Financial context for revenue raising consultations

Department of Finance
An Roinn Airgeadais
www.finance-ni.gov.uk

Public finances in Northern Ireland are under extreme pressure and facing significant challenges

Northern Ireland is not alone in dealing with stresses on its public finances. The cost of living crisis, the deepening climate change impact, changing demographics as well as the long-term impact of the Covid-19 pandemic are all placing increased demand on our already stretched services. Falling rates of real pay across public sector workers is also placing severe strain on those who deliver our public services.

As a region with a large public sector, relatively low income levels and a unique history, Northern Ireland is acutely impacted by difficulties in public finances. The pressures and the region's characteristics, including the recent period of political instability, has put Northern Ireland's fiscal sustainability in sharp focus.

Doing things differently

The public sector needs to think differently about how it works and consider new ways to respond to increasing demand, deliver public services and provide better outcomes.

Government must spend less or increase the money coming in. This means considering generating more income, stopping spending money in certain areas, delivering services in a more efficient way or reducing demands on services to free up funding.

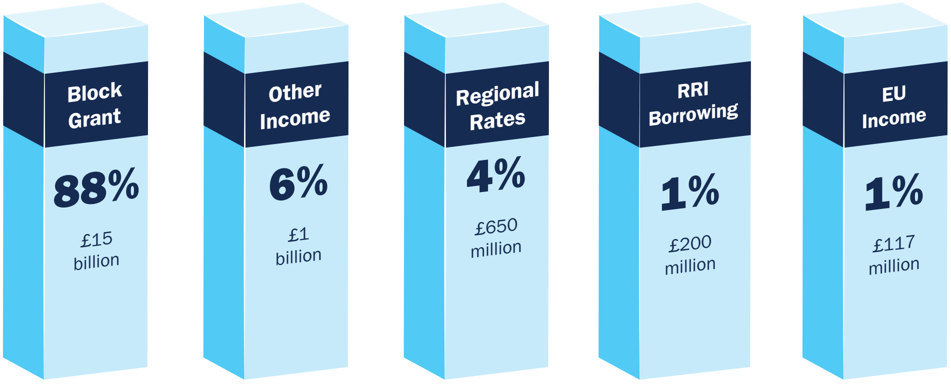
Revenue raising consultations

The Secretary of State, Rt Hon Chris Heaton-Harris, has directed Northern Ireland departments to launch public consultations on measures to support budget sustainability and raise additional revenue.

As part of that the Department of Finance (DoF) is providing this document to set out the financial context for the consultations. In addition, the Department is seeking views on four questions relating to the overall fiscal position - see page 8.

Where the NI Budget comes from

Northern Ireland receives most of its funding from the UK Government. Either through the Block Grant or Departmental Expenditure Limit (DEL) which the Executive decides how to spend or through Annually Managed Expenditure (AME) which is used for demand led expenditure such as benefits and pensions. The focus of this document is on DEL which is spent at the Executive's discretion. The chart below shows the current sources of funding for DEL expenditure.



*The chart includes Resource DEL and Capital DEL

Block Grant

Within the Block Grant there are separate budgets for day-to-day spending (Resource DEL) and investment in asset (Capital DEL). Both are facing considerable pressure. HM Treasury sets annual limits for both Resource and Capital DEL primarily as part of a UK Spending Review. The amount Northern Ireland receives is worked out using a mechanism called the Barnett formula, which adjusts Northern Ireland funding in line with changes to comparable spend by the UK Government in England, based on our population. The Executive decides how this funding is spent.

Other Income

Northern Ireland Government Departments also raise income through recovering the costs of delivering services such as charging for vehicle tests, disposing assets, as well as levies such as the carrier bag levy. These all provide additional funding for public services.

Regional Rates

There are two elements to the rate bills paid by both households and businesses. The District Rate, set by each of the District Councils, is used to finance the services provided by councils. The Regional Rate generates additional income to support central public services and the work of government departments.

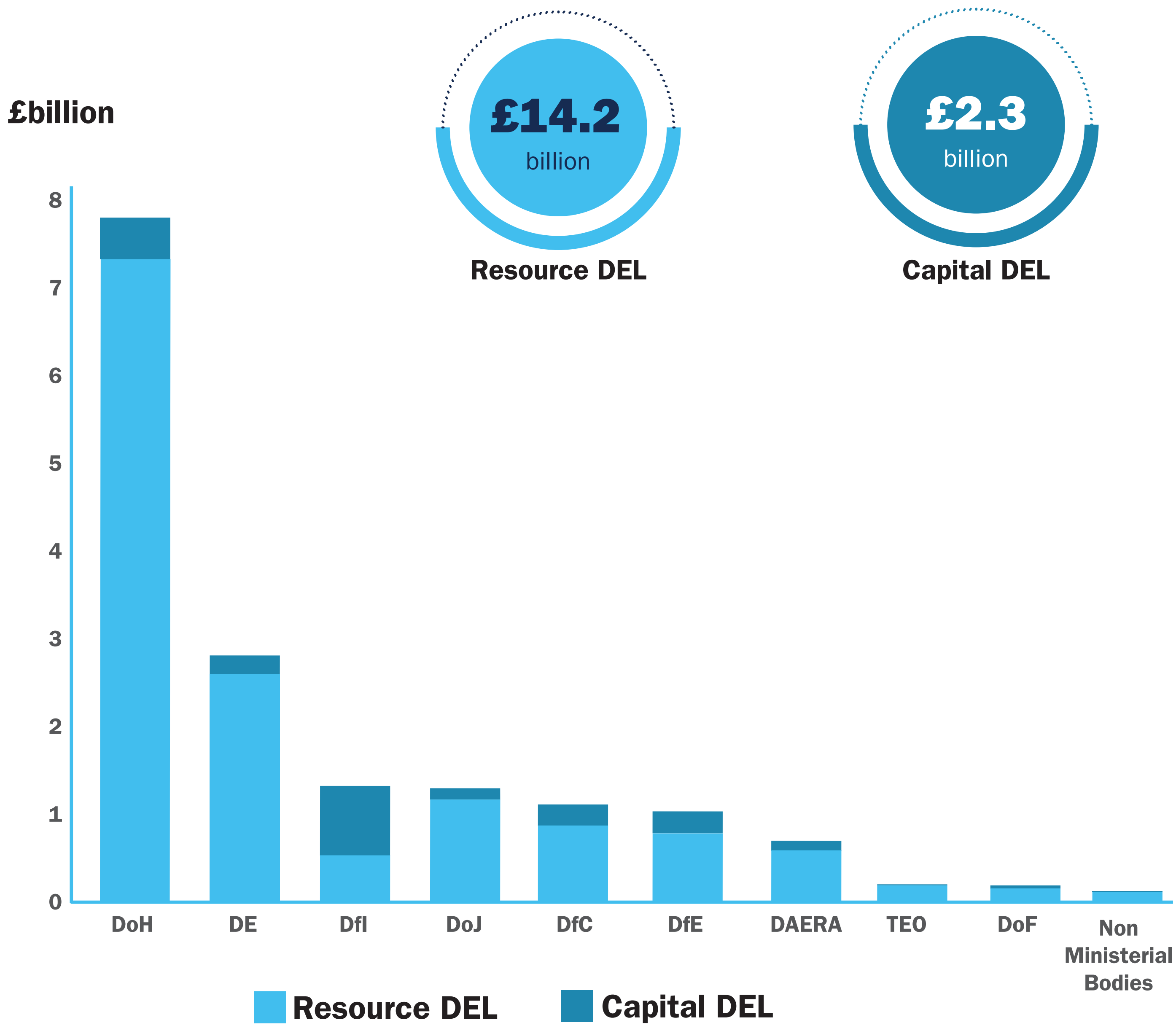
EU Income

Northern Ireland receives less income from EU initiatives following the UK's exit from the EU. However, the PEACE PLUS Programme will provide approximately £1bn over the 2021-2027 time period. This is funded by the UK Government, the Northern Ireland Executive, the Government of Ireland and the European Commission, with the Executive contributing approximately £148 million.

Reinvestment and Reform Initiative (RRI) Borrowing

RRI Borrowing gives Northern Ireland the power to borrow funds for substantial infrastructure projects. The annual borrowing limit is set by HM Treasury and is currently £200 million per annum. Like all borrowing this comes at a cost. This is dependent on interest rates but currently £200 million would cost circa £337 million to repay.

Where the NI Budget goes



This chart shows departmental allocations net of any income received directly by the department (e.g. from fees and charges).

DAERA: Department of Agriculture, Environment and Rural Affairs

DfC: Department for Communities

DfE: Department for the Economy

DE: Department of Education

DoF: Department of Finance

DoH: Department of Health

DfI: Department for Infrastructure

DoJ: Department of Justice

TEO: The Executive Office

Non Ministerial Bodies:

Food Standards Agency

NI Assembly Commission

NI Audit Office

NI Authority for Utility Regulation

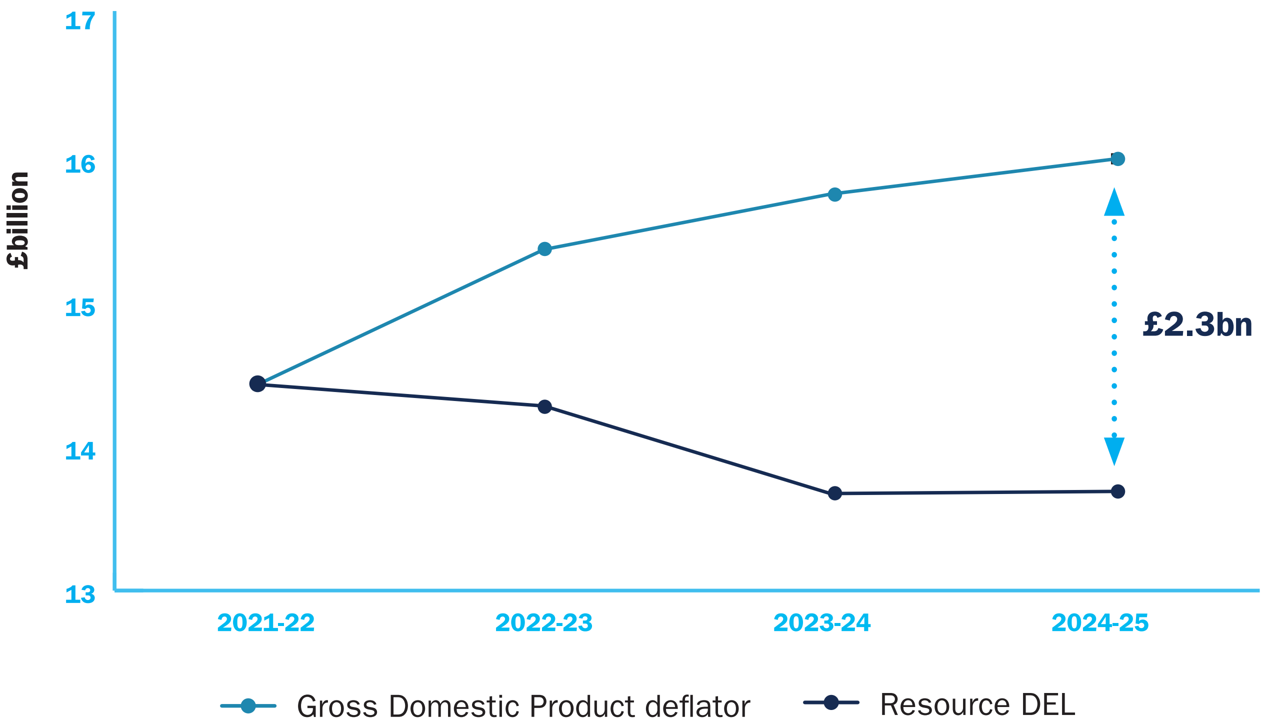
NI Public Services Ombudsman

Public Prosecution Service

Impact of inflation on government budgets

Just like household and business budgets, departmental budgets have been severely impacted by sharply rising prices because of inflation. Sustained high inflation has fundamentally reshaped the price of what the public pound can buy.

The chart below shows what funding would have been required for day-to-day spending (resource DEL) in 2023-24 and 2024-25 in order to keep up with the impact of inflation since 2021-22. For 2024-25, this shows that the current Resource DEL in 2024-25[1] is some £2.3 billion lower than these calculations[2] would indicate is required to deliver the same level of services as in 2021-22.



1 - RDEL following Chancellor's Spring Budget 2023.
2 - These calculations are based on the Gross Domestic Product deflator which can be viewed as a measure of general inflation in the domestic economy. Inflation can be described as a measure of price changes over time. Chart uses HMT deflators as at June 2023.

The Challenge

The impact of increasing pressures on the public purse is clear. Government must consider all options to bring spending in line with the available resources.

Other administrations across the UK are also facing budget pressures and are considering taking their own actions to manage their budgets. Northern Ireland is facing immediate funding pressures. In addressing these there is also a need to look to the longer-term.

The solution to achieving sustainable public services is likely to require a multifaceted approach. This could include actions being considered in a number of different areas, including the following:

Efficiency

Innovation in how services are delivered can help to achieve more for less. Working collaboratively, reconfiguring service models and reducing duplication can provide efficiencies. Identifying areas of bureaucracy, streamlining processes and adopting technology-driven solutions can lead to cost savings.

Additional funding

The independent Fiscal Council has undertaken analysis to understand the needs requirement of Northern Ireland and how that might impact on the funding it receives from Westminster. Increasing funding from other sources such as challenge funds, Horizon, Levelling Up or EU, Irish or US funding or seeking new funding streams may provide additional funding.

Transformation

The world is constantly evolving, as are the needs of the population. Government must be proactive in adapting to these changes. Embracing transformational initiatives and reimagining public services can lead to more cost-effective and impactful solutions. In many cases this will require up-front investment to realise gains.

Reducing/stopping services

While providing essential public services is a fundamental responsibility, financial constraints may necessitate difficult decisions to ensure long-term sustainability. Such measures may involve prioritising critical services over non-essential ones. The goal behind reducing services is not to compromise citizens' well-being but to create a more efficient and stable financial foundation. There are instances where government may need to re-evaluate its priorities and discontinue certain non-essential services to ensure resources are focused on areas that have the most significant impact on society.

Raising more revenue

Businesses and citizens all benefit from the public services and amenities provided by the government. Contributing to these services is a way of ensuring they are sustained and improved for the greater good.

The answer to the financial challenge government faces in delivering public services will lie in a combination of these solutions and are ultimately political choices. However, the focus of the consultations being launched is to explore revenue raising options.

Revenue raising - Making difficult choices

There is an understandable reluctance to increase the costs to citizens and businesses for service delivery. This is even more acute in times of financial hardship or in regions with lower levels of income and less ability to pay. Decisions to be taken will ultimately be for politicians but this should be done from the most informed position possible.

Under the instruction of the Secretary of State, departments identified a series of revenue raising options that could be considered. The Secretary of State has now directed departments to consult on the following:

Department of Agriculture, Environment and Rural Affairs www.daera-ni.gov.uk	1. Reducing compensation rate on bovine tuberculosis programme. 2. Increasing College of Agriculture, Food and Rural Enterprise (CAFRE) tuition fees to the same level as in England.
Department for the Economy www.economy-ni.gov.uk	1. Increasing university tuition fees and aligning the student loan repayment period to the same level as in England.
Department of Finance An Roinn Airgeadais www.finance-ni.gov.uk	1. The review of non-domestic rating support schemes, including non-domestic vacant property relief, industrial de-rating, freight transport relief, and the exemption for student halls of residence. 2. The removal of domestic ratings allowances, including the early payment discount, the maximum capital value cap and the landlords' allowance.
Department of Health www.health-ni.gov.uk	1. The introduction of prescription charges. 2. The introduction of domiciliary care charges. 3. The retention of hospital car parking charges.
Department for Infrastructure www.infrastructure-ni.gov.uk	1. The introduction of domestic water and associated charges (this should also include the removal of non-domestic water allowances and charging for septic tank desludging). 2. The increase of private street fees.

The Secretary of State will also review the level of the domestic and non-domestic regional rate, and if no Executive is in place before the end of March 2024, will have to legislate to set the regional rate for 2024-25.

Get involved – have your say!

These public consultations present an opportunity for the people of Northern Ireland to provide their views on a range of revenue raising options to support the public services they wish to see. Your voice matters, and your perspective is invaluable in designing a financially sustainable, inclusive, and prosperous society.

It is really important to have your say in how public services are shaped. The decisions made today will have far-reaching consequences for generations to come.

Departments will be launching consultations on specific revenue raising measures. The consultations will be launched in a phased approach to ensure those who want to provide their views have adequate time to contribute to the individual consultations. Links to the individual consultations will be available on the DoF website once the consultations open.

In addition to those consultations, DoF is seeking views on a number of wider cross- cutting questions to complement the departmental specific consultations. These are intended to gather views on other aspects of fiscal sustainability including efficiency, transformation or collaborative activities that could be considered alongside revenue raising options.

Financial context for revenue raising consultations

Q1 **Are there other revenue raising measures that should be considered?**

Q2 **Are there any services/ programmes that should be stopped or reduced to divert funding to more critical services?**

Q3 **Are there public services that could be delivered in a different way?**

Q4 **Are there public services that could be delivered by others (e.g. local government, voluntary & community sector or private sector) or are there are other areas in which greater collaboration could deliver better outcomes?**

Click here to respond to these questions.