI principal	*114*	*111*
Regional Rates revenue (after repayment of RRI principal)	704	687
Overall Funding		
Block Grant	15,657	15,294
Regional Rates revenue (after repayment of RRI principal)	704	687
Total	**16,361**	**15,981**

Source: Department of Finance

Table 2.2 shows how resource funding for 2025-26 has increased from its ‘baseline’ position as a result of the Barnett consequentials arising from the October 2024 Budget. When the Treasury sets the baseline for the Block Grant it strips out non-Barnett funding and any one-off, non-recurrent items (of which Covid spending was a notable example). The October Budget generated £601 million in resource Barnett consequentials (and £270 million in capital) for 2025-26, on top of the £609 million noted in Table 2.1, which was recurrent and thus included in the 2025-26 baseline.

As we shall see in greater detail in Chapter 4, the 2025-26 resource funding position is higher than the 2024-25 final plan (set out in this year’s January Monitoring Round). Funding has increasing by 2.6 per cent in cash terms, with Regional Rates income (after repayment of principal) increasing by 4.1 per cent. In real terms, total funding is 0.2 per cent higher, with rates income up by 1.6 per cent.

Table 2.2 - Developments in 2025-26 Budget

£ million	**2025-26**	
	nominal terms	**2023-24 prices**
Barnett funding		
Baseline	*14,370*	14,037
Spending Round 2024 Additions	*601*	587
Non-Barnett funding		
Baseline	*406*	397
Spending Round 2024 Additions	*669*	653
Latest Block Grant position	16,046	15,674
Locally raised revenue		
Regional Rates revenue (before repayment of RRI principal)	855	835
Repayment of RRI principal	*122*	119
Regional Rates revenue (after repayment of RRI principal)	732	715
Overall Funding		
Block Grant	16,046	15,674
Regional Rates revenue (after repayment of RRI principal)	732	715
Total	**16,778**	**16,389**

Source: Department of Finance, HM Treasury

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 that 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. For example, in 2023-24, the Department of Communities recouped costs of over £100 million for the services it delivers for DWP, National Insurance Fund benefits and child maintenance. Fees and charges 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*.[5]

- **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 £225.7 million in 2025-26 (uplifted from £220m in 2024-25 and set to rise annually 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,

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

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 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.

With stability at Stormont and a multi-year Spending Review at the UK level, the Executive would expect to set a multi-year budget along the following 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 in aggregate inevitably exceed the 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).[6]
- 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.[7]

Although the 2025-26 Draft Budget covers only a single year (because there was only a single-year settlement at the UK level), and we have yet to see many of the departmental impact assessments, the Budget process this year is much closer to the above ideal than any previous year on which we have reported. As part of the information gathering process for 2025-26, departments were also asked to provide information for 2026-27 and 2027-28 which will be used by the Finance Minister and the Executive to inform a multi-year budget following the UK Spending Review, which is expected in June.

The 2025-26 Budget process

Commissioning departmental bids

In August 2024 the Department of Finance (henceforth 'Finance') formally commissioned the 2025-26 Budget information gathering process shortly before the Chancellor's Spending Review announcement on 30 October 2024. The Chancellor launched a multi-year Spending Review to set departmental budgets for

[6] 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

[7] 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".

three years, announcing the funding envelope for 2025-26. The Review is expected to conclude in June 2025 and at that point the funding envelopes for 2026-27 and 2027-28 will be announced – along with the Block Grant settlements.

As part of the 2025-26 information gathering exercise, Finance also requested funding requirements for 2026-27 and 2027-28 to assist the Executive in considering the longer-term implications of any spending decisions. Departments will be given the opportunity to update this information before proposals are brought to the Executive for future years.

The information gathered by Finance included capital and resource bids as well as requirements for earmarked funds. The capital budget, as usual, was built from a zero base with departments asked whether their bids formed part of the Investment Strategy which has yet to be published.

Setting departmental baselines

As in the Treasury process described above, Finance produces a 'baseline' budget position for each department, as a starting point from which to consider bids and make allocations. As with the Treasury, generating the baseline involves removing one-off and non-recurrent funding items that departments have previously received (for example from financial packages) and also in-year funding allocations unless these were expressly provided by the Executive on a permanent basis. Table 3.1 shows the RDEL baselines in real terms from 2025-26 to 2027-28. While flat in cash terms, their real value is forecast to reduce by 1.9 per cent annually, with the 2027-28 baseline worth 3.8 per cent less than in 2025-26.

Table 3.1 - Non-ringfenced Resource DEL baselines in 2025-26 prices

£ million	**2025-26**	**2026-27**	**2027-28**
Health	7,716	7,567	7,422
Education	2,874	2,818	2,764
Justice	1,218	1,195	1,172
Economy	761	746	732
Communities[1]	683	669	657
Infrastructure	560	549	538
Agriculture etc	244	239	234
Finance	150	147	144
The Executive Office	82	80	79
Minor departments	121	118	116
Total	**14,408**	**14,129**	**13,858**

Note [1] : subsequent to the Finance commissioning letter, Communities asked that £34 million relating to de-rating be removed from the baseline

Source: Finance Commissioning Letter 22 August 2024, HMT GDP deflators (December 2024)

To arrive at final departmental budget settlements, these baselines are supplemented by earmarked funding (usually one-off non-recurrent items) and allocations in response to departmental bids, both of which we consider in the next chapter. Information gathered by Finance included capital and resource bids as well as requirements for earmarked funds. The capital budget, as usual, was built from a zero base with departments asked whether their bids formed part of the Investment Strategy which is set to be published shortly.

Timings

The anticipated timings for the Budget 2025-26 process are set out in Table 3.2.

Table 3.2 - Timings for the 2025-26 Budget process

	Date
Information gathering returns due from departments	4 October 2024
Chancellor announces Spending Review outcome	30 October 2024
Written Ministerial Statement (WMS) on SoSNI settlement letter	13 November 2024
Draft Budget agreed by Executive	19 December 2024
WMS on Draft Budget 2025-26	19 December 2024
WMS, factsheet and summary document issued for consultation	19 December 2024
Draft Budget document published	31 January 2025
Consultation ends	13 March 2025
Final Budget agreed by Executive	*Expected late March 2025*
Budget Document issues	*Expected late March 2025*
Assembly Debate	*Expected late March 2025*

Source: Department of Finance

This year, Finance published the Written Ministerial Statement and a Budget summary document prior to the full Draft Budget document. We welcome the additional transparency provided in the Budget summary document, and that the consultation period allows for a Budget to be agreed prior to the start of the fiscal year. Both of these are improvements on previous years. However, the delay to the publication of the full Draft Budget document hampers the Council's and others' analysis. It would be ideal if the detailed document could be published closer to the start of the consultation period to facilitate external analysis of the Budget.

Following the publication of the Budget, Finance typically revises departmental allocations periodically through the year as total funding changes and as the relative needs of departments change. These revisions take place at In-Year Monitoring rounds. Finance sets out this process in its *In-Year Monitoring Guidance*[8] which is usually issued at the start of each financial year. The number of monitoring rounds is not fixed and can be flexed as needed. The last Executive held monitoring rounds three times a year in June, October and January. The current Executive plans generally to drop the (often largely technical) October round due to resourcing constraints, although last year a postponed October round was used in November for allocations from the Autumn Budget. This should still allow the 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,[9] the Assembly usually passes two Budget Acts every fiscal year, each with a detailed accompanying Estimate showing the anticipated spending within each department:

[8] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/2024-25%20In-Year%20Monitoring%20of%20Public%20Expenditure%20-%20Guidelines.pdf
[9] https://www.nifiscalcouncil.org/publications/public-finances-ni-comprehensive-guide-november-2021

- 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.

The Assembly, like the UK Parliament, is unlike most other legislatures in considering its Budget legislation once the fiscal year is already under way, rather than beforehand. As we mentioned briefly in Chapter 2, 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. Finance usually includes the Vote on Account in its Spring Supplementary Estimate legislation. The Vote generally authorises spending equal to 45 per cent of each department's allocation for the previous year. At Main Estimate, this initial percentage limit is replaced with figures based on the agreed budget for that fiscal year.

For 2025-26 a Vote on Account at 45 per cent, totalling £13,968,655,000 (of which £12,669,676,000 is authorised for current purposes and £1,298,979,000 is authorised for capital purposes) has been taken to provide departments with provision for the early months of 2025-26 until the Main Estimates and associated Budget (No. 2) Bill are voted in the summer.

Developments anticipated following the Commissioning process

The transparency of the Budget and bidding process is hampered by the fact that 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 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 the financial year. These (relatively small) sums will likely be allocated in the first monitoring round in June.

The Chancellor announced the outcome of the Spending Review on 30 October 2024 which set out the overall quantum of resources available to UK departments for 2025-26. Changes to the level of funding for the Executive are automatically determined by changes in funding for comparable spending programmes in Whitehall departments under the Barnett formula. These changes are applied to the Executive baseline funding which is usually based on the outcome of the previous Spending Review. Exceptionally for 2025-26 the Treasury uplifted the Executive's baseline funding to reflect the outcome of the Autumn Budget for 2024-25 for Resource DEL. For 2025-26, the Treasury removed the ring-fence on Agriculture

Support funds, meaning that the 2024-25 level of agriculture funding, £332.5 million, has been included in the Executive's Resource DEL baseline. These funds are intended to replace the equivalent EU funds which have now ceased.

As well as general funding for use at the discretion of the Executive, the Spending Review also included £92.8 million of funding earmarked by Treasury for specific purposes. This included £47 million of 'transformation funding' which will be held centrally until the UK Government and NICS agree it can be released to departments. The funding is subject to authorisation from an (interim) Transformation Board made up of senior Whitehall and NICS representatives. In the first stage of its process, this Board received 47 project proposals (which would have required funding of around £750 million)[10] from across the NI departments which have the potential to effect public service transformation. However, given the relatively small size of the annual funding level, this is not likely to be of the scale needed to radically reform the NICS administration.

The Executive have also chosen to hold funding centrally for a number of specific projects. These include £26 million for NICS pay and £50 million for the Childcare Strategy. This is funding that will ultimately be provided to departments but is retained pending decisions on these specific issues/ policies.

Equality impact assessments

As part of the consultation process, departments have been asked to provide a return to Finance reflecting any impact assessments and consultations that have been carried out against their statutory Equality Schemes. This is an obligation on NI public bodies arising from Sections 75 and 76 of the 1998 NI Act to show "due regard to the need to promote equality of opportunity" among the nine relevant categories identified in the legislation. The outcomes of these exercises, together with a summary of the responses received to the overarching consultation by Finance, will be provided to the Executive before it agrees its Final Budget so it can consider and evaluate any equality impacts identified and determine if any adjustments are needed to departmental allocations as a result.

As of writing, only Health and Infrastructure have published their equality impact assessments. The Health assessment asserts that there will be major negative impacts on a range of Section 75 groups because its Draft Budget allocation does not cover all the bids that Health identified as inescapable when it made its submission. In line with the Health Minister's public comments, the impact assessment states that "the Department is in a difficult position of being asked to fulfil conflicting responsibilities", which "may mean taking unpalatable decisions that are not in the best interests of the Health and Social Care System but may be required to enable us to manage within the funding allocated".

As regards Infrastructure the assessment notes the improved Draft Budget outcome for the Department in comparison to previous years and concluded from its equality screening that there was a minor positive equality impact from the draft resource allocation. For the draft capital budget the Department has concluded that there will be a positive impact for priority schemes progressing this year, and a potentially minor negative impact due to lower priority schemes not able to be progressed this

[10] https://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=34091

year. The EQIA is being carried out on the basis that the Department would not be able to deliver all it wanted to from the Draft Budget outcome.

The Programme for Government and Investment Strategy

The NI Audit Office,[11] the New Decade New Approach agreement[12] and other stakeholders have consistently expressed a desire to see Budget allocations linked clearly to the plans and targets of the Executive's Programme for Government (PfG) and NI Investment Strategy (NI).

On 9 September 2024 the Executive published its draft PfG for consultation with responses due back by 4 November 2024. The draft PfG included nine "immediate priorities which we will work to this year and throughout the duration of this mandate", plus various individually costed commitments and objectives. But the Draft Budget does not establish a clear link between these priorities and the proposed allocation decisions across departments. And neither the income generating proposals nor the spending plans in the draft PfG were costed in the detailed way a Budget would require.

On 27 February the Executive agreed the final Programme for Government[13] which was brought to the Assembly and published on 3 March 2025. The final PfG contains a number of targets to be reached by 2027 (the end of the current mandate) and some for the end of this year. Some of these targets are costed, such as spending up to £135 million a year until 2027 to reduce waiting lists by treating an additional 70,000 patients and a further £80 million a year to increase elective care capacity. Other targets have no specific costs attached, such as delivering better support for children and young people with special educational needs and building over 5,850 new homes. The Health Minister has since asked for 'clarity' about the funding promised. The document includes a funding section but does not set out any specifics of how the PfG priorities will be funded. It does say that work will continue 'with the UK Government to secure a fair funding settlement based on need and to advocate for multi-year budgets'.

This Budget has been prepared, in the words of the then Finance Minister, "through the lens of the PfG […] the need to maintain existing services until transformation efforts deliver means that the level of funding that can be allocated purely on PfG priority is limited". As part of the information gathering exercise for this Budget departments were asked to include 'draft PfG impacts for each bid'. However the then Finance Minister recognised, in her Draft Budget Written Ministerial Statement, that further work will be needed (and will be carried out as part of the Budget Improvement Plan) to align the PfG priorities with Budgets.

The Draft Budget document states:

"The Draft Budget considered the Programme for Government (PfG) alongside the need to maintain existing services. The earmarked allocations for Childcare, Skills, Social Housing, Just Transition, Violence Against Women and Girls and Integr8 directly

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[11] https://www.niauditoffice.gov.uk/files/niauditoffice/NIAO_Report_NI_Budget_Process_Report_Combo_4_WEB.pdf

[12] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/856998/2020-01-08_a_new_decade__a_new_approach.pdf

[13] https://www.northernireland.gov.uk/sites/default/files/2025-03/programme-for-government-2024-2027-our-plan-doing-what-matters-most_1.pdf

support PfG priorities in these areas. General allocations to departments should also contribute to PfG and work is underway to ascertain how proposed departmental spending will align with PfG priorities, missions and wellbeing domains."[14]

In January Finance commissioned an exercise asking departments to align their entire Budget envelope to the (then still draft) PfG priorities, missions and wellbeing domains. This will be an iterative process as it is recognised that mapping the budget and the PfG is not a simple task and will require refining. (Departments have been asked to align budgets to PfG priorities in the past but this was hindered by individual departmental objectives and silo working). Finance will review the exercise in light of the final PfG, now published. The department then aims to publish a further update on this work alongside the Final Budget.

Ideally the capital allocations in the Draft Budget would have been informed by a published ISNI, although we understand that Finance did ask departments to link bids to projects they have submitted to ISNI as part of the Budget information-gathering process. So we assume the draft ISNI at least partly influenced the distribution of the capital Budget, although the commentary provided by Finance around the non-ringfenced capital allocations and in-year priority afforded to Education and Infrastructure did not refer to it explicitly.

Contributions from UK Government financial packages

The Executive has received funding for 2025-26 from several UK Government financial packages including New Decade New Approach, Fresh Start (for shared housing and education) and the restoration package. Table 3.3 sets out the amounts confirmed by the Secretary of State to date.

Table 3.3 – 2025-26 funding from financial packages

£ million	Resource DEL	Capital DEL
Fresh Start: shared education and housing (2015)	-	48
New Decade New Approach (2020)	-	2
Executive restoration package (2024)	615	-
Total	**615**	**50**

Source: 2025-26 Draft Budget

The Secretary of State's settlement letter also set out the split of funding from the restoration package. This includes £520.0 million stabilisation funding, £94.6 million of repurposed funds for which the Executive can decide their use. There is also £47.0 million of repurposed funds to be used for transformation earmarked by Treasury. This is part of the £235 million provided by the UK Government specifically for public sector transformation as part of the financial package to restore the Executive. On 4 March 2025 the Finance Minister announced[15] that £129 million of this would be released for six transformation projects across

[14] https://www.finance-ni.gov.uk/sites/default/files/2025-01/Draft%20Budget%202025-26%20Document.pdf (pages 27-28)
[15] https://www.finance-ni.gov.uk/sites/default/files/2025-03/Oral%20Statement%20-%20Public%20Sector%20Transformation.pdf

healthcare, special educational needs, justice and infrastructure and will be provided over a 5-year period. The first batch of funding will be released to enable departments to being spending in 2024-25.

Outside the financial packages above a further £41.6 million has been confirmed for 2025-26 – £41.1 million for City Deals and £0.5 million of Inclusive Future Funding. Due to the timing of the first phase of the Spending Review, this funding is less than the requirement identified by departments for the projects to be funded from the Treasury contribution. However, Finance anticipates that further funding will be provided by the Treasury in-year and allocated to departments through the in-year monitoring process. Funding for the NI Protocol / Windsor Framework has not yet been formally confirmed by the Secretary of State. However, the Executive anticipates that this funding will also be confirmed and allocated to departments through the in-year monitoring process.

4 The NI Budget position in 2025-26

As noted above, the NI Budget has three main components: non-ringfenced resource spending, conventional capital spending and financial transactions capital spending. In this chapter we look at these three funding envelopes for 2025-26 and the decisions that the Executive has taken about departmental allocations within them.

The funding envelopes for 2025-26 began to take shape with the UK Spending Review in October 2024. The Block Grant has also been supplemented by the UK Government financial packages discussed above. The Executive is required by legislation[16] to produce a Budget that 'balances' without requiring more UK funding than that supplied by the UK Government. The amount available to allocate on resource spending also includes anticipated Regional Rates revenue (with poundages set to increase by 5 per cent for the domestic rate and 3 per cent for the non-domestic rate in 2025-26). The capital spending envelope is boosted by RRI borrowing and Irish Government funding for the A5 road project.

The 5 per cent domestic rates increase equates to around 60p per week for a domestic property of average value. Although relatively modest, these increases (alongside other fees and charges) are sufficient to meet the £113 million sustainability target after the UK Government following agreed to extend the timeframe over which it was to be achieved to two years. This has allowed departments to implement a range of different measures rather than relying exclusively on a 15 per cent Rates increase as the UK Government originally envisaged. The Regional Rates do however remain the primary lever as we saw in Chapter 2, raising £86 million towards the £113 million target by 2025-26. The Draft Budget document indicates that the choice of a smaller Rates increase for businesses (3 per cent) is in part a recognition of the pressure caused by employer National Insurance Contributions increases set out in the UK Autumn Budget.

As we show in Tables 4.1, 4.9 and 4.13 in this chapter, the Budget involves total **spending of £19.3 billion across all categories of DEL.** This comprises:

- **£19,095.4 million of planned departmental spending**, of which:
    - Resource spending of £16,592.5 million;
    - Conventional capital spending of £2,453.6 million; and
    - Financial Transactions Capital (FTC) spending of £49.2 million;
- Plus HMT-held earmarked **transformation funding of £47 million**, which is subject to the approval of the Interim Transformation Board;
- Plus **funding held centrally by Finance of £76.0 million**, mostly for the Childcare Strategy (£50 million) and NI Civil Service (NICS) pay costs;
- Plus £62.9 million for RRI interest repayments;
- And unallocated **FTC of £13.0 million.**

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

The resource budget

The funding envelope

Table 4.1 summarises the resource funding available in 2025-26. This amounts to £16,778 million (around £21,800 per household), of which the Block Grant accounts for almost 96 per cent and income from Regional Rates 4 per cent. This is an increase of 2.6 per cent (or 0.2 per cent in real terms) on the final plan for 2024-25. If the Executive has to repay the £559 million owed to the Treasury next year, rather than this sum being written off, the available funding would instead fall by 1 per cent (or 3 per cent in real terms).

Almost all this funding was available for allocation to departments with only £186 million being held centrally for NICS pay, the Childcare Strategy, Public Sector transformation and debt interest. £921 million was effectively pre-allocated to departments for items earmarked by Treasury or by the Executive and a further £6 million was set aside for 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.

Table 4.1 - Non-ringfenced resource spending and financing, 2025-26

£ million	2023-24 Outturn	2024-25 Budget	2024-25 Final Plan	2025-26 Budget
FINANCING				
Barnett-based funding	13,427	13,575	14,387	14,971
add				
Non-Barnett funding[1]	1,375	973	1,270	1,075
of which				
Stabilisation of public services	-	*520*	*520*	*520*
Un-ringfenced transformation funding	-	*95*	*95*	*95*
Health waiting lists support	-	*34*	*34*	-
Ringfenced Transformation	-	-	*47*	*47*
Other non-Barnett funding [2]	-	*324*	*621*	*460*
Block Grant	**14,803**	**14,548**	**15,657**	**16,046**
Regional Rates revenue (before repayment of RRI principal)	778	814	818	855
less				
Repayment of RRI principal	*116*	*116*	*114*	*122*
Regional Rates (post debt repayment)	662	698	704	732
TOTAL FINANCING	**15,465**	**15,247**	**16,361**	**16,778**
pays for				
SPENDING				
Departmental spending	15,414	15,168	16,301	16,592
Overcommitment	-	-	-	-
Centrally held	-	26	5	123
of which				
public sector transformation	-	-	-	*47*
childcare strategy	-	-	-	*50*
NICS pay	-	-	-	*26*
Debt interest (RRI)	50	53	55	63
TOTAL SPENDING	**15,465**	**15,247**	**16,361**	**16,778**

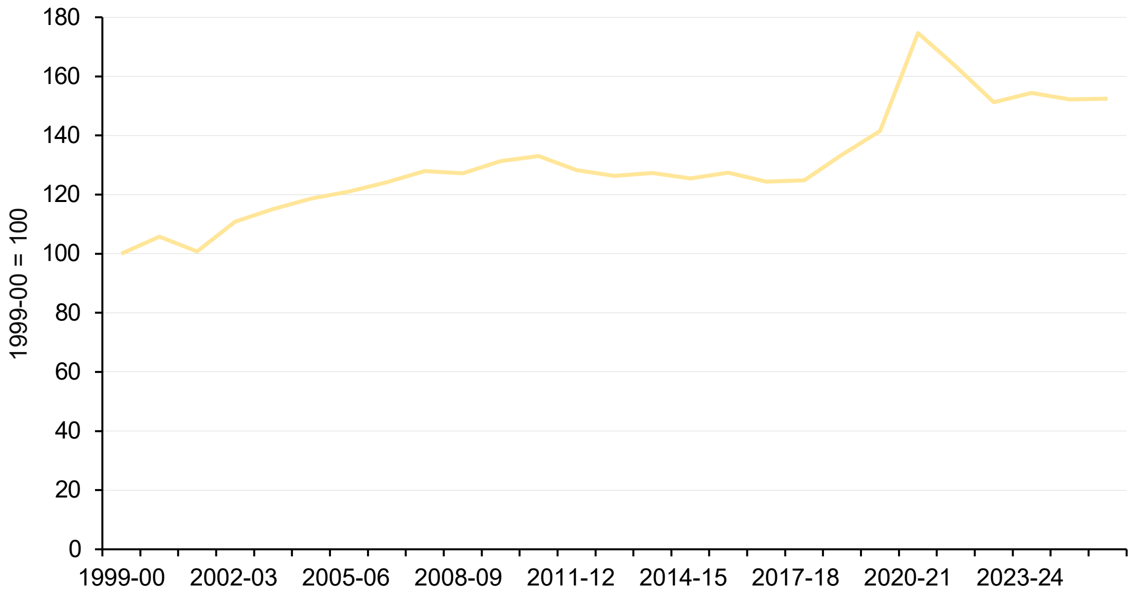
Note 1: The Department of Finance has advised that HMT included a £24 million needs-based Barnett uplift in the non-Barnett total for 2024-25 because it w as applied retrospectively to Barnett consequentials from Spring Budget 2024. £45 million is HMT earmarked underspends and late Barnett of £42 million carried forw ard to 2024-25.

Note 2: Other non-Barnett funding includes farm and fisheries payments, additional security funding, NI protocol, New Deal economic inactivity, Tackiling paramilitary activity and a range of Budget Cover Transfers and other smaller elements

Source: Department of Finance & HM Treasury

Chart 4.1 shows the evolution of the Block Grant since 1999-00. (Total funding is not available on a comparable basis over this long a period.) It shows that the Block Grant grew in real terms through the 2000s, but then fell during the ‘austerity’ years following the financial crisis as UK Government spending was squeezed to reduce the deficit. Spending increased again in real terms following the Brexit vote and more dramatically during the pandemic. It then fell back and has been broadly flat over the last three years and into next year.

Chart 4.1 - RDEL Block Grant over time, in real terms[17]



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)

Departmental allocations

Table 4.2 shows how the resource financing available to the Executive has been allocated across departments. In its Draft Budget 2022-25 (which the parties could not agree upon), the Executive had planned above-average increases for Health, which has not been the case in the Budgets since the Executive's restoration. As in 2024-25, in this Budget Health receives a lower-than-average uplift (against both 2024-25 opening and latest positions), faring less well than either Education or Justice. Health would have required another £60 million to match the average departmental increase. In our previous work the Council noted that Health expenditure on outpatient care typically sees annual growth of around 7 per cent (compared to around 3 per cent per annum in England).

When we look to compare allocations in a new Budget to those made in the past, there are some judgments that need to be considered. Generally speaking, departments (especially Finance) prefer to compare *opening* budget positions from one year to the next. This is because the opening position does not include temporary or one-off in-year additions.

In Table 4.2, we include opening-to-opening budget comparisons, but we also present a comparison with departments' *final plan* positions. These final plan positions include funding that will not necessarily be provided again in the following year. But it represents a way of comparing what a department has to spend for next year against what it had for the current year.

[17] This chart replaces a similar chart published in last year's budget report. We have corrected an error in the methodology. We will also replace the online version in the 2024-25 publication.

Health is a good example of the different approaches, and there is further discussion below (in a box on Health spending). Health's budget allocation for 2025-26 is 8.3 per cent greater than its budget allocation for 2024-25. The Department received £350 million at October Monitoring in response to mounting pressures across the health and social care system. These pressures are unlikely to have disappeared.

Using final plan as the baseline for comparison may include funding that will certainly not be provided in 2025-26. Earmarked funding from the UK Government (for example relating to the Windsor Framework) is often confirmed only after opening budget, often relates to one-off programmes and is not automatically baselined from one year to the next.

Table 4.2 - Non- ringfenced resource budgets for NI departments various baseline positions

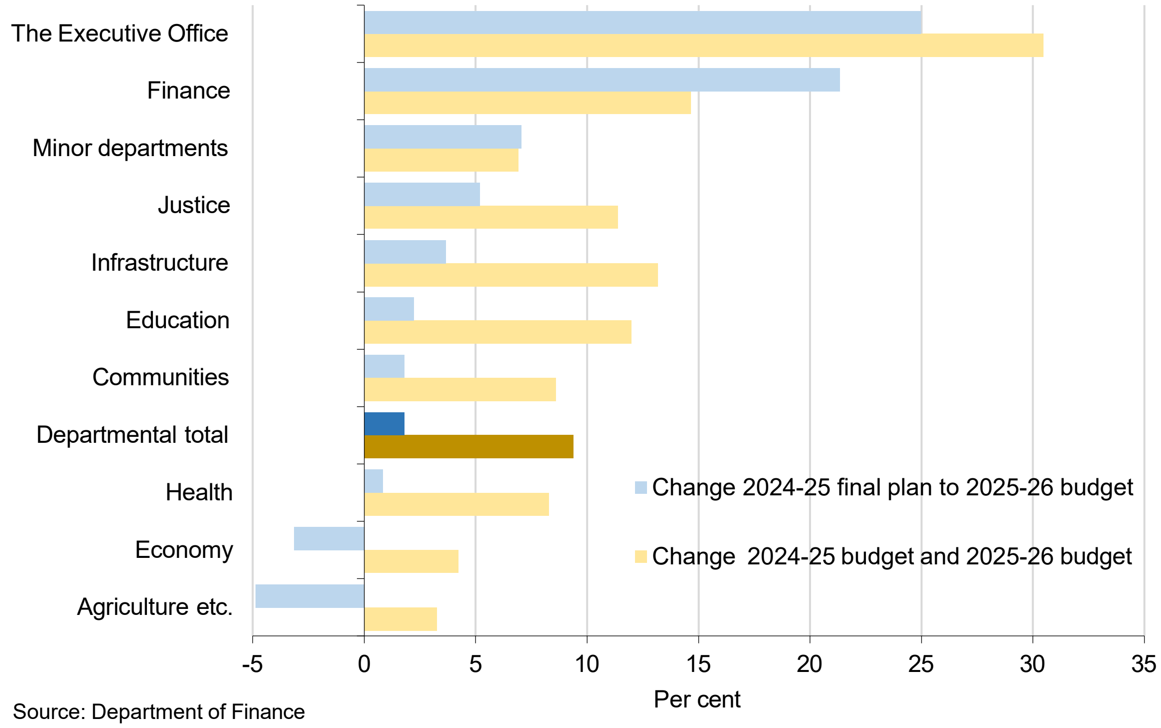
£ million	2023-24 outturn	2024-25 opening budget	2024-25 final plan	2025-26 budget	Change 2024-25 final plan to 2025-26 budget	Change in per cent (%)	Change 2024-25 budget and 2025-26 budget	Change in per cent (%)
Health	7,940	7,760	8,331	8,402	71	0.9	643	8.3
Education	2,878	2,874	3,149	3,219	70	2.2	345	12.0
Justice	1,259	1,262	1,337	1,406	70	5.2	144	11.4
Communities	869	856	913	930	16	1.8	74	8.6
Economy	792	767	825	799	-26	-3.2	32	4.2
Agriculture etc.	600	577	627	596	-31	-4.9	19	3.3
Infrastructure	632	560	611	633	22	3.7	74	13.2
Finance	177	208	197	239	42	21.3	31	14.7
The Executive Office	156	183	191	239	48	25.0	56	30.5
Minor departments	109	121	121	129	9	7.1	8	6.9
Departmental allocations	**15,414**	**15,168**	**16,301**	**16,592**	**291**	**1.8**	**1,424**	**9.4**
Centrally held[1]	-	26	5	123	118	2,563.9	97	373.2
Debt interest (RRI)	50	53	55	63	8	14.1	10	18.7
Total	**15,465**	**15,247**	**16,361**	**16,778**	**418**	**2.6**	**1,531**	**10.0**

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; 2024-25 final plan: £4.3 million relates to Treasury funding for Transformation and £0.3 milllion for easements in Treasury funding for NI Protocol.

Source: Department of Finance

The uplifts for Finance and The Executive Office (TEO) are markedly higher than for the other departments, especially compared to the 2024-25 latest position. This reflects time-bound and one-off items against a relatively small baseline budget. With regards to TEO, the increase between the closing 2024-25 position and the opening 2025-26 position is mainly explained by earmarked funds which have increased by 96 per cent. This includes £150 million earmarked by the Executive for Historical Institutional Abuse, Victims and Truth Recovery, up from £100 million in 2024-25. The non-earmarked element of the TEO budget has on the other hand only increased by 9 per cent during the same period.

Chart 4.2 – 2025-26 resource budgets versus 2024-25 opening and current positions



Source: Department of Finance

In Chart 4.2, we see that every department bar Finance shows lower budget growth (or indeed a reduction) when compared to the final plan position than to the opening position because their initial funding has been topped up during the year. This is why other departments, and their Ministers, sometimes portray their budget outcomes less favourably than the Finance Minister might. Education has the largest gap, reflecting relatively large funding top-up in-year this year.

Table 4.3 shows the proportion of each department's budget allocation that has already been earmarked for particular purposes by the Treasury or the Executive collectively. As noted above, Finance and TEO frequently have large levels of earmarked funding, in particular compared to their relatively smaller baselines. Department for Agriculture, Environment and Rural Affairs (henceforth 'Agriculture') stands out from the other large departments, in terms of the relatively high proportions of their allocations earmarked in 2025-26. The Chancellor's October Budget removed the ringfence on agricultural support funds, which had previously been financed by the EU and were then guaranteed by the UK Government to the end of the last Parliament following Brexit. Providing these funds to farmers, fisheries etc forms a very significant proportion of the department's work. The removal of this ringfence means that the Executive could have diverted some of this funding to other public services, but it has instead agreed to protect this funding by providing it as an earmarked allocation to the department.

Table 4.3 - Earmarked Resource Items

£ million Department	Total RDEL allocation	Earmarked funds within RDEL	Earmarked as proportion of allocation (%)
Health	8,402	14	0.2
Education	3,219	76	2.4
Justice[1]	1,406	56	4.0
Communities	930	184	19.8
Economy	799	20	2.5
Agriculture etc.	596	337	56.5
Infrastructure	633	-	-
Finance	239	80	33.5
The Executive Office	239	155	64.7
Minor Departments	129	6	4.9
Total	**16,592**	**927**	**5.6**

Note[1]: £16 million of DoJ's total and earmarked allocation relates to the Executive's Programme on Paramilitarism and Organised Crime, a cross-departmental strategy. Approximately £7 million of this is due to be allocated to other departments.
Source: Department of Finance

The most significant earmarked allocations include £150 million to TEO for Historical Institutional Abuse, Victims and Truth Recovery, £122 million for Communities and Finance for Housing Rates Rebates and over £90 million to Communities for Welfare Mitigations and the Derating Grant, £75 million for the Education Authority Pay and Grading Review and over £26 million to DoF for the Integr8 project and the cyber security centre.

The other ringfenced items which remain centrally held by Finance and/or Treasury are funding for transformation of £47 million, NICS pay costs at £26 million, and £50 million for the Childcare Strategy.

Departmental bids

The decisions on how much resource funding to allocate each department were informed by the bidding process mentioned in Chapter 2. With £927 million of the £16,778 million total financing for 2025-26 being earmarked, and a further £187 million being held centrally, that meant the Department could accommodate just under £1.3 billion of bids relative to departmental baselines while still balancing the resource budget. As Table 4.4 show the bids far exceeded this amount, totalling just over £3 billion. However, this does not include the earmarked bid from Communities for New Welfare Mitigations and funding to finance the continuation of the Winter Fuel Payment, new 'super parity' measures not yet approved by the Executive. Departments took differing approaches to including or excluding their earmarked bids, even though Finance had asked for them to be excluded. Including them brings bids to over £4 billion and means that Communities was by far the biggest bidder seeking more than its baseline in bids. Justice bid for additions of just under 40 per cent of their baseline (which included a transformation bid of over £90 million which, given the scope of the Public Sector Transformation Fund (PSTF) this is the total expenditure over the 5 year period of the PSTF), with Infrastructure, Health, and Agriculture all bidding for over 20 per cent. As in 2024-25 Health and

Education received over 70 per cent of the available allocations between them, with Health alone receiving more than 53 per cent. The proportion of bids unmet is higher than last year.

Table 4.4 - Additional resource spending requested by departments versus allocations

£ million	Baseline	Bids[1]		Allocations[1]	
	2025-26	Amount	Amount requested as a % of 2025-26 departmental baseline (%)	Amount	% of available Executive resource budget (%)
The Executive Office	82	15	18.3	84	0.5
Communities	683	177	26.0	746	4.8
Finance	150	23	15.0	159	1.0
Justice	1,218	486	39.9	1,351	8.6
Infrastructure	560	158	28.2	633	4.0
Health	7,716	1,835	23.8	8,388	53.5
Education	2,874	530	18.4	3,143	20.1
Agriculture etc.	244	51	20.9	259	1.7
Economy	761	114	14.9	779	5.0
Minor Departments	121	5	4.3	123	0.8
Total	**14,408**	**3,393**	**23.6**	**15,665**	**100.0**

Note [1]: Excluding earmarked bids

Source: Department of Finance

Another way to calibrate departments' bids is to determine their total requirement which we have calculated as being the total of their baseline, their non-earmarked bids and their earmarked spending and compare it to their final plan allocations for the previous year (Table 4.5) (In some cases this figure may be slightly lower than the amount departments requested if earmarked allocations were less than earmarked bids. This was the case for a number of departments including Communities, Economy, Education and The Executive Office). This shows that all departments were seeking to increase their budgets from last year. Communities bid for almost double their 2024-25 final plan primarily as a result of a bid of over £800 million for new Welfare Mitigations and support requirements as well as funding to continue the Winter Fuel Payment. Three departments bid for around 30 per cent more than their final budgets last year: Justice included in their bids over £200 million for exceptional pressures (that the Finance Minister unsuccessfully sought a Reserve claim for) as well as the bid for the Transformation fund mentioned above; The Executive Office bid for almost £170 million in relation to Historical Institutional Abuse, Victims payments and Truth Recovery ; and Finance bid for over £25 million for the Integr8 project and over £50 million for rate rebates. Notably, Health was in the lower bracket seeking only 15 per cent more.

Table 4.5 - Departmental resource requirements compared to 2024-25 allocations

£ million	2025-26 departmental baseline	Earmarked allocations	Non-earmarked Bids	Total Requirement	2024-25 Final Plan	2025-26 Requirement as a % of 2024-25 Final Plan
Health	7,716	15	1,835	9,566	8,331	114.8
Education	2,874	76	530	3,479	3,149	110.5
Justice	1,218	56	486	1,760	1,337	131.7
Communities[1]	683	184	177	1,848	913	202.3
Economy	761	20	114	895	825	108.4
Agriculture etc.	244	337	51	631	627	100.7
Infrastructure	560	-	158	717	611	117.4
Finance	150	80	23	253	197	128.4
The Executive Office	82	155	15	251	191	131.5
Minor Departments	121	6	5	132	121	109.6
Total	**14,408**	**928**	**3,393**	**19,533**	**16,301**	**119.8**

Note[1]: A bid for £825 million for new w elfare mitigations and w inter fuel payments w as submitted but not met. We have show n it in the Total Requirement but not explicitly w ithin the earmarked bids.

Source: Department of Finance

Table 4.6 shows that of the Executive departments TEO, Finance and Agriculture secured the highest proportion of their total requests (i.e. baseline plus bids), however this is skewed by the fact that these departments all received a high proportion of earmarked funding which was set aside by the Executive for specific purposes such as the earmarked, funding for Victims payments, HIA and Truth Recovery, and funding for farms and fisheries. Education followed closely receiving just under 93 per cent of its requirement and receiving the highest proportion (over 50 per cent) of their non-earmarked bids. At the other end of the spectrum Communities secured just over half what it felt its overall need was failing to secure £800 million for new welfare mitigations and support requirements. Overall, departments final allocations are slightly over four-fifths of their total requests.

Table 4.6 - Departmental resource requirements versus allocations received

£ million	Total Departmental Requirement	Total Allocation	2024-25 Final Plan	Allocation vs requirement (%)	Allocation vs 2024-25 Final Plan (%)
Health	9,566	8,402	8,331	87.8	100.9
Education	3,479	3,219	3,149	92.5	102.2
Justice	1,760	1,406	1,337	79.9	105.2
Communities	1,848	930	913	50.3	101.8
Economy	895	799	825	89.3	96.8
Agriculture etc.	631	596	627	94.4	95.1
Infrastructure	717	633	611	88.3	103.7
Finance	253	239	197	94.5	121.3
The Executive Office	251	239	191	95.1	125.0
Minor Departments	132	129	121	97.6	107.1
Total	**19,533**	**16,592**	**16,301**	**84.9**	**101.8**

Source: Department of Finance

Table 4.7 shows the proportion of non-earmarked bids met for each department. Of the Executive departments, Education secured over half what it bid for followed closely by Infrastructure which secured almost half. TEO and Economy at the other end of the spectrum secured less than 20 per cent of what they bid for.

Table 4.7 – Proportion of submitted non-earmarked bids met

£ million	Bid submitted	Bid met[1]	% of bid met
Health	1,835	672	36.6
Education	530	270	50.9
Communities	177	63	35.5
Justice	486	132	27.2
Economy	114	18	15.8
Infrastructure	158	74	46.7
Agriculture etc.	51	16	30.8
Finance	23	9	38.2
The Executive Office	15	3	17.3
Minor Departments	5	8	162.1
Total	**3,393**	**1,264**	**37.2**

Note[1]:Includes budget increase for Oversight bodies

Source: Department of Finance

Potential pressures

One potential pressure on departmental budgets in 2025-26 (or possibly later depending on when they crystallise) arises from various 'exceptional items' flagged by the then Finance Minister in November 2024. [18] These include the costs of a PSNI data breach, and claims relating to holiday pay and the McCloud pensions case.[19] The Minister had anticipated making a Reserve claim for these items but given the high levels of additional funding provided in the Autumn Budget, the Chief Secretary to the Treasury indicated that these should be funded from within the settlement. The then Finance Minister maintained that this was unaffordable given the pressures facing departments, intending instead to continue pressing for a Reserve claim to cover these items. The Treasury believes that these costs were predictable, and that the Executive should have budgeted for them. But at perhaps £300-400 million[20] this is a significant sum that would increase the likelihood of a further overspend putting renewed pressure on the Treasury to concede a Reserve claim. (Thankfully these costs are largely one off rather than an ongoing pressure).

A second source of pressure arises from public sector pay. Pay pressures have a greater impact on the public finances in NI than in England because of the higher proportion of public sector workers in the region (26 per cent of the workforce in NI versus 17 per cent in England). In fact, NI has the highest proportion of public sector workers in any of the UK nations and regions (although this has decreased from 30 per cent or so since the ending of the Troubles reduced the need for employment in policing and justice). There is a much higher number of health and social care staff in NI with around 55 per cent more staff covered by Agenda for Change than in England (around 35 per cent if social services are excluded).[21]

The relatively high proportion of public sector workers means that even with the 24 per cent top-up, the Barnett consequentials arising from an increase in pay for health staff in England may only finance two-thirds of the cost of the same pay deal in NI.

There are over 100 different staff groups in the public sector, many with their own pay determination processes. Finance sets a pay policy which applies primarily to public bodies whose expenditure scores against the Block Grant Departmental Expenditure Limit, such as NICS departments, agencies and many arm's length bodies (ALBs). When preparing their Budget bids, departments were asked to assume progression plus a 3 per cent uplift. On that basis, Finance told us:

> *The 2024 NICS pay award is estimated to cost an additional £70.8 million as follows:*

- *4 months of 2024-25 pay award would be £14.3m – covering 1 April 25-31 July 25;*

[18] https://www.finance-ni.gov.uk/sites/default/files/2024-11/Oral%20Statement%20on%20Autumn%20Budget%202024.pdf
[19] https://www.finance-ni.gov.uk/articles/mccloud-judgment-and-remedy-faqs-background
[20] Justice has estimated costs of £227 million in relation to the PSNI data breach, holiday pay and McCloud cases. Other departments will have costs in relation to the later two (claims). https://www.niassembly.gov.uk/globalassets/documents/committees/2022-2027/finance/reports/draft-executive-budget-2024-25/written-submissions/committee-for-justice-17-may-24.pdf pg 4
[21] https://assets.publishing.service.gov.uk/media/66c87cf66553ea61ea4f437c/NHSPRB_37th_Report_2024.pdf

- *8 months of 2025-26 pay award roughly £56.5m – covering 1 August 2025-31 March 26.*

The non recurrent element is £80k

Please note this is based on NISRA (NI Statistics and Research Agency) projections which may differ from costs identified by departments.

Departments have not provided a full breakdown of Draft Budget allocations. Therefore, we cannot provide updated time series for pay/ non pay in 2025-26 until after Final Budget.

This means that departments will have to absorb pay costs (i.e. not including awards for the wider public sector workforce) of slightly less than half of one per cent of the total departmental DEL baseline in 2025-26.

Staff in councils or public corporations and other groups like health workers, teachers and police are not included within this pay policy. Pay settlements for that wider group of public servants has significant consequences for public finances. Pay deals for some groups remain to be resolved and this poses a risk that they end up being higher than departments have budgeted for.

A related pressure arises from the UK Government's decision to increase employer National Insurance Contributions (NICs). Because of the relatively large public sector workforce, the increase in spending allocations for Whitehall departments to cover the cost of the NICs increase does not generate enough Barnett consequentials to cover the equivalent costs in NI, even with 24 per cent top-up. The then Finance Minister estimated that the shortfall might be as high as around £100 million. She lobbied the Treasury to cover these costs in full [22] and has stated that "The Executive does not have the capacity to compensate for decisions made on reserved taxation matters". If the Executive does not receive a specific allocation to offset these higher NICs costs then covering them will absorb a share of the other Barnett consequentials generated by the October Budget.

Box 4.1 - Balancing the Health Budget

The Health Minister has said that he has been allocated £400 million less than he needs to maintain services at existing levels. To address this, Health has:

- asked the Trusts to find £200 million of savings (on top of £200 million last year) and to contain some of the demographic and inflationary increases they face where funding constraints will not allow allocations to fully meet these costs.
- is banking on the rest of the shortfall predominantly coming through in-year budget reallocations and some departmental savings.

[22] https://www.bbc.co.uk/news/articles/c4gz77rxn20o

The Health Minister presented his budget settlement for 2025-26 (of £8.4 billion) as an increase of only 2.6 per cent[1] when compared to spending in this financial year, instead of the 8.7 per cent claimed by the Finance Minister by comparing the allocation to the opening budget for this financial year and excluding earmarked items.[2] The difference between the two figures is largely because Health has been allocated an additional £471.9 million this year since the 2024-25 Budget. The fact that Health is anticipating (and in fact depending upon) a further large sum of in-year allocations suggests that achieving the same annual year-on-year growth as in the past is becoming less sustainable at the Block Grant level.

In absolute terms, Health's resource settlement represents an additional £200 million over the 2024-25 final plan. Health argues that this is insufficient to cover annual cost increases across the sector, among them £65 million to meet the National Living Wage increase; £36 million to cover employer NICs increases (for independent service providers not directly employed by the department); and £150 million to cover the 2.8 per cent pay rise that the UK Government has recommended to the pay review bodies. This also assumes that the pressure experienced for NICs increases for directly employed staff, estimated at £100 million will be fully met. This is currently still in doubt. Media commentary surrounding the Health Minister's comments has highlighted four likely consequences:[1]

- Multi-million pound **budget cuts** for a second year running.
- **Lack of improvement on waiting lists** given funding limitations.
- **Missing an opportunity to increase sustainability** by not prioritising resources into social and primary care.
- Challenges in finding the money to meet **workforce pay** expectations.

With staff costs taking up a high proportion of the Health budget, Trusts will have limited options to generate £200 million of savings, such as reducing levels of temporary staff, or slowing down the purchase of community provision. These actions could result in service reductions, due to minimum safe staffing numbers, and/or a slower flow of patients out of hospital care. With the potential for Trusts to implement different mixes of savings options, there is also potential for service level variation for patients in different Trust areas.

In addition, the recently published PfG sets out spending of up to £135 million a year until 2027 to reduce waiting lists by treating an additional 70,000 patients and a further £80 million a year to increase elective care capacity. It is not clear if this will be over and above the amount that has been allocated to Health in the Draft Budget and, if it is in addition, where the funding will come from. The Health Minister has spoken of his uncertainty around the source of funding for these measures but he is in negotiations with the Finance Minister around it.

The Finance Minister recently announced the release of transformation funding which included £61 million to expand Health's Primary Care Multidisciplinary Team (MDT) proposal. This will be in addition to the funding set out in the Draft Budget.

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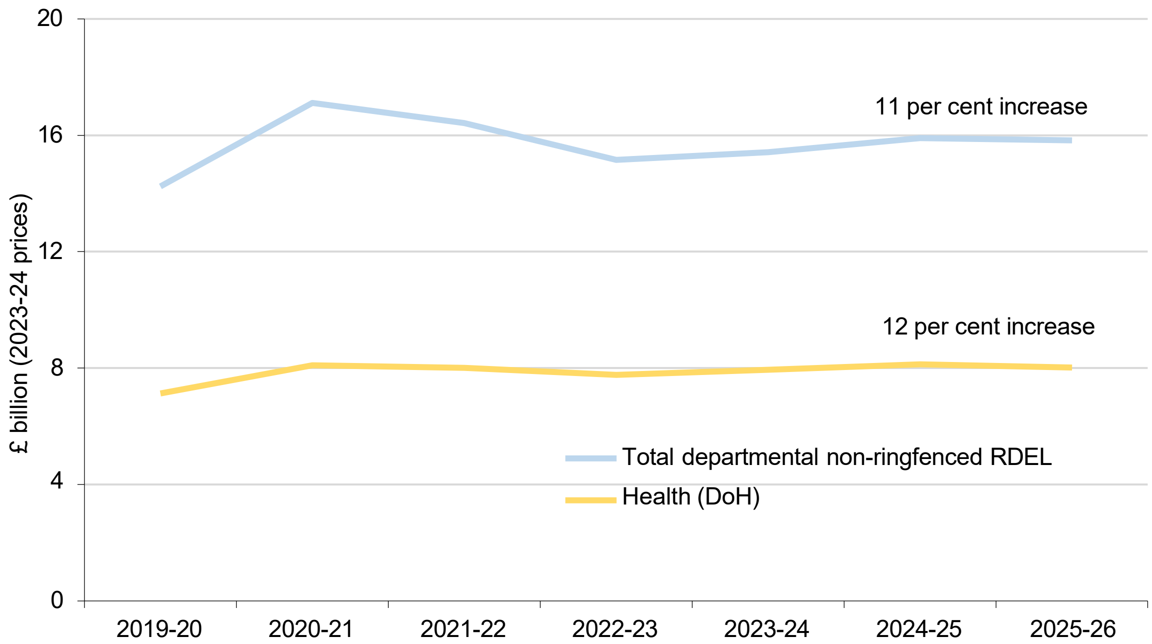
[1] https://www.bbc.co.uk/news/articles/cj65z73pne8o

[2] https://www.finance-ni.gov.uk/sites/default/files/2024-12/Draft%20Budget%202025-26%20Overview_0.pdf

Chart 4.3 - Real-terms growth in DoH and total departmental RDEL

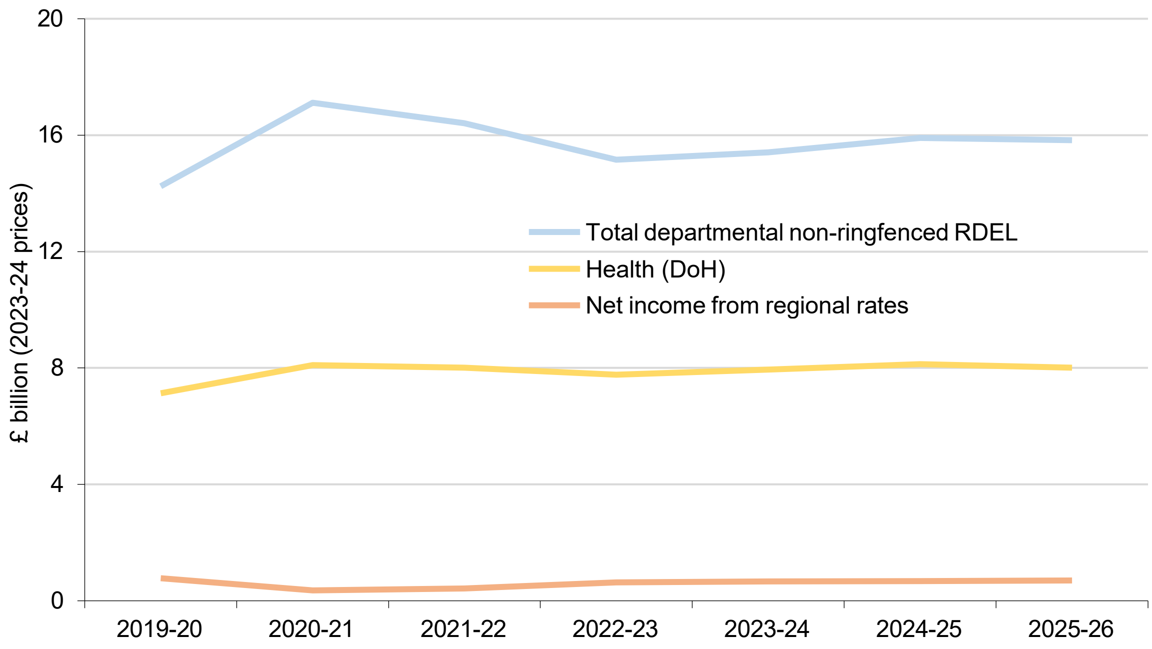


Note 2019-20 to 2023-24 are outturns, 2024-25 latest position (Jan MR part 1) 2025-26 budget
Source: HMT PESA+, Department of Finance, HMT GDP deflators, December 2024

Chart 4.3 shows that in 2023-24 prices, Health has experienced slightly higher real-terms growth than has overall departmental resource. Total departmental non-ringfenced RDEL is to rise to £15.8 billion in the 2025-26 budget from £14.2 billion in 2019-20 (11 per cent), immediately before the onset of the Covid pandemic. Over the same period, DoH non-ringfenced RDEL is to rise to £8.0 billion in the 2025-26 Budget from £7.1 billion in 2019-20 in real terms (12 per cent). So, although the Executive is struggling to prioritise Health, and it has done worse than average this year, the department is still doing better than average in the medium term.

Over the same period however, net income from Regional Rates is planned to **decrease** to £0.7 billion from £0.8 billion in real terms (10 per cent) (Chart 4.3a). By falling behind the pace of inflation, the Executive now generates fewer resources (in real terms) than had in the past. This is an area we will return to in Chapter 5.

Chart 4.3a shows similar real-terms growth in DoH and total departmental DELs and falling Regional Rates income



Note 2019-20 to 2023-24 are outturns, 2024-25 latest position (Jan MR part 1) 2025-26 budget
Source: HMT PESA+, Department of Finance, HMT GDP deflators, December 2024

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 (the so-called 'Barnett Squeeze').[23] But the 24 per cent Barnett consequential top-up uplift will arrest this effect, so that there will no longer be a tendency for the spending-per-head percentage premium in NI over England to shrink over time.

When increases in UK Government spending in England generate Barnett consequentials, the Executive does not have to spend them on the same service areas that generated the consequentials in the first place. Under the devolution settlement, the Executive can spend them on its own priorities.

Table 4.8 compares the increases in NI departmental budgets between 2024-25 final plan and the 2025-26 allocations in the Draft Budget to the increases in funding for the closest equivalent Whitehall department or departments. But departmental responsibilities do not always match particularly closely and

[23] https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2023-06/NIFC%20response%20to%20NIAC%20Call%20for%20Evidence%20-%2002.05.23%20-%20web%20version_0.pdf, page 15

therefore the comparison should be interpreted as relatively broad brush. There is more information on how we have mapped NI departments to Whitehall equivalents in Appendix C.

Both Health and Education in NI see small real-terms reductions in Table 4.8, unlike their UK equivalents which show modest increases. This may be important when we consider that Health and Education are NI's biggest spenders, and both have had difficulty containing their expenditure pressures in recent years.[24]

The NI department that fares best relative to its closest English counterpart is Infrastructure, which – for example – owns and subsidises NI's monopoly water and sewerage company. This remains in public ownership in NI, unlike the water companies in England and Wales.

Table 4.8 – Real terms spending increases from 2024-25(final plan) to 2025-26 (opening position)

	NI department (%)[1]	Nearest equivalent UK Government department(s) (%)[1,2]	Difference (percentage points)
The Executive Office	22.1	-8.7	30.7
Finance	18.5	4.8	13.7
Minor departments	4.6	2.6	1.9
Justice	2.7	3.1	-0.3
Infrastructure	1.3	-3.4	4.7
Education	-0.2	1.8	-2.0
Communities	-0.6	8.3	-8.9
Health	-1.5	2.2	-3.7
Economy	-5.4	4.4	-9.8
Agriculture etc.	-7.1	-6.5	-0.6
Total[3]	**-0.6**	**2.5**	**-3.1**

Notes:
[1] Per cent change is calculated in real terms using December 2024 HMT GDP deflators. Change in NI departments from 2024-25 Stage 1 January Monitoring Round position, i.e. including the UK Government's financial package. Change in UK 'nearest equivalent' from UK departmental final plans for 2024-25 to 2025-26 as at Autumn Budget 2024
[2] The full mapping of nearest equivalent UK Government departments to their NI counterparts is outlined in Appendix C.
[3] The total real-terms decrease show n for UK Government departments is for equivalent UK Government departments only, and excluding UK Treasury reserves.

Source: HM Treasury & Department of Finance

The conventional capital budget

As Table 4.9 shows, the Executive's conventional capital Budget for 2025-26 is £2,454 million, a 9 per cent increase on the final plan for 2024-25 (or 7 per cent in real terms). The £2.1 billion of capital Block Grant funding from the UK Government (including £270 million arising from Barnett consequentials generated by the October 2024 Budget) has been supplemented by the maximum permitted £225.7 million of borrowing under the Reinvestment and Reform Initiative, of which:

[24] https://www.bbc.co.uk/news/uk-northern-ireland-63742413

- £100 million is earmarked for **social housing**,
- £105.7 million for **NI Water** and
- £20 million for **schools**.

The borrowing limit was increased from £200 million to £220 million in 2024-25. under the terms of the UK Government financial package, and now rises each year in line with inflation. The Executive has earmarked less than half the planned RRI borrowing in 2025-26 for NI Water, rather than assigning the whole sum against NI Water projects retrospectively as in the previous two years.[25] But NI Water can also borrow from its parent department outside RRI, so this has little significance.

There is also an anticipated £87 million of capital funding from the Irish Government for the A5 road project.

Table 4.9 - Capital DEL capital spending and financing, 2025-26

£ million	2023-24 Final Outturn	Executive's 2024-25 Budget	2024-25 Final Plan	Executive's 2025-26 Budget
FINANCING				
Block Grant	2,097	1,779	1,960	2,141
Irish Government Funding	-	89	65	87
RRI Borrowing	150	220	220	226
TOTAL FINANCING	**2,247**	**2,087**	**2,245**	**2,454**
pays for				
SPENDING				
Departmental spending	2,238	2,087	2,248	2,454
Centrally held	-	-	-4	-
TOTAL SPENDING	**2,238**	**2,087**	**2,245**	**2,454**

Source: Department of Finance

Table 4.10 shows capital allocations by department.

In particular we can see a large increase in the allocations to Education, despite which the department in the Draft Budget document says:

...the opening 2025-26 capital budget will unfortunately fall considerably short of the Department's identified inescapable capital pressures, never mind the many and much needed high priority areas of work across the schools' estate. [26]

Communities sees its allocation more than double compared to what it received in 2024-25, though this was a 38 per cent fall from the previous year. This is indicative of the lumpiness of capital profiles. Although this looks like a better position for

[25] This approach of earmarking the RRI funding in advance changes the presentation of earmarked funds slightly from previous years. Finance has included RRI within the earmarked funding in the Draft Budget document, bringing the total earmarked funds to £862.2 million. However, the departments have not included this figure within their earmarked allocations because it is treated as a general allocation – i.e. if a project notionally linked to RRI borrowing is delayed, the funding will still be available for other projects. For this reason we have included RRI funding within departments' general allocations.

[26] https://www.finance-ni.gov.uk/sites/default/files/2025-02/Draft%20Budget%202025-26%20Document.pdf (page 51) this commentary is provided by individual departments, rather than by Finance.

Communities it should be noted that it includes £50 million of earmarked funding for Executive Flagship Projects and City & Growth Deals, £100 million has been ringfenced for Housing (and this will be utilised to meet their precommitment from previous years only, it does not allow for the delivery of any new build homes during the year). According to the department when other inescapable requirements are met, there remains around £50 million to take forward the New Build Programme and any new projects across the Department. The increase in the allocation to Education is explained mainly by the Executive's Flagship Strule campus project with funding increasing by over £80 million since 2024-25.

Table 4.10 – Change in capital spending allocations by department 2023-24 to 2025-26

£ million	2023-24 Final Outturn	Executive's 2024-25 Budget	2024-25 Final Plan	Executive's 2025-26 Budget	Change between 2024-25 budget 2025-26 budget	Change in per cent (%)	Change between 2024-25 final plan 2025-26 budget	Change in per cent (%)
Infrastructure	825	820	858	933	113	13.7	74	8.7
Health	469	417	399	391	-26	-6.2	-8	-2.0
Economy	216	222	244	205	-17	-7.4	-38	-15.7
Communities	216	133	198	270	137	102.3	72	36.7
Education	276	254	337	381	126	49.7	44	13.1
Agriculture etc.	97	95	102	120	25	25.8	18	17.7
Justice	88	92	88	100	8	8.8	12	13.1
Finance	34	39	6	33	-6	-16.4	26	425.2
The Executive Office	12	11	13	14	3	33.1	1	5.9
Minor departments	4	5	3	8	3	71.0	5	143.1
Departmental allocations	**2,238**	**2,087**	**2,248**	**2,454**	**366**	**17.5**	**206**	**9.15**
Centrally held	-	-	-4	0	-	-	4	-100.3
Total	**2,238**	**2,087**	**2,245**	**2,454**	**366**	**17.5**	**209**	**9.3**

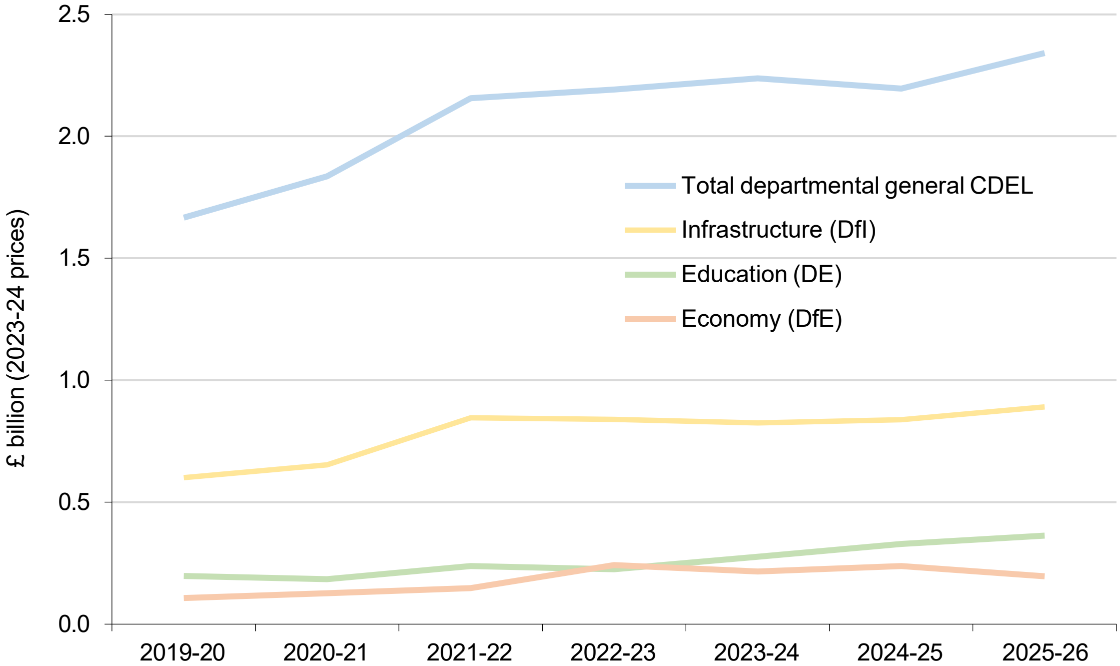
Source: Department of Finance

Because capital profiles can be lumpy, Chart 4.4 shows capital spending over a six-year period in real terms. Total departmental capital spending has increased by 41 per cent in real terms over six years, compared to 11 per cent for resource (see Chart 4.3). The three departments with the biggest real-terms increases have been Infrastructure (48 per cent), Education (84 per cent) and Economy (85 per cent).

Departments bid for capital funding against a zero baseline and with projects identified as earmarked, inescapable, pre-committed, high priority or desirable. Health, Infrastructure, Education and Agriculture all received less than their inescapable and pre-committed bids meaning that based on the departments' own assessments they do not have sufficient funding for their existing and new commitments. This may require departments to adjust their spending profiles, for example slowing down some spending or reducing service provision.

As in previous years Infrastructure received the biggest capital allocation and almost 40 per cent of the total available capital budget. Whilst higher than the closing position for 2024-25 its allocation is less than the Department said it needed. Among other things, this reflects what is needed to fund NI Water and wastewater infrastructure in line with the Utility Regulator's Price Control.

Chart 4.4: Chart shows the three largest increases in real terms CDEL for Executive departments



Note 2019-20 to 2023-24 are outturns, 2024-25 latest position (Jan MR part 1) 2025-26 budget
Source: HMT PESA+, Department of Finance, HMT GDP deflators, December 2024

Table 4.11 - Capital bids versus allocations by department

£ million	Bids[1]	*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 (%)
Health	432	432	100.0	320	391	15.9
Minor departments	5	4	89.5	8	8	0.3
The Executive Office	16	13	81.9	14	14	0.6
Infrastructure	1,358	958	70.5	648	933	38.0
Education	650	472	72.7	218	381	15.5
Agriculture etc.	179	127	70.6	107	120	4.9
Communities	431	238	55.1	220	270	11.0
Justice	146	79	54.2	100	100	4.1
Economy	375	167	44.6	150	205	8.4
Finance	54	13	24.7	33	33	1.3
Total	**3,647**	**2,504**	**68.7**	**1,817**	**2,454**	**100.0**
As a % of total budget available for allocation	*148.6*	*102.0*	-	*74.1*	*100.0*	-

Note [1]: Some departments have included earmarked bids in their totals w hereas others have not.

Source: Department of Finance

As with resource spending, some capital funding (almost 26 per cent) has already been earmarked by the Executive for specific purposes such as Flagship projects. Once the earmarked items are removed from departmental allocations, we can see in Table 4.12 that Education has the smallest proportion remaining for non-earmarked purposes (57 per cent), whereas Justice, Finance, TEO and the minor departments have full discretion over their allocations. In our 2024-25 budget report, we noted that the highest proportion of earmarked capital funding was Infrastructure with 23 per cent. Overall, 16 per cent of the 2024-25 budget was earmarked, compared to 26 per cent of the 2025-26 budget.

Table 4.12 - Earmarked Capital Items

£ million Department	Total CDEL allocation	Earmarked funds within CDEL	Earmarked as proportion of allocation (%)
Infrastructure	933	285	30.5
Health	391	71	18.2
Economy	205	55	27.0
Communities	270	50	18.5
Education	381	163	42.7
Agriculture etc.	120	13	10.5
Justice	100	-	-
Finance	33	-	-
The Executive Office	14	-	-
Minor Departments	8	-	-
Total	**2,454**	**637**	**25.9**

Source: Department of Finance

The pressures in Education and Infrastructure have been recognised by the Executive as particularly acute. The Executive has agreed that these departments can have the first call (on the basis of an equal share) on any funding that becomes available in-year up to a maximum of £20 million, following which all departments will compete on the same basis for any further funding that becomes available.

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– 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. Aside from one-off funding for universities, the Executive has found FTC funding compatible with the NI co-ownership housing model (where a buyer and the co-ownership organisation take joint shares in a property and the individual buys out the organisation’s share over time).

Table 4.13 shows that departments have been provided with £49.2 million of FTC allocations, meeting all bids in full. There is a further £8.4 million of FTC available to allocate in-year, should departments come up with further bids. If departments do not come forward with any new ideas to use the funding, then (as has happened in previous years and in the other devolved administrations who also struggle to spend FTC) the funding will be returned to the Treasury.

Table 4.13 – FTC financing and spending 2025-26

£ million	2023-24 Final Outturn	Executive's 2024-25 Budget	2024-25 Final Plan	Executive's 2025-26 Budget
FINANCING				
Block Grant	41	62	91	58
TOTAL FINANCING	**41**	**62**	**91**	**58**
pays for				
SPENDING				
Departmental spending	21	41	35	49
Unallocated	3	21	50	8
FTC repayment	9	-	6	-
TOTAL SPENDING	**33**	**62**	**91**	**58**

Source: Department of Finance

It remains to be seen whether more FTC may be 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.[27]

Does the budget balance?

Despite the significant uplift in Barnett consequentials originating from the UK Autumn Budget, the fiscal position this Budget seeks to address is an extremely constrained one. Departmental pressures increase annually, and the Budget does not provide a high degree of headroom over these growing cost bases, especially when measured against funding levels at the close of this financial year.

However, despite the difficult context, the Executive has delivered a Budget that formally balances for each of the distinctive control totals: for day-to-day resource spending, capital and FTC. That is to say that the proposed departmental allocations and forecast debt interest costs are covered by a combination of Block Grant funding, Regional Rates revenue and capital borrowing.

But it is also clear that this balance is resting on some significant assumptions, most notably in Health where the position 'bakes in' a reliance on Trusts raising £200 million of additional savings, and on anticipating in-year allocations which cannot be guaranteed. There are also general pressures arising from public sector pay costs and the cost of meeting the UK Government's employer NICs increases.

In addition, we noted the then Finance Minister's unmet calls for a Reserve claim to cover a number of 'exceptional items' including the costs of a PSNI data breach, and

[27] The new investment rule aims to reduce debt as a share of the economy and it defines 'debt' as public sector net financial liabilities (PSNFL) or 'net financial debt' rather than public sector net debt (PSND). This broader definition allows the Government to net off from debt not only liquid assets (like cash and deposits) captured in PSND but also illiquid financial assets, such as equity holdings and loans. https://assets.publishing.service.gov.uk/media/67211bf34da1c0d41942a8bf/A_strong_fiscal_framework.pdf, para 1.15

large legal cases. These costs had not materialised prior to January monitoring and remain unmet in the latest plan position we have received from Finance. Should these costs now fall in the 2025-26 year there is the threat that this would derail the Budget if the Minister fails to agree a Reserve claim. There appears so far to be no appetite from the Treasury for such a claim, and even if there were to be more money, one might expect it to be accompanied with further conditionality as was the case with the requirement to raise the additional £113 million.

It is also worth noting that the budget remains balanced for 2024-25 following additional allocations made by the Executive at the January Monitoring Round (Table 4.14). These reflected additional resource and capital Block Grant income offset by a small fall in expected Regional Rates revenue.

Table 4.14 Changes in Financing and spending post Autumn Statement

£ million	October 2024 Monitoring Statement	January 2025 Monitoring Statement	Movement
FINANCING			
Resource (non-ringfenced)	16,333	16,361	28
of which			
Block grant	*15,625*	*15,657*	*32*
Regional Rates (post debt repayment)	*708*	*704*	*-4*
Capital (conventional)	2,233	2,245	11
of which			
Block Grant	1,952	1,960	7
Capital borrowing (RRI)	220	220	0
TOTAL FINANCING	**18,566**	**18,605**	**39**
pays for			
SPENDING			
Resource (non-ringfenced)	16,333	16,361	28
of which			
Departmental spending	16,233	16,301	68
Unallocated	47	5	-43
Debt interest (RRI)	53	55	2
Capital (conventional)	2,233	2,245	11
of which			
Departmental spending	*2,226*	*2,248*	*22*
Overcommitment	7	-4	*-11*
TOTAL SPENDING	**18,566**	**18,605**	**39**

Source: Department of Finance

5 Implications beyond 2025-26

The restoration package cliff edge

As we illustrated in Chapter 2, the restoration package contains a funding cliff-edge in 2026-27 when the short-term budget support being provided runs out but the 24 per cent Barnett consequentials top-up has not had time to build up to a similar level. If the Executive fails to balance the Budget in 2024-25 and raise £113 million in additional revenue, the cliff edge moves forward a year as the Executive would have to pay back in 2025-26 the £559 million it borrowed from the Treasury to cover the loans it received to balance the budget in 2022-23 and 2023-24. This would in effect more than wipe out the last year of short-term budget support.

Total resource funding grew by 5.8 per cent between 2023-24 (outturn) and 2024-25 (final plan) in cash terms and by 3.3 per cent in real terms. The Draft Budget shows an increase of 2.6 per cent cash or 0.2 per cent real between 2024-25 final plan and 2025-26. If the Executive has to repay the £559 million next year, the resource budget would fall by 0.9 per cent cash and 3.2 per cent real.

On average, between 2021-22 and the 2024-25 final plan, the Block Grant has grown by around 8 per cent between initial budget and outturn (final plan for the current year). But this figure includes large amounts of non-Barnett package funding that we would not expect to be repeated on the same scale. As we showed in Chart 4.3a, Regional Rates income has grown by around 2 per cent since 2019-20, though this time series is affected by Covid-related Rates reductions.

This uneven spending profile is not ideal from the perspective of workforce and transformation planning, and the Executive is not allowed to run a reserve to smooth its spending. In the Interim Fiscal Framework the UK Government agreed to review the cliff edge in the upcoming UK Spending Review.

The Treasury could take the view that the uneven profile is something that the Executive will simply have to live with. This might be the case in particular if the Treasury judges that resource funding per head even in the 2026-27 'dip' is above the Council's 124 per cent estimate of relative need. We are still waiting for the Treasury to publish a detailed methodology for this calculation and a back series for the spending premium. The working assumption is that funding is above need including the package and below it excluding the package in 2024-25.

If the Treasury accepts the case for providing additional financial support to help smooth out the cliff edge, there are at least three options:

- **Baselining a sum of funding** that smoothes the profile and keeps NI over 124 per cent of spending in England (leaving aside population effects). The £520 million provided by Treasury in 2024-25 and 2025-26 ensured NI's funding did not fall below need, but only on a temporary basis. Thanks to the 24 per cent top-up, the Barnett consequentials generated by the October 2024 UK Budget are likely to have increased the NI spending-per-head but only modestly. Over time future consequentials are expected to bring NI spending-per -head closer to 124 per cent of England's, but it does not get there immediately. Baselining a sum that lifted NI's Block Grant premium to 124 per cent of England's would mean that both the stock (the existing Block Grant) and the new flows of Barnett consequentials (now uplifted by the needs factor) would work together to keep NI funded above need.

- Another option would be simply to **set the Block Grant as a whole at 24 per cent above equivalent spending per head in England**. This would set the Barnett formula aside altogether. Every year instead of having a fixed Block Grant and receiving additional, population-based funding for new spending in England, NI's whole Block Grant would instead be calculated by taking a ratio of the spending level in England. It could be coupled with a transitional arrangement to get to the new funding mechanism. This would deliver certainty for both the Executive and Treasury that funding was tailored to need. However, it might involve greater uncertainty about the cash sums involved. And because population estimates (which can vary greatly when updated) would now affect the stock rather than only the flow, there would likely be greater volatility in the cash sums also.

- **Continuing with short-term, one-off, top-ups**. This is perhaps the least desirable option in terms of the management of public services, having the potential to create a host of further cliff edges in the coming years. The negotiation of repeated, individual 'dollops 'of funding is also likely to consume official bandwidth in both the NICS and Whitehall. And it leaves uncertainty about both the cash sums involved and NI's funding remaining above need, given that the next dollop is always dependent on a negotiation between Finance and the Treasury.

Projections of the NI Block Grant beyond 2025-26

As we have seen, the NI Block Grant is very largely determined by the level of spending by the UK Government on public services that are devolved in NI, for which the Executive then receives a population-based share of funding. Trends in UK Government public expenditure provide a direction of travel that will ultimately determine how much funding the Executive has at its disposal.

The latest firm and then tentative DEL plans provided by the UK Government to the Office for Budget Responsibility for its latest forecast have important implications for the Block Grant, as Chart 5.1 shows. If we assume that the NI Executive Resource DEL grows in line with that of the UK as a whole from 2026-27 to 2029-30, the 3.4 per cent nominal growth in RDEL projected in the UK for 2026-27[28] would equate to around £540 million in Barnett consequentials. This would in principle offset the removal of the £520 million in the 2024 restoration package funding, limiting the impact of the cliff edge and resulting in a flat profile for the Executive's Resource DEL for that year in cash terms but a 1.8 per cent fall in real terms.

If the Executive had had to pay back the £559 million loan in 2025-26, this would make the growth rate into 2026-27 higher – but not leave NI better off in that year.

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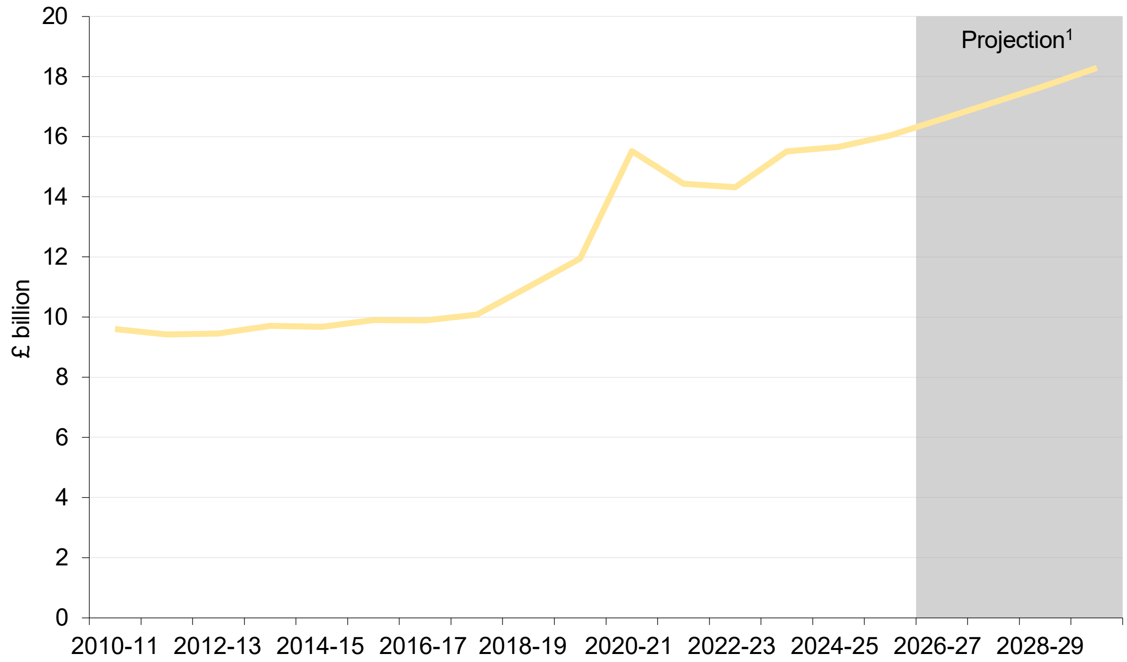
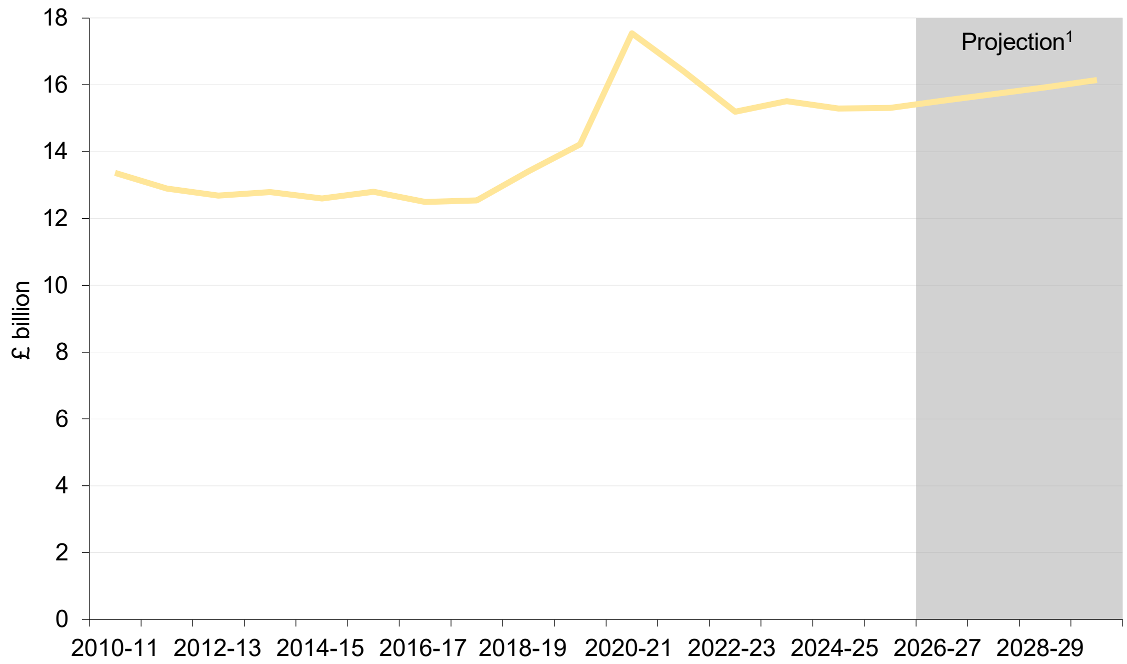
[28] https://obr.uk/efo/economic-and-fiscal-outlook-october-2024/ Table 5.3

Chart 5.1 – NI Executive Resource DEL (current prices)



Note[1]: Projection based on an assumed growth rate equal to total UK Government RDEL spending
Source: HM Treasury PESA, Department of Finance, Office for Budget Responsibility EFO October 2024

Chart 5.2 – NI Executive Resource DEL (2023-24 prices)



Note[1]: Projection based on an assumed growth rate equal to total UK Government RDEL spending
Source: HM Treasury PESA, Department of Finance, OBR EFO October 2024, HMT GDP deflators December 2024

Subsequently there would be some growth in resource spending for the remainder of the OBR's five-year forecast period. However, this does not represent a substantial change from the previous decade in real terms.

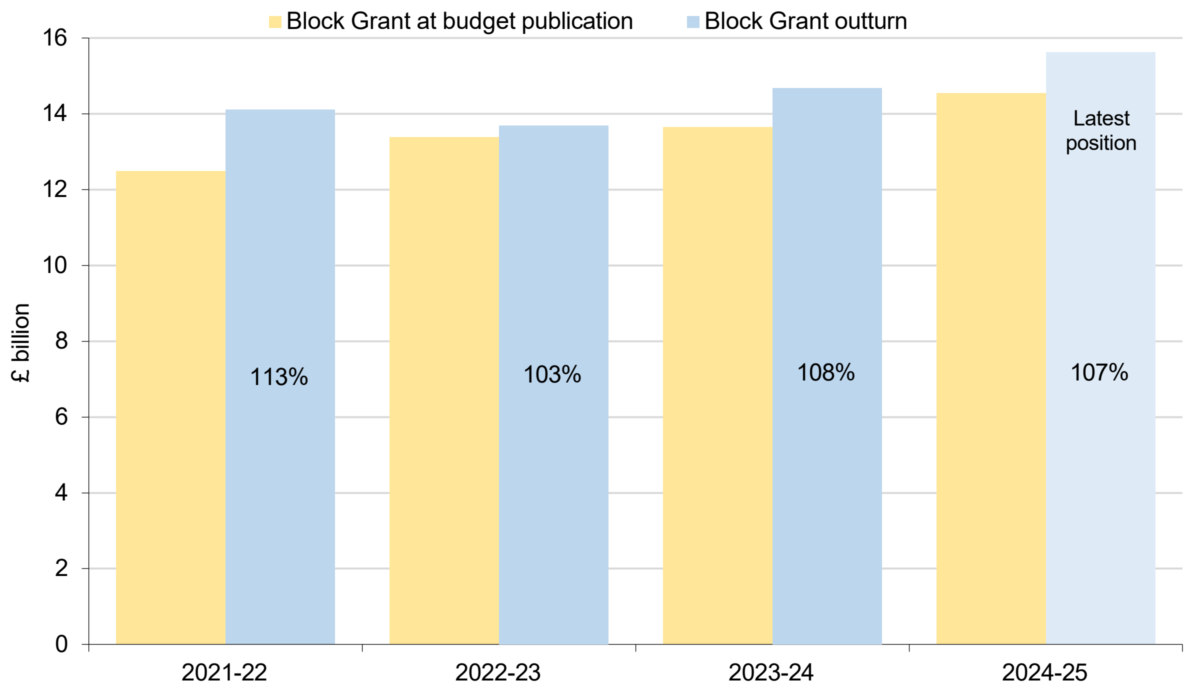
Multi-year Budgets

With 2025-26 representing the eleventh successive year in which NI has operated with a single-year Budget, many stakeholders have told us that multi-year Budgets would provide a better basis for delivery, workforce and transformation planning in executive departments and arms-length bodies.

While true, recent experience shows that even over relatively short periods, initial budget allocations can be amended significantly as the overall funding position changes and as resources are reallocated between departments.

Chart 5.3 shows the difference every year since 2021-22 between the opening and final Budget positions for the resource Block Grant. In-year allocations tend to result in departments ending up with more funding than was initially anticipated in the budget-setting exercise. On average, the non-ringfenced DEL budget position at the end of the year is around 7 per cent above the start of the year.

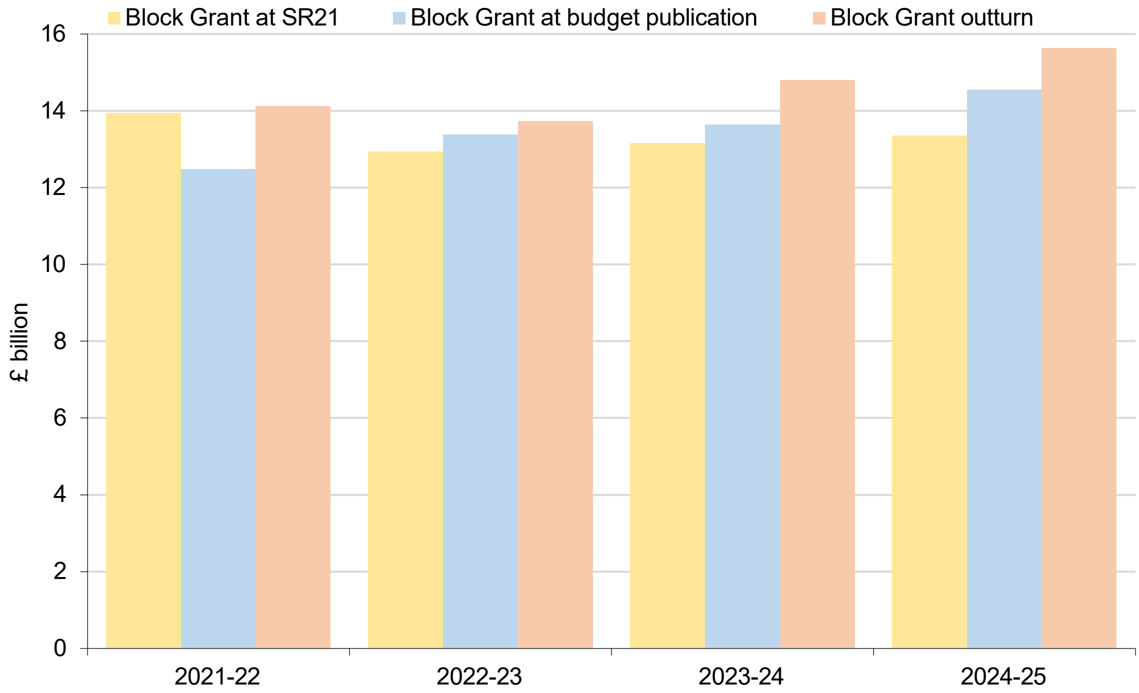
Chart 5.3 showing the difference between opening budget position and outturn



Source: Department of Finance and PESA

This effect would likely be more pronounced over a multi-year Budget. The final plan for resource spending in 2024-25 was £2 billion or 17 per cent higher than the original figure pencilled into the Draft Budget published but not agreed by the Executive in December 2021. The uplift was caused by a combination of increased spending at the UK level for which the Executive received a population-based share (partly reflecting higher inflation), and additional funding specifically for NI in the restoration package. A strategic approach to such uncertainty would be needed.

Chart 5.4 alternate presentation: showing difference from SR



Other implications

- There still remains a desire among stakeholders for a more clearly **costed Programme for Government and an Investment Strategy** that provide prioritisation and align with the Budget over the short-to-medium term.

- The conditionality in the UK Government's deal – requiring £113 million of new revenue to be raised - led to the Executive's Sustainability Plan and the generation of an expected additional £130 million per annum by 2025-26. Perhaps this will form **a model for conditionality** around any future additional non-Barnett packages that are provided by Treasury.

- As the funding constraint for water continues to bite, the Infrastructure Minister is to consult on introducing developer contributions to provide additional resources. NI Water's judgement is that this might provide some localised and temporary relief, but is not by itself sufficient as a long-term solution. Households in NI contribute much less than their equivalents elsewhere in the UK to the cost of water and sewerage services. Additional revenue could more sustainably raised through the introduction of explicit **domestic water charges and/or a proportionate increase in the Regional Rate**. In previous reports[29] we have estimated that introducing a charge of roughly £800 per household to bring the average level of the

[29] In our Sustainability Report (2022): https://www.nifiscalcouncil.org/publications/sustainability-report-2022 and in our evidence to the NI Affairs Committee (2023): https://www.nifiscalcouncil.org/publications/ni-fiscal-council-response-ni-affairs-committee-call-evidence . This figure is likely to have increased due to inflation and more recently the significant rise in water charges in England and Wales. We intend to review this in our upcoming sustainability report on the topic of funding of water and sewerage services in NI.

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 (although some of this revenue would probably need to be spent shielding poorer households). In reality it would take longer than one fiscal year to realise the increased revenue of any charging scheme, but by way of illustration this would be sufficient to increase total Executive spending by around 3 per cent in 2025-26, albeit no doubt at the cost of significant political controversy. The new Minister for Infrastructure ruled out domestic water charges as did her predecessor, but it is difficult to see how the provision of water services can continue on the current financial basis. The gap between funding for water between NI and England and Wales is likely to widen given Ofwat's December 2024 announcement sanctioning increases in average domestic and non-domestic bills of 36 per cent in England and Wales over the next five years on top of RPI inflation (equivalent to 6 per cent each year) to finance a quadrupling of investment.[30] Assuming that this investment is effective, NI Water would need additional resources simply to keep up and stop its relative performance deteriorating again, and the Executive alone (which provides subsidy to NI water in lieu of domestic customer charging) will be unable to afford this level of funding increase in NI.

- **Public sector pay restraint**, may be required as NI Ministers struggle to match percentage pay increases in England, when the Barnett formula provides a population-based cash amount. This means that, even after the 24 per cent top-up, it is simply not possible to match pay rises in England in NI's proportionately larger public sector. To date, NI Ministers have had to dig into other areas to find the funding needed to top up the Barnett share. This approach squeezes services in order to match English pay rises, even though residents in NI face much lower costs of living (in part because of decisions such as not charging for water). However unpopular and difficult, moving away from a policy of parity with England would improve the manageability of the NI public finances.

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

- Uplifting or introducing other **fees and charges**. The sustainability plan has shown that NI can raise more than historically it has done. Although the ambition in the sustainability plan was tentative and instigated by the UK Government, it indicates that NI can raise more income locally. While rates and domestic water charges are the only really large revenue-raising levers available to the Executive, 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. The Infrastructure Minister's consultation on developer contributions is a good example. Such measures would not be a silver bullet for the constraint at the overall Block Grant

[30] https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/

level, but they could certainly improve specific areas of provision, especially if the generated funding is invested on a targeted basis.

- We noted in Chapter 1 that DoF has appointed Professor Gerry Holtham to assess **NI's level of need** relative to England ahead of the upcoming Spending Review for 2026-27. Whether the estimate is higher or lower than the Council's estimate of 124 is likely to feed into the negotiation between Finance and Treasury of a final Fiscal Framework. This may provide evidence that the Treasury considers meets (or partly meets) its high bar for reopening the question of estimating NI's level of need.

Appendix A - The UK Government's financial package

The 2025-26 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[31] 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 applied from 2024-25 and sees **new Barnett consequentials received by NI increased by 24 per cent**.[32] The Secretary of State indicated this is worth £785 million over the 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 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 raises £113 million of additional revenue and balances its budget. The initial deadline for this was May 2024,[33] 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

[31] https://www.irishnews.com/news/northern-ireland/urgent-action-needed-civil-service-head-jayne-brady-tells-heaton-harris-5PQZWJUBAJOQJCRCNFSPOWHDUQ/
[32] 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.
[33] 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 the (currently interim) 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.[34]

- 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**. An 'Interim Fiscal Framework' was agreed in May 2024 and an update on this work is expected around the Spending Review.

[34] 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	**2025-26**
Block Grant	16,046
Regional Rates revenue (before repayment of RRI principal)	855
Less Repayment of RRI principal	122
Regional Rates revenue (after repayment of RRI principal)	732
Total Funding to Allocate	**16,778**
Less: Centrally held	
Debt Interest RRI	*63*
NICS Pay	*26*
Childcare Strategy	*50*
Transformation	*47*
HMT Earmarked -Security Funding	*38*
HMT Earmarked - Tackling Paramilitarism EPPOC	*8*
Less: Opening Departmental Baselines	14,408
Balance remaining after opening baselines, centrally held and HMT earmarked removed	**2,139**
Less Executive Earmarked funds:	
Executive Earmarked	
Agriculture, agri-enviroment, fisheries and rural development	*332*
HIA, victims truth recovery	*150*
Rates rebate (housing benefit)	*122*
Education authority pay and grading review	*75*
Welfare mitigations	*47*
Derating grant	*44*
Integr8	*25*
EU Peace Plus Match Funding	*18*
Social Security	*17*
Medical school at Magee	*16*
Executive Programme on Paramilitarism and Organised Crime	*8*
Skills	*7*
Major Sporting Events (The Open)	*4*
Debt advice	*3*
Violence against women and girls strategy	*2*
Statutory Salaries	*2*
Cyber security centre	*1*
City deals (CPD costs)	*1*
Total Earmarked	**875**
Budget Increase for Oversight Bodies	6
Available for allocation	**1,257**

Source: Department of Finance

Appendix C – 'Nearest equivalent department' approach

Although mapping UK Government departments to a nearest equivalent in the NI Executive is far from a direct correspondence, it provides an at-a-glance perspective of differences between the two administrations.

In some cases, multiple UK Government departments have been mapped to a single NI equivalent. For example, responsibilities combined in NI under the Department for Communities are spread across multiple Whitehall departments, including the Department for Work and Pensions and the Department for Culture, Media and Sport. In these cases, our approach compares the change in combined UK departments' spend to the change in the single NI department.

Not all UK Government departments have been mapped to an NI equivalent, for example the Ministry of Defence, whose responsibilities are an 'excepted matter' – a government function that is not devolved.

The mapping is shown in the table below:

Mapping of nearest equivalent UK Government departments

NI department	Nearest equivalent UK Government department(s)
Agriculture, Environment and Rural Affairs	Environment, Food and Rural Affairs
Communities	Culture, Media and Sport HM Revenue and Customs Housing, Communities and Local Government Work and Pensions
Economy	Business and Trade Energy Security and Net Zero Science, Innovation and Technology
Education	Education
Finance	HM Treasury
Health	Health and Social Care
Infrastructure	Transport
Justice	Home Office Justice
The Executive Office	Cabinet Office
Minor departments	Law Officers' Departments Small and Independent Bodies

Source: NI Fiscal Council