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

The NIO's 2022-23 Budget for Northern Ireland: an assessment

March 2023

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Foreword

The Northern Ireland (NI) Fiscal Council was established in 2021. The Council 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 finances of the NI Executive. In doing so we hope to inform both public debate and policy decisions to the benefit of everyone in NI.

Within this mission, our Terms of Reference require us to *"prepare an annual assessment of the Executive's revenue streams and spending proposals and how these allow the Executive to balance their budget"* (as it is required to do). In January 2022 we published an assessment of the 2022-25 Draft Budget published by the Department of Finance for consultation in December 2021. We noted that it did not have the endorsement of the Executive and that it lacked evidence of strategic intent and prioritisation, but we concluded that:

> *"…the Draft Budget achieves balance in the sense that proposed departmental spending allocations and forecast debt interest costs are fully covered by a combination of external (primarily Block Grant) funding, Regional Rates revenue and capital borrowing that lies within the limits set down in legislation and subsequent agreement with the Treasury."*[1]

On 8 November 2022 we published an update to this assessment, reflecting on the material changes in the NI political and fiscal position following the collapse of the Executive in February 2022 and the retention, for a six-month period, of 'Caretaker Ministers' in charge of departments alongside their Permanent Secretaries. We noted the likelihood of a significant overspend against available funding during the current financial year, barring corrective action and/or additional funding from the UK Government.

On 28 October 2022, the maximum statutory period for which Caretaker Ministers could remain in office came to an end. It then became the responsibility of the UK Government's Northern Ireland Office (NIO) to determine departmental spending allocations in NI. The Secretary of State (SoS) set out his allocations for 2022-23 in a Written Ministerial Statement (WMS) on 24 November 2022,[2] having spent four weeks discussing options with departmental Permanent Secretaries.

On 12 January 2023 the Government introduced an NI Budget Bill in the UK Parliament, authorising NI departments and other public bodies to continue spending and delivering services through the rest of 2022-23 and some way into 2023-24.[3] This replaces the pair of Budget Bills that are usually taken through the Assembly, one in the summer and one at the end of the fiscal year. The Bill also preceded the Spring Supplementary Estimates at which the UK Parliament gives authority for the final spending plans of Whitehall departments at the end of each

1 https://www.nifiscalcouncil.org/publications/ni-executives-2022-25-draft-budget-assessment
2 https://questions-statements.parliament.uk/written-statements/detail/2022-11-24/hcws385
3 https://commonslibrary.parliament.uk/research-briefings/cbp-9686/

financial year. This meant there were more changes than usual to the NI budget position following the legislation, and we describe these here. Finally, the 'Vote on Account' is higher this year than usual, providing departments with authority to spend over a greater portion of the next financial year before further legislation needs to be put in place. The Bill received Royal Assent on 8 February 2023.

More specifically, the NI Budget Act (as it now is):

- Authorises the NI departments (plus a few other public bodies, like the Food Standards Agency) to **spend up to £26.7 billion** in 2022-23. This covers not just the spending on public services, administration and capital investment that is covered by the Treasury's Departmental Expenditure Limits (DEL) for NI and largely financed by the Block Grant, but also £9.5 billion of Annually Managed Expenditure (AME) that is harder for departments to control and which the Treasury therefore finances automatically. This includes state pensions and benefits and public sector workers' pensions.

- Authorises each department and public body to spend a specific share of the total sum, broken down for each department between DEL, AME and 'non-budget' spending (for example depreciation on certain PFI contract assets) and then between current and capital spending in each category. The **allocations by department and category** are set down in Schedule 1 of the Act and differ slightly from the numbers set out in the Secretary of State's WMS to reflect further adjustments to the NI 2022-23 Block Grant processed through the Spring Supplementary Estimates.

- Authorises the **NI Department of Finance** to take the money that has been authorised for departments out of the NI Consolidated Fund and to borrow up to £10.7 billion for cashflow management purposes. Any such borrowing must be repaid by the end of the current financial year.

- Provides similar **authorisations for spending, service delivery and borrowing for a significant part of 2023-24** through the Vote on Account. The total authorisations and allocations in Schedule 2 of the Act are simply equal to 65 per cent of the totals for 2022-23, so they do not indicate NIO's plans for the total size and composition of the NI Budget next year. Assuming that the Stormont institutions are not restored in the meantime, this is likely to be included in a further WMS and Budget Bill early in the next financial year.

- Causes the Act to take effect as though it were an **Act of the NI Assembly**, thus ensuring that other NI legislation that refers to Budget Acts of the Assembly are deemed to apply to this Act.

Since the passage of the Act, there has been some further modest fine-tuning of the Budget figures for 2022-23 to reflect final adjustments to the NI 2022-23 Block Grant; these affect the overall Executive funding position but not departmental budgets. As a result of additional Barnett consequentials received from the Spring Supplementary Estimates the amount that needs to be drawn from the Treasury reserve to cover NI spending this year has also been reduced slightly. In what follows we refer to the latest picture as of 8 March 2023 as the 'NIO Budget'.

In the rest of the paper we:

- Describe the changes to the **funding and spending position** this year implied by the NIO Budget.
- Review the potential implications for **next year's Budget**.
- Offer some **concluding reflections**.

Throughout this paper, our use of the term 'Budget' refers to the financing and spending of the NI Executive that is covered by its DEL only. We set out the background to this focus on the DEL Budget in our assessment of the 2022-25 Draft Budget, where we explained that both the scope of the Draft Budget and our interpretation of 'balancing' the Budget focused on the allocation and financing of spending covered by DEL. This excludes the Executive's AME spending – which is primarily state and public sector pensions and social security benefits – because that spending is automatically fully financed by the UK Government. (Apart from in cases where the Executive makes an AME programme more generous than the rest of the UK, in which case it has to meet the additional cost within its DEL.)

1 Executive Summary

The NI Budget position in 2022-23

The budget process

The NI Budget has three main components that are required to 'balance', so that planned spending does not exceed available financing: resource spending (on public services, administration and debt interest), conventional capital spending (on infrastructure and the like) and Financial Transactions Capital spending (on loans to or equity injections in private sector entities, including universities).

In the absence of agreement by the outgoing Executive, the Department of Finance published a Draft Budget for 2022-23 purely for consultation in December 2021. When the Executive collapsed in February 2022, Caretaker Ministers and Permanent Secretaries managed departmental budgets based on informal indicative allocations from the Department of Finance informed by that Draft Budget.

When the Caretaker Ministers left office on 28 October 2022, responsibility passed to the Secretary of State and the Northern Ireland Office, supported by the NI Civil Service. At this point (the 'Revised Draft Budget'), departments were on course to overspend against their available funding for resource and conventional capital but to underspend against available funding for Financial Transactions Capital.

The SoS published formal departmental allocations on 24 November 2022, which were then tweaked in the NI Budget Act passed by the UK Parliament on 8 February 2023 and again thereafter following the Spring Supplementary Estimates at which Parliament authorises final Whitehall spending plans at the end of the financial year. In what follows we refer to this final budget position for NI as the 'NIO Budget'.

Resource spending

Under the NIO Budget, NI departments now have scope to spend £14,345 million this year (around £18,700 per household) on public services and administration. This is 1 per cent less than in 2021-22 but 6 per cent (£819 million) more than was anticipated in the Draft Budget of December 2021.

Most of the increase reflects additional Block Grant income, largely via the Barnett formula thanks to increases in planned UK Government spending outside NI. But the Secretary of State also inherited a projected overspend against available funding of £650 million from the Caretaker Ministers. Helped by the NI Civil Service, he significantly reduced this but ultimately decided not to try to eliminate it and instead to make a £297 million claim on the Treasury Reserve – in effect a loan that will have to be repaid from the Block Grant next year.

The overspend (and indeed some of the increases in UK Government spending that topped up the Block Grant) in part reflect upward pressures on pay and other costs common to the whole UK public sector that will likely reduce the quality and quantity of public services delivered for every pound spent. But we judge that it also reflects weaknesses in NI budget management when Stormont is not functioning.

Health arguably fared best among departments in the NIO Budget, having over 90 per cent of its projected overspend covered once we adjust for budget cover transfers. Education, Infrastructure and Justice had 70-75 per cent of their projected overspends covered and Communities 57 per cent.

Capital spending

Under the NIO Budget, conventional capital spending is expected to total £2,010 million this year – a much smaller increase of 1 per cent since the Draft Budget than for resource spending. But comparisons with the Draft Budget and earlier years are complicated by the reclassification of R&D funding for universities from resource to capital, which is proportionately much greater for the latter than the former.

Capital spending is largely financed from the Block Grant, but the Draft Budget also assumed £140 million of capital borrowing under the Reinvestment and Reform Initiative (RRI). The NIO Budget increased this to the £200 million annual maximum agreed with the Treasury in 2002. The Department is in effect holding a negative reserve of £32 million centrally to balance this budget, but it expects underspending by departments against their current allocations to equal or exceed this.

Financial Transactions Capital spending

Block Grant funding for Financial Transactions Capital spending arises largely from the 'Barnett consequentials' of UK Government action to support the housing market. It is almost always underspent as nether the Executive nor the other devolved administrations find loans to or equity injections in the private sector particularly convenient ways to address their investment priorities.

Block grant funding has increased from £163 million at the Draft Budget to £304 million at the NIO Budget, of which only £84 million has been allocated to departments (specifically to The Executive Office, Economy and Communities). £220 million continues to be held centrally and on past performance will not be spent. Only a very small proportion of any underspend can be carried forward to future years.

Implications for next year's Budget

As the 2022-23 financial year draws to a close, NI departments confront the coming financial year with no ministerial leadership, no agreed budget allocations to work from and a tough financial environment as pay increases and inflation remain elevated and this year's call on the Treasury Reserve has to be repaid.

Notwithstanding this unpromising backdrop, the NI public sector is not going to grind to a halt. The 'Vote on Account' included in the NI Budget Act 2023 provides departments with authority to spend up to 65 per cent of their 2022-23 DEL and AME resource and capital allocations, as well as non-budget and cash expenditure. This is higher than the normal 45 per cent figure, giving more time for the Stormont institutions to be restored before additional legislative authority for spending is required.

When the NI Block Grant was first set for 2022-23, 2023-24 and 2024-25 – in the UK Government Spending review of October 2021 – it showed the resource settlement rising by 1.7 per cent next year and 1.5 per cent in 2024-25. Subsequent increases in UK Government spending have pushed up the Block Grant in each year, but the frontloading of these increases, combined with the looming clawback of this year's Treasury Reserve claim, have created a dramatic V-shaped profile that is not conducive to workforce or service delivery planning. Taking projected Regional Rates income into account, overall funding for resource spending is now projected to drop by 3.1 per cent next year before rebounding by 3.5 per cent. Taking projected debt interest spending and inflation into account, real departmental spending is set to fall by 5.8 per cent next year and then to rise by 1.9 per cent.

Concluding reflections

Having inherited substantial budget overruns from the Caretaker Ministers, the Secretary of State's Budget for 2022-23 achieves balance only by calling on the Treasury Reserve. This is in effect a loan that bridges the shortfall this year between available funding on the one hand and departmental spending allocations and forecast debt interest costs on the other. But under Treasury rules this advance on the Block Grant has all to be repaid next year rather than gradually over time.

This situation could well repeat itself in the coming year as departments move into 2023-24 facing continued financial pressures and without ministerial leadership or an agreed Budget from which to plan. Whoever eventually undertakes the task of setting next year's Budget – the Secretary of State or a restored Executive – will face the same three key questions we raised in our first report on NI's finances:

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

The SoS has already indicated that he is prepared to consider the first of these, saying the options to balance next year's budget could include "*water charges and/or increasing income from regional rates*".

The Block Grant in NI was 40 per cent higher per head of population than equivalent UK Government spending as recently as 2018-19, but has been declining quickly compared to England - the SoS has noted that NI now receives 21 per cent more funding per head than equivalent UK Government spending in other parts of the UK. In our sustainability report we estimated that the additional need for spending on public services in NI was probably around this figure. When funding exceeded spending in England by more than this amount, the Executive was able to spend the additional funds on more generous, or 'super parity' policies of its choosing (for example, welfare mitigations, tuition fees, concessionary fares, prescription charges and domiciliary care funding) [4] without having to make cuts to other services. Today, the financial constraint on all areas of spending is that much tighter.

With disposable incomes lower on average in NI than in England, it does not seem reasonable to expect that the funding gap can be closed entirely through increasing taxes or fees and charges. Barring additional UK funding, this may mean that the third option – reducing or stopping services – may receive closer attention in future budgets, especially if funding is needed to maintain super-parity measures.

[4] Departmental estimates cited in our Guide suggest that the current cost of these super-parity policies may be around £600 million a year.

2 The NI Budget position in 2022-23

The NI Budget has three main components that the Executive (when it is functioning) or the Secretary of State (SoS) are required by UK legislation[5] to 'balance', in the sense that planned spending should not exceed available financing:

- Non-ringfenced **resource spending** covers the day-to-day costs of public services and administration, plus debt interest. It is largely financed by the UK Block Grant (which comprises a core element determined by the Barnett formula plus 'non-Barnett additions' that include financing for political agreements), with a much smaller contribution from the Regional Rates.

- Conventional **capital spending** covers investment in infrastructure, plant and machinery. It too is largely financed from the Block Grant, plus capital borrowing under the Reinvestment and Reform Initiative (RRI), which is limited in amount by legislation and agreement with the Treasury. There is also a small funding commitment from the Irish Government for the A5 road project.

- **Financial Transactions Capital (FTC) spending** is entirely financed from the Block Grant and can only be spent on loans to or equity injections in private entities, which include institutions like universities.

Resource spending

Resource spending is much the largest component of the NI Budget. The Department of Finance's Draft Budget in December 2021 (which the Executive agreed only to publish for consultation) proposed to spend £13,571 million in 2022-23,[6] with £13,484 million allocated to departments, £42 million held centrally for later allocation to specific purposes and £46 million earmarked for interest on the debt accumulated as a consequence of RRI borrowing (Table 2.1).

[5] https://www.legislation.gov.uk/ukpga/2016/13/section/9/enacted
[6] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Northern%20Ireland%20Draft%20Budget%202022-25_0.pdf, Table 1

The NI Budget position in 2022-23

Table 2.1 – Non-ringfenced resource spending and financing, 2022-23

£ million	Draft Budget	Revised Draft Budget	NIO Budget position
FINANCING			
Block Grant	12,994	13,384	13,487
HMT Reserve Claim	0	0	297
Regional Rates (post debt repayment)	577	595	606
TOTAL FINANCING	**13,571**	**13,979**	**14,390**
pays for			
SPENDING			
Departmental spending	13,484	13,633	14,341
Centrally held	42	303	4
Debt interest (RRI)	46	43	45
TOTAL SPENDING	**13,571**	**13,979**	**14,390**
NI Executive Underspend (+)/Overspend (-)	*0*	*0*	*0*

Note: Draft Budget (December 2021), Revised Draft Budget (October 2022) and NIO Budget (February 2023)
Source: Department of Finance

During the period in which Caretaker Ministers were in place, available funding – and therefore planned spending – increased by £408 million (or around 3 per cent) to £13,979 million. This largely reflected £390 million of additional Block Grant income, the largest contribution being £220 million in 'Barnett consequentials' arising from increases in planned UK Government spending in 2022-23 and very late in 2021-22. There was also £68 million in additional funding earmarked for specific purposes (such as EU match funding) and £102 million of funding that the Executive was able to carry forward under the Treasury's 'Budget Exchange' scheme having underspent its control total in 2021-22. Beyond the Block Grant, expected revenue from Regional Rates rose by £18 million.

As we explained in our November Update,[7] in the absence of an Executive, the Department of Finance is unable to set departmental budget allocations and instead provided indicative funding envelopes. During the period with Caretaker Ministers in charge (February to October 2022), it was able to increase these by £150 million. But, alongside a very small reduction in the expected debt interest bill, this left £303 million having still to be held centrally. (To aid comparison, we call the position at the end of this Caretake Minister period the 'Revised Draft Budget').

Under the NIO Budget (as tweaked slightly following the passage of the NI Budget Act), total funding and planned spending for 2022-23 has increased by a further £411 million or 3.0 per cent to £14,390 million. Around £103 million of the increase came from a further increase in the core Block Grant and an £11 million increase in forecast revenue from the Regional Rates. But the vast majority came from a £297 million call on the Treasury Reserve that the UK Government has agreed to meet on the assumption that the Block Grant next year will be reduced by the same amount.

As we discuss in greater detail below, the SoS's decision to call on the Treasury Reserve reflects the fact that departments were on course to overspend

[7] https://www.nifiscalcouncil.org/news/ni-executives-2022-23-budget-update

significantly against their available funding towards the end of the Caretaker Minister period – by around £650 million or 4.7 per cent. In the weeks after the Caretaker Ministers left office on 28 October 2022, the NIO and the NI Civil Service worked together to reduce this projected overspend by around £200m by the time of the SoS's Written Ministerial Statement. Some of this was through one-off measures, such as the use of reserves held by arms-length bodies like Translink. But the SoS concluded that the rest could not or should not be eliminated in the 2022-23 financial year and that it would need to be financed by taking an advance on next year's Block Grant. This 'balances' the Budget in a formal sense but is clearly not a sustainable approach over the long term. It kicks the budgetary can down the road.

The net result is that departments had scope to spend £14,345 million this year under the NIO Budget (with £4 million held centrally), compared to £13,526 million (with £42 million unallocated but earmarked for specific purposes) in the Department of Finance's Draft Budget back in December 2021. This is an increase of £819 million or 6.0 per cent, comprising £493 million of additional Block Grant income and the £297 million call on the Treasury Reserve, plus smaller changes in forecast Rates revenue and debt interest.

Departmental allocations

As the Executive had not agreed a Budget, and the Department of Finance was unable to do so in its absence, the Secretary of State's Budget represented the first firm allocations departments had received for 2022-23. Table 2.2 shows how the departmental allocations in the NIO Budget differ from the planning assumptions at the end of the Caretaker period. The SoS has made an additional £707 million in allocations to departments, an increase of 5 per cent, with £299 million formally allocated from funding previously held centrally but earmarked for specific purposes. This NIO Budget position also takes into account reduced departmental requirements, reclassification of spending (for example research and development funds from resource to capital), as well as budget cover transfers[8] between NI and Whitehall departments. In net terms the spending plans of NI departments have increased by £411 million since the indicative Revised Draft Budget position.

[8] These are transfers of resources between the NI Civil Service and Whitehall department, typically to cover costs for the delivery of a service.

Table 2.2 - Non- ringfenced resource budgets for NI departments, 2022–23

£ million	Revised Draft Budget	NIO Budget	Change between Revised Draft Budget and NIO Budget position	Change per cent
Health	6,863	7,343	479	7.0
Education	2,447	2,648	201	8.2
Justice	1,125	1,185	60	5.4
Communities	819	853	34	4.1
Economy	861	781	-79	-9.2
Agriculture etc.	571	564	-6	-1.1
Infrastructure	447	522	76	16.9
Finance	179	179	0	-0.1
The Executive Office	212	154	-58	-27.3
Minor departments	111	112	1	1.1
Departmental allocations	**13,633**	**14,341**	**707**	**5**
Centrally held	303	4	-299	-98.7
Debt interest (RRI)	43	45	2	4.7
Total	**13,979**	**14,390**	**411**	**2.9**

Note: Draft Budget (December 2021), Revised Draft Budget (October 2022) and NIO Budget (February 2023)
Source: Department of Finance

Five departments have had their budgets increased. Health was by far the largest beneficiary (£479 million allocated), but Infrastructure (£76 million) and Education (£201 million) received bigger additions in percentage terms (16.9 and 8.2 per cent respectively, relative to Health's 7.0 per cent). Economy, The Executive Office (TEO) and Agriculture all received less than they had been allocated indicatively under the Caretaker Ministers. In the case of Economy, this reflects the reclassification of research and development funds from resource to capital and subsequent resource savings by the department as well as a small easement of ring-fenced funding in relation to funding of measures to implement the NI Protocol. The reduction for TEO reflects a reduced funding requirement this year for victims' pensions.

Not surprisingly, the NIO allocations broadly reflect the pattern of projected over- and underspends that departments were reporting to the Department of Finance at the end of the Caretaker period and that we set out in our November Update. But they also reveal the priorities of the SoS.

Table 2.3 shows that the SoS's allocations cover just over three quarters (77 per cent) of the total projected overspends that departments were reporting in September against the Revised Draft Budget position. (Some projected overspending was to be expected at this point, because departments all knew that there were centrally held funds still to be allocated. This is why the £924 million aggregate projected overspend in Table 2.3 implied an overspend of only £650 million against total available funding, as mentioned above.)

With the exception of Health, every department received a 'haircut', in the sense that it was not allocated enough money to meet its projected overspend fully or that it was asked to hand back even more money than it was already expecting to underspend by. Health fared best, with an additional allocation covering its entire projected overspend plus an additional 7 per cent, although it should be noted that this figure reduces to around 92 per cent once budget cover transfers are taken into account. Education, Infrastructure and Justice each had 70-75 per cent of their projected overspends covered and Communities around 57 per cent. A quarter of the Minor Departments' projected overspend was covered, whereas Finance received nothing to cover its overspends. Agriculture had its allocation cut despite projecting a small overspend. The impact of Economy's reclassification of resource to capital is described in more detail later.

Table 2.3 – NIO Budget non-ringfenced resource allocations versus projected overspends

£ million	**Previous overspend against Revised Draft Budget[1]**	**Additional allocations in NIO Budget**	**Cash difference**	**Overspend covered by allocations (%)**
Health	450	479	30	107
Education	268	201	-67	75
Infrastructure	105	76	-29	72
Justice	86	60	-26	70
Communities	59	34	-26	57
Agriculture etc.	9	-6	-15	N/A
Finance	7	0	-7	N/A
Minor departments	5	1	-4	25
The Executive Office	-34	-58	-24	N/A
Economy	-32	-79	-48	N/A
Total	**924**	**707**	**-217**	**77**

Note:
[1]Overspend measured using September forecast outturn

Note: Draft Budget (December 2021), Revised Draft Budget (October 2022) and NIO Budget (February 2023)
Source: Department of Finance, Northern Ireland Office

As we noted in our November Update, the prospective overspends in most departments (and the consequent need for additional NIO allocations) in large part reflect pay awards, energy prices and other inflationary pressures common to the whole UK public sector. But, at the time of the UK Autumn Statement,[9] Whitehall departments were by-and-large expecting to remain within their Treasury spending limits, which suggests that the projected overspends in NI also reflect weaknesses in budget management and control specific to the region. (That said, the Auditor General for Scotland also warned in November 2022 of a "real risk" that the Scottish Government might overspend.[10])

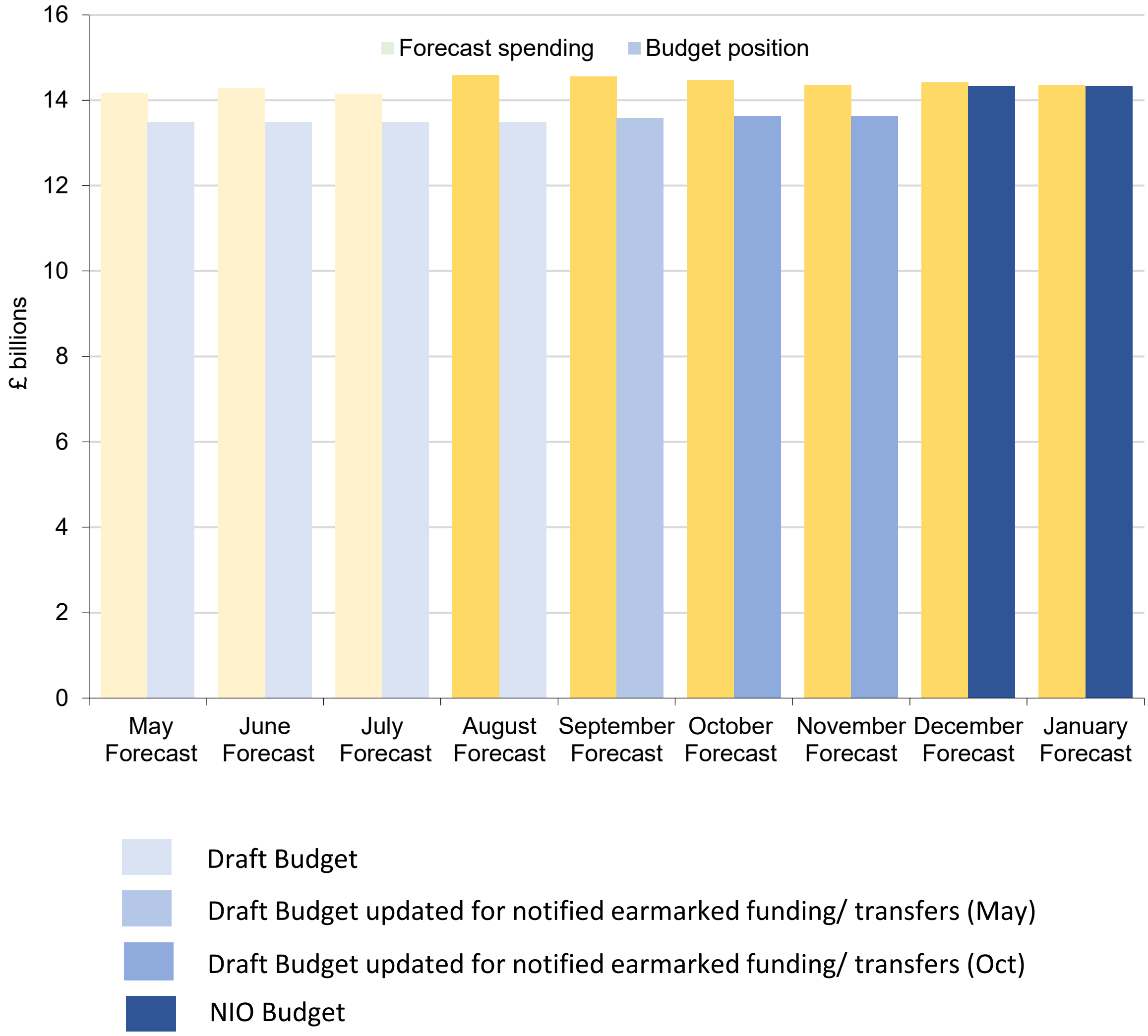
In our November Update we suggested that these budgetary process weaknesses in NI might include the absence of an agreed Budget to begin the year, the absence of In Year Monitoring Rounds at which allocations can be adjusted, the ability of

[9] 17 November 2022
[10] https://www.audit-scotland.gov.uk/uploads/docs/report/2022/briefing_221117_public_finances.pdf

Caretaker Ministers to take spending decisions for which they do not have funding, the limited power of civil service accounting officers to impose discipline and the absence of Assembly committees to scrutinise the evolution of the public finances through the year and make recommendations.

Chart 2.1 shows how departments' forecasts of how much they would end up spending evolved through the year relative to the indicative budget allocations they were given by the Department of Finance. Departments expected to overspend their allocations right from the start, which was to be expected to some degree as they knew there was a pot of money held centrally that could be allocated when either the Executive was restored or the SoS took control of the Budget. But the projected overspend jumped to more than £900 million in August, far more than the centrally held pot, reflecting the assumption that UK Government's pay recommendations for different staffing groups such as nurses in England and Wales would be adopted in NI. From the end of November the overspend was reduced substantially as the NIO and NICS bore down on spending levels and the SoS increased the departmental allocations by allocating most of the centrally held pot as well as the additional funding that the Treasury agreed to release from the Reserve.

Chart 2.1 Departmental allocations and forecast spending



Note: May to July forecasts were made prior to release of new forecasting guidance by Department of Finance to enhance consistency across departments. May and October Budget Positions refer to totals used internally by the Department of Finance to monitor departmental spending trajectories not formal allocations.

Source: Department of Finance

In addition to pay and inflation, the pressures on NI departments this year in part reflect the ongoing impact of the 'Barnett squeeze' on their financing. Under the Barnett formula, increases in UK Government spending in England on items for which the Executive is responsible in NI generate less-than-proportionate increases in the Block Grant to fund equivalent spending in NI. Table 2.4 shows that even after the call on the Treasury Reserve for this year, most NI departments will see a smaller increase in real terms spending between 2019-20 and 2022-23 than their nearest Whitehall equivalents. (These comparisons are only broadly indicative, as the functions of NI departments can vary significantly from those in Whitehall, but the overall trend is informative.) Among the larger spenders, Education fares relatively well[11] in NI compared to its Whitehall counterpart while Justice and Health fare relatively badly. The Agriculture uplift is due to EU Funding now being provided by the Treasury (£315.9 million for 2022-23) as a result of EU Exit.

Table 2.4 – Real terms spending increases from 2019-20 to 2022-23

	NI Department (%)[1]	Nearest equivalent UK Government department(s) (%)[1]	Difference (percentage points)
Agriculture etc.	145.7	98.2	47.5
The Executive Office	88.6	-4.9	93.5
Minor departments	17.3	34.0	-16.7
Infrastructure	15.5	16.9	-1.4
Education	10.5	8.7	1.8
Health	9.9	16.8	-6.9
Justice	-1.9	22.0	-23.9
Communities	-3.2	N/A	N/A
Finance	-4.4	2.5	-6.9
Economy[2]	-30.6	N/A	N/A
Total[3]	**7.5**	**16.9**	**-9.4**

Notes:
1. Per cent change is caclulated in real terms using March 2023 HMT GDP deflators. Change in NI departments from 2019-2020 Outturn and Final Plans as per the SoSNI's Budget for 2022-23. Change in UK 'nearest equivalent' from 2019-20 Outturn and Spring Statement 2023
2. Data for the grow th in equivalent UK department are not available yet follow ing the reorganisation of UK departments on 7 February 2023.
3. The total real-terms increase show n for UK Government departments is for **all** UK Government departments, excluding NI Scotland and Wales. This includes some departments, e.g. Defence, w hose spending is for the w hole UK, and is not comparable for the Barnett formula. The total real-terms increase for the more limited number of 'nearest equivalent' departments as show n in the table w ould be just above 17 per cent. The total show n in the table uses a slightly updated method than w e used in a similar comparison published in Table 5.3 of our Sustainability Report. The total using unchanged methodology from the Sustainability Report w ould be 16.3 per cent. We intend to revisit the methodology for these comparisons for our next Sustainability Report.

Source: HM Treasury, Department of Finance

In level terms, the SoS's Written Ministerial Statement noted that the Block Grant provides the NI Executive with around 21 per cent more funding per head than UK Government equivalent spending. This is broadly in line with estimates of relative need, based on the characteristics of the population, but the premium has narrowed sharply in recent years having stood at 27 per cent in 2020-21.

Table 2.5 shows how the pattern of departmental allocations has changed between the Draft Budget and the NIO Budget. The differences are not enormous. Health and Education have increased their shares slightly, reflecting inflation, pay and other pressures. Economy, Communities and TEO have seen their shares decrease, reflecting resource-capital reclassification (and subsequent savings), technical adjustments and victims' pensions respectively.

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[11] In relation to the relative uplift for Education, the department highlighted the budgetary impact of both the timing of teachers' pay awards relative to the rest of the UK as well as its ongoing COVID response. The September 2018 NI teachers' pay settlement was only agreed in April 2020 and subsequently paid to schools and teachers as back-pay until 2020–21 onwards. In addition, some £50 million of COVID initiatives continued into 2022-23. These schemes (e.g. Holiday Hunger; Engage funding; Primary Counselling, and others) may not have existed in the absence of COVID.

Table 2.5 – Departmental allocations in the NIO and Draft Budgets for 2022-23

£ million	Draft Budget allocations	%	NIO Budget allocations	%	Difference % (percentage points)
Health	6,782	50.3	7,343	51.2	0.9
Education	2,431	18.0	2,648	18.5	0.4
Justice	1,118	8.3	1,185	8.3	0.0
Communities	839	6.2	853	5.9	-0.3
Economy	832	6.2	781	5.4	-0.7
Agriculture etc.	551	4.1	564	3.9	-0.1
Infrastructure	444	3.3	522	3.6	0.4
Finance	168	1.2	179	1.2	0.0
The Executive Office	211	1.6	154	1.1	-0.5
Minor departments	107	0.8	112	0.8	0.0
Total	**13,484**	**100.0**	**14,341**	**100.0**	

Note: Draft Budget (December 2021), Revised Draft Budget (October 2022) and NIO Budget (February 2023)
Source: Department of Finance, Northern Ireland Office

Has the potential overspend been fully addressed?

Following the setting of the NIO Budget (including the impact of the Spring Supplementary Estimates in Westminster), the Department of Finance continues to monitor how departments expect to spend relative to their new allocations.

Against this position, the projected RDEL overspend against available funding has reduced to £18.6 million in January 2023. Only the Department of Education continued to forecast a (much reduced) overspend of £36 million, with all other departments forecasting either breakeven or small underspends which helped to bring the overall NI-level position closer to balance. The Department of Finance and Department of Education both believe that the remaining forecast overspend can be addressed before the Financial Year end. Although the spending forecast by NI departments has fallen by £198 million between September 2022 and January 2023, the main reason for the £905 million reduction in the projected overspend at the Executive level has been the provision of additional funding – largely through additional block grant allocations, but also the £297 million injection from the Treasury Reserve that has to be paid back next year.

As soon as the SoS took control of the Budget and announced new allocations, the Department of Finance made it clear to departments that they must stay within their new allocations. The UK Government hoped to reduce the prospect of a further overspend by clarifying the powers of Permanent Secretaries in the absence of Ministers. The Northern Ireland (Executive Formation etc) Act 2022,[12] passed on 6 December 2022, confirmed *"that a senior officer of a Northern Ireland department is not prevented from exercising functions of the department, where it is in the public*

[12] https://www.legislation.gov.uk/ukpga/2022/48/contents/enacted

interest to do so, during the period until an Executive is formed, or for 6 months from the day on which this Act is passed - whichever happens first."[13]

Capital spending

The public and political debate around budget pressures and potential overspending has understandably focused on resource spending, as this is at the forefront of people's minds when thinking about keeping public services running. But the SoS has also had to address potential overspending in the capital budget.

As Table 2.6 shows, the Draft Budget made provision for £1,991 million of capital spending in 2022-23, mostly financed by the Block Grant but also £140 million of planned capital borrowing under the Reinvestment and Reform Initiative (RRI) and £7 million of Irish Government funding for the A5 road project. Of this, £1,976 million was allocated to departments and £15 million earmarked for a new medical school (part of the New Decade New Approach agreement) and held centrally.

Table 2.6 - Capital DEL capital spending and financing

£ million	Draft Budget	Revised Draft Budget	NIO Budget
FINANCING			
Block Grant	1,844	1,866	1,810
Capital borrowing (RRI)	140	0	200
Irish Government funding for A5	7	0	0
TOTAL FINANCING	**1,991**	**1,866**	**2,010**
pays for			
SPENDING			
Departmental spending	1,976	1,999	2,042
Centrally held	15	0	-32
TOTAL SPENDING	**1,991**	**1,999**	**2,010**
NI Executive Underspend (+)/Overspend (-)	*0*	*-133*	*0*

Note: Draft Budget (December 2021), Revised Draft Budget (October 2022) and NIO Budget (February 2023)
Source: Department of Finance

Under the Caretaker Ministers, Block Grant funding increased by £22 million, there was no need for the A5 contribution (given the lack of progress on the project) and the absence of a functioning Executive meant that Ministers and Permanent Secretaries had no authority to undertake the £140 million of planned capital borrowing. Departmental allocations were increased by £23 million to £1,999 million. Taken together, this implied that the capital budget would be unbalanced even if departments held spending in line with their allocations, with planned spending £133 million in excess of available funding.

[13] https://publications.parliament.uk/pa/bills/cbill/58-03/0195/en/220195en.pdf

In their final forecasts (October) before the SoS took over, departments reported that they expected to overspend the Revised Draft Budget position by a further £6 million, implying an overall shortage against available funding of £139 million. (The projected overspend was lower than in earlier months and more than explained by the Economy's savings and reclassification of £84 million of R&D spending from resource to capital referred to above.)

The NIO Budget increased the allocations to departments by £43 million to £2,042 million and balanced the capital budget by not merely restoring the £140 million of RRI borrowing planned in the Draft Budget but increasing it to the £200 million maximum agreed with the Treasury in 2002. This will marginally increase future debt interest payments. Table 2.7 shows that the biggest additional net allocations in the NIO Budget were £60 million for Economy (largely as a result of the reclassification of R&D funding to universities from resource to capital, although partly offset by reduced funding for City Deals) and £44 million for Infrastructure (to progress the department's infrastructure and maintenance programmes). As a result of the Spring Supplementary Estimates, the Block Grant for capital was reduced by almost £45 million from the level when the Act was passed. The Department of Finance is consequently holding a £32 million overcommitment at the centre to arrive at the budget position of £2,010 million. It expects underspends across departments to equal or exceed this budget reduction, maintaining balance.

Table 2.7 – Capital spending allocations by department for 2022-23

£ million	Draft Budget	Revised Draft Budget	NIO Budget	Change at NIO Budget
Infrastructure	767	753	797	44
Health	350	375	358	-17
Economy	187	183	243	60
Communities	214	229	222	-7
Education	199	200	212	12
Agriculture ec.	101	92	82	-10
Justice	100	106	78	-28
Finance	35	37	32	-5
The Executive Office	15	16	11	-5
Minor departments	7	8	6	-2
Centre	0	0	-32	-32
Total	**1,976**	**1,999**	**2,010**	**11**

Note: Total may not sum due to rounding

Note: Draft Budget (December 2021), Revised Draft Budget (October 2022) and NIO Budget (February 2023)

Source: Department of Finance, Northern Ireland Office

Financial transactions capital (FTC) spending

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

Table 2.8 shows that the Draft Budget anticipated £163 million of Block Grant funding for FTC spending this year, with only £56 million allocated to departments (because of the difficulty of identifying suitable projects) and the rest held centrally. Under the Caretaker Ministers Block Grant funding increased by a further £62 million to £225 million, which was added to the central pot. Communities and (to a far lesser extent) Economy are the only departments allocated FTC funding and both expected to underspend their indicative allocations by significant margins at the end of the Caretaker period.

Table 2.8 – FTC financing and spending

£ million		**Draft Budget**	**Revised Draft Budget**	**NIO Budget**
FINANCING				
	Block Grant	163	225	304
TOTAL FINANCING		**163**	**225**	**304**
pays for				
SPENDING				
	Departmental spending	56	56	84
	Centrally held	57	169	220
	NI Investment Fund	50		
TOTAL SPENDING		**163**	**225**	**304**

Note: Draft Budget (December 2021), Revised Draft Budget (October 2022) and NIO Budget (February 2023)
Source: Department of Finance

In the SoS's Written Ministerial Statement, total available funding increased to £251 million and Communities and Economy were allocated only £34 million between them. The Draft Budget allocated £50 million to the NI Investment Fund to lend for private sector projects that contribute to NI's economic growth or the low carbon economy, but this requires Executive agreement and so could not be progressed prior to the NIO Budget (when it was allocated to TEO for that purpose). As part of the Westminster Spring Supplementary Estimate process the NI Block grant for FTC was increased by a further £53 million to £304 million. £220 million remains unallocated, reflecting the late additional funding, and on past performance is highly unlikely to be spent. With the Treasury maintaining separate control totals for each category of spending, 1.5 per cent of the FTC final budget could be carried forward to next year under the Budget Exchange scheme but it could not be used to offset overspends on the resource or conventional capital budgets.

Legislating for the NI Budget

As described in our Comprehensive Guide,[14] it is usual for the Assembly to pass two Budget Acts in each fiscal year, each with a detailed accompanying Estimate showing the anticipated spending within each department:

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

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

This year, as noted in the Foreword, the legislation authorising NI departments to spend and deliver services has been enacted by the UK Parliament rather than the Assembly because the NI Assembly is not sitting. Because of the delay in setting the initial budget this year, there will only be the single Estimate and Act, rather than the usual pair 'bookending' the fiscal year.

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

As noted in the Foreword, this year the Vote on Account for 2023-24 (also included in the NI Budget Act 2023 passed by the UK Parliament) has been set at a higher level of 65 per cent and at an earlier point in the year than usual. This means that, all else being equal, departments will be able to access funding for longer into the fiscal year than usual before they reach the statutory percentage limits. Under this higher limit, it is likely that no budget legislation would be needed to authorise further spending until the autumn, meaning there is more time for an Executive to form and take over the reins of the budget process.

In the financial year just ending, there was no budget legislation in place before the limit set by the Vote was exceeded. So the Permanent Secretary of Finance resorted to emergency powers in order to enable NI departments to continue providing public services. We describe these powers more fully in our Guide.

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

3 Implications for next year's Budget

In his New Year message for 1967, the Albanian dictator Enver Hoxha famously told his people: "This year will be harder than last year. But, on the other hand, it will be easier than next year". As NI departments and arm's length bodies (ALBs) look at their likely financial position in 2023-24, they may reach a similar conclusion.

As we have seen, this year has certainly been hard. Confronted with high inflation, upward pressure on pay settlements and the ongoing 'Barnett squeeze' on the Block Grant, Caretaker Ministers were soon projecting an overspend relative to available funding. Since late October, when the Caretaker Ministers left office, the NIO and NI departments have significantly reduced the projected overspend, but £297 million of it is in effect having to be funded from next year's Block Grant.

As a result, the Block Grant and planned spending will be significantly lower again next year than this year in real terms, as inflation and pay settlements remain elevated and this year's overspend is clawed back. In the absence of Caretaker Ministers – let alone a functioning Executive – departments and ALBs are having to plan service delivery and reform without political leadership or even a Draft Budget to work from. What is more, some of the one-off savings used to reduce overspending this year (such as the use of reserves by ALBs like Translink) will not be available next year. Barring a political breakthrough, the NIO is likely to have to set the Budget and it may not do so until the new fiscal year is already under way.

Table 3.1 summarises the funding position in cash terms for the 3 years from 2022-23 to 2024-25. When the UK Government first set out its spending plans for 2022-23, 2023-24 and 2024-25 in October 2021, the Block Grant settlement implied by the Barnett formula showed funding for NI rising by 1.7 per cent next year and a further 1.5 per cent in 2024-25. Subsequent increases in UK Government spending pushed up the Block Grant in each year, but the frontloading of these increases created an uneven path with funding falling by 1.2 per cent next year and then rising by 1.5 per cent in 2024-25.

Implications for next year's budget

Table 3.1 – Funding for resource spending in cash terms

£ million	2022-23	2023-24	2024-25	2023-24 vs 2022-23 (%)	2024-25 vs 2023-24 (%)
Block Grant					
Spending Review 21 Outcome	12,936	13,155	13,351	1.7	1.5
Position pre UK Autumn Statement[1]	13,384	13,218	13,410	-1.2	1.5
Autumn Statement Barnett consequentials	0	366	283	-	-
NIO Budget	13,487	13,584	13,694		
Spring Statement 2023 Barnett consequentials	-	24	97		
Reserve Claim	297	-297	0	-	-
Latest	13,784	13,311	13,791	-3.4	3.6
Overall Funding					
Block Grant	13,784	13,311	13,791	-3.4	3.6
Regional Rates	606	628	630	3.6	0.3
Total	**14,390**	**13,940**	**14,421**	**-3.1**	**3.5**

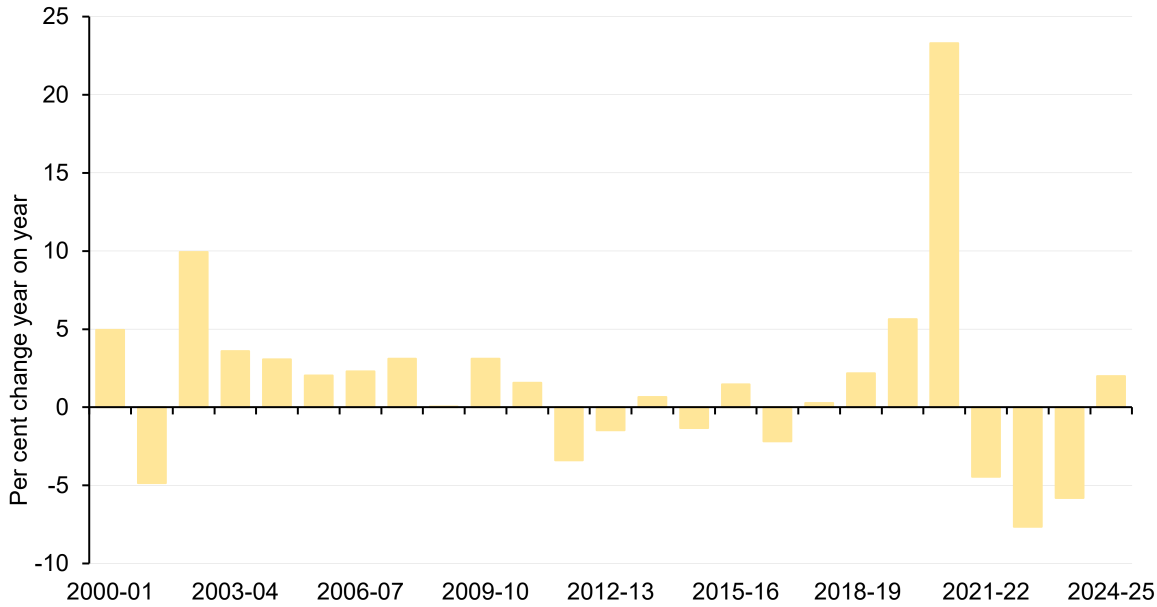
Note:
[1]For 2022-23, this position is the Revised Draft Budget, as in Table 2.1. For 2023-24 and 2024-25 this position show s the Draft Budget plans plus Barnett consequentials from Spring Statement 2022.

Source: Department of Finance

Recent developments have exacerbated this V-shaped pattern. The additional spending on business rate reliefs, education, health and social care in England announced in the UK Autumn Statement last November generated 'Barnett consequentials' for NI of £366 million next year and £283 million in 2024-25. The UK Budget on 16 March 2023 added a further £24 million in 2023-24 and £97 million in 2024-25. But the clawing back of this year's £297 million overspend will absorb 76 per cent of next year's windfall. In effect, departments have spent most of the Chancellor's near-term largesse in advance. Although the NI Block Grant will probably be topped-up in-year during 2023-24 and 2024-25, as it was in 2022-23, additions will likely be much smaller than in the recent past. The NI departments will also have no significant underspend to carry forward as they did last year.

As a result, Chart 3.1 shows that after adjusting for whole economy inflation the resource Block Grant is now expected to show its biggest single year decline at least since the late 1990s next year (other than in 2022-23, when temporary Covid-19 related funding was being withdrawn). And the increase in spending in 2024-25 is much smaller than the decline in the previous year. That said, the Resource DEL Block Grant will be 4.6 per cent higher in 2024-25 than it was in 2019-20.

Chart 3.1 – Changes in the resource Block Grant in real terms



Notes:
[1] Block grant for 2022-23 to 2024-25 as shown in Table 3.1
[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

Taking the latest Land and Property Services forecasts for Regional Rates revenue into account, the profile for total funding looks broadly similar to the Block Grant with a decline of 3.1 per cent in 2023-24 followed by an increase of 3.5 per cent in 2024-25 in cash terms. In real terms, this corresponds of a drop of 5.5 per cent next year followed by an increase of 1.9 per cent in 2024-25.

This funding profile confronts the NIO (or a restored Executive) with a very tricky challenge in setting a Budget for next year (or the next two years if it were to decide to do so). In order to discourage overspending, ex ante, it is clear why the Treasury demands that any Budget overruns in one year should be clawed back in the next. But, ex post, once that overspend has happened, setting a Budget to deliver a sharp real-terms cuts in one year followed by an increase in the next makes little sense from the perspective of efficient workforce or service delivery planning.

Table 3.2 underlines this. In summary:

- If (as they are required to do by UK legislation) the NIO or a restored Executive were **to set balanced budgets** over the next two years, based on the current Block Grant settlement and recent forecasts for Regional Rates and debt interest, this would require a 5.8 per cent real cut in spending next year and a 1.9 per cent rise in 2024-25.

- To set a balanced **budget in which departmental spending could be held constant in real terms** – rising by 2.5 per cent and 1.6 per cent in line with the Office for Budget Responsibility's latest GDP deflator forecasts – the NIO would need to close a gap between funding and spending of £809 million next year and £559 million in 2024-25, presumably through some combination of additional revenue raising and further flexibility from the Treasury in smoothing the funding profile.

Table 3.2 – Hypothetical departmental spending scenarios for 2023-24 and 2024-25

£ million		Balanced budget		Departmental spending constant in real terms		Departmental spending rises with UK spending[1]	
	2022-23	2023-24	2024-25	2023-24	2024-25	2023-24	2024-25
Total funding	14,390	13,940	14,421	13,940	14,421	13,940	14,421
Pays for							
Debt interest	45	46	46	46	46	46	46
Departmental spending[2]	14,341	13,853	14,337	14,662	14,896	14,944	15,108
Held centrally	4	41	38	41	38	41	38
Total spending	**14,390**	**13,940**	**14,421**	**14,749**	**14,979**	**15,031**	**15,191**
Budget gap	*0*	*0*	*0*	*809*	*559*	*1,092*	*770*
Memo: % change in departmental spending							
Cash (%)	-	-3.4	3.5	2.2	1.6	4.2	1.1
Real (%)	-	-5.8	1.9	-0.3	0.0	1.6	-0.5

Notes:
[1] Calculated by applying the comparability factors used in the Barnett calculations to the spending plans for each UK Government department, as announced in the 2022 Autumn Statement. Not including business rates
[2] Calculated for the 'Balanced budget' option by i) assuming that total spending equals total funding, as derived in Table 3.1; and ii) assuming that debt interest and spending held centrally w ould be as set out in the Draft Budget, and deriving Departmental spending by residual. Calculated for the other future year scenarios by applying the stated grow th scenario, and then subtracting the spending held centrally.

Source: Department of Finance

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

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

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

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

NIO Budget, but it would likely take more than 12 months to implement given the requirement to consult and put logistics in place.

- **Public sector pay restraint** could improve NI's public finances. Pay accounted for 57 per cent of non-ringfenced RDEL spending in 2019-20 (prior to the distorting effects of Covid-19). The Department of Finance public sector pay policy published on 6 December 2022 advised departments that awards for this year must be affordable within the allocations made by the SoS for 2022-23.[15] In response, the Department of Health announced on 8 December 2022 that it was implementing the health service national pay body recommendations[16] for 2022-23 for Agenda for Change staff (£1,400) as well as doctors and dentists at an in-year cost of £215 million. On 6 January 2023, the Department of Finance announced that it had made a pay offer to Northern Ireland Civil Service staff (£552) at a cost of £27 million.[17] The largest other public sector pay pressure is in respect of Education, reflecting the outstanding teachers' pay settlements for 2021 and 2022, the teachers' pay awards and a further settlement due September 2023.[18] Implementing these awards at a lower level would have eased the pressure on future years as well as this budget.[19] Additionally, it could have reduced the scale of the claim on the Treasury Reserve this year and consequently, the amount to be repaid next year. But these actions would be politically difficult during a cost of living crisis with many staffing groups already participating in or considering strike action.

- **Departmental savings** from the cessation of lower priority areas of expenditure. This would need to be combined with other measures otherwise departments (other than Health) would need to meet a very challenging target of around 10 per cent (5 per cent if including Health) to fully meet the budget gap from reducing services only.

- Uplifting or introducing other **fees and charges**. While Rates and water charges are potentially large revenue-raising levers, there are many other public services where fees could be increased (and in some cases like rail and bus fares, this has happened in-year already), or where charges could be levied where costs are not currently recovered.

- Permanent Secretaries could seek to **reverse or scale back some of the spending increases for which Ministerial Directions** were sought that we highlighted in our previous report. The wording of the Secretary of State's

[15] https://www.finance-ni.gov.uk/news/public-sector-pay-policy-202223
[16] https://www.health-ni.gov.uk/news/department-confirms-health-pay-awards
[17] https://www.finance-ni.gov.uk/news/department-makes-civil-service-pay-offer
[18] An added complexity is that individual Permanent Secretaries, taking decisions in quite different budgetary contexts, may come to inconsistent positions on pay (and other issues). Without an Executive or UKG exercising executive authority, this has the potential to create divergences of approach across departments and pay groups.
[19] Where NI receives additional Barnett consequentials due to an enhanced national wage settlement for certain public sector workers in England, this does not necessarily ease the financial pressures for NI departments. For example, the Agenda for Change (healthcare workers) Pay Review Body has estimated that the cost of each additional 1 per cent uplift in pay in NI is around 6 per cent of that in England, in part due to the greater number of healthcare workers in NI. In contrast NI receives just over 3 per cent of the additional funding provided to the Department of Health and Social Care in England through the Barnett formula. This means that a significant amount of funding would need to be found from other sources in order to match an enhanced pay settlement for England.

guidance, telling Accounting Officers to live within their means, combined with the additional powers being given to them by UK legislation, leaves open the possibility that Permanent Secretaries might now refuse to implement some Directions issued when Ministers were still in place.

4 Concluding reflections

We have set out in this report how the Secretary of State's Budget for 2022-23 achieves balance only by calling on the Treasury Reserve. This is in effect a loan that bridges the shortfall this year between available funding (primarily from the Block Grant, topped up with Regional Rates revenue and capital borrowing) and departmental spending allocations and forecast debt interest costs.

Our report in November highlighted the fact that departments were overspending against available funding and noted that there was little time remaining in the fiscal year to address this. The SoS and NI departmental Permanent Secretaries did take steps which reduced some but not all of the overspend, leading eventually to a claim on the Treasury Reserve of £297 million. The need for the Reserve claim illustrates that a sustainable in-year solution could not be found for the full overspend.

In the previous chapter of this report we described seven actions that could improve NI's public finances in future years. It would appear that the risk of overspend is repeating itself as departments move into 2023-24 without one of those key actions: an agreed Budget setting out their spending limits at the start of the year. The task of finding a solution next year is of course made more difficult by the need to repay the Reserve claim.

Whoever undertakes the task will face the same three key questions we raised in our first Budget assessment.[20] In fact, they are now more relevant than ever:

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

The SoS has already indicated that he is prepared to consider the first of these options, saying the options to balance next year's budget could include "*water charges and/or increasing income from regional rates*". There are other examples of 'super-parity', where policy in NI is more generous than elsewhere, that might also come under consideration[21] for example, welfare mitigations, tuition fees, concessionary fares, prescription charges and domiciliary care funding.

The context for these super-parity measures is significantly different from when they were originally introduced. As described in our sustainability report,[22] the Block Grant per head of population in NI was 40 per cent higher than equivalent UK Government spending as recently as 2018-19. The SoS has noted that NI now receives 21 per cent more funding more funding per head than equivalent UK Government spending in other parts of the UK. In our sustainability report we estimated that the additional need for spending on public services in NI was

[20] https://www.nifiscalcouncil.org/publications/ni-executives-2022-25-draft-budget-assessment
[21] Departmental estimates cited in our Guide suggest that the current cost of these super-parity policies may be around £600 million a year.
[22] https://www.nifiscalcouncil.org/publications/sustainability-report-2022

probably around 20 per cent. When funding exceeded spending in England by more than this amount, the Executive was able to spend the additional funds on policies of its choosing without having to make cuts to other services. Today, the financial constraint on all areas of spending (including super-parity) is that much tighter.

The NI Executive receives a high proportion of its financing from the Block Grant. With disposable incomes lower on average in NI than in England, it does not seem reasonable to expect that the funding gap could be closed entirely through increases in the Regional Rates or fees and charges. Meanwhile, the Executive's borrowing powers are limited and confined largely to financing capital investment. Absent greater funding from the UK Government, this may mean that the Executive has to give greater attention to the third option – reducing or stopping services – in future budgets, especially if funding is needed to maintain the super-parity measures.