



HM Government

# **The agreement between the Northern Ireland Executive and the United Kingdom Government on the Northern Ireland Executive's Interim Fiscal Framework**

May 2024



**Northern Ireland  
Executive**



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# Foreword

This interim Fiscal Framework is an early and significant step in realising commitments towards new funding arrangements for Northern Ireland and to agreeing a new Fiscal Framework for Northern Ireland, as detailed in the 2024 Northern Ireland Executive restoration financial package provided by the United Kingdom (UK) Government.

This interim Fiscal Framework also provides further clarity on the implementation of funding within that financial package. It sets out elements of agreement which can be implemented quickly and notes others, where more detailed discussion will be required before agreement can be reached.

This new interim framework includes:

- 1) A needs-based funding factor which will be included in the Barnett formula. This will be set at 24% and will be in place from 2024-25;
- 2) Consideration of a review of Northern Ireland's relative need if multiple independent and credible sources provide evidence that relative need is different to 124%;
- 3) Agreement to review and discuss the Northern Ireland Executive's funding approach, including concerns about 2026-27 funding, at the relevant Spending Review;
- 4) Increased annual capital borrowing capacity, increasing from £200 million to £220 million per annum in 2024-25 and then rising in line with inflation from 2025-26;
- 5) Delivery of the UK Government additional non-Barnett funding which was detailed in the Northern Ireland Executive restoration financial package;
- 6) Updates on delivery of the Northern Ireland Executive's public finances Sustainability Plan, Strategic Infrastructure Plan and the establishment of the Public Sector Transformation Board; and
- 7) An overview of the key components which will be included in a final Fiscal Framework for Northern Ireland.

Both governments commit to agreeing a final Fiscal Framework, which will build on this interim Fiscal Framework, to ensure that the Northern Ireland Executive has the financial management tools and fiscal levers necessary to deliver sustainable public finances and public services for people in Northern Ireland.

The UK Government has already agreed similar Fiscal Frameworks with the Scottish and Welsh Governments. The Northern Ireland Executive Fiscal Framework will bring the Executive more in line with the other devolved administrations across the UK. The UK Government remains committed to implementing the wider commitments in the financial package. Should the Northern Ireland Executive cease to function in the future, then the new arrangements and additional funding established by this agreement would be under review by the UK Government until the Executive is functioning.

# Northern Ireland Executive block grant funding

1. The Northern Ireland Executive's new block grant funding arrangements are summarised in Box 1 and set out in further detail below.

## Box 1: Summary of the agreed block grant funding arrangements

- The UK Government and Northern Ireland Executive have agreed that a new needs-based factor will be included in the Barnett formula for Northern Ireland to determine changes to the Northern Ireland Executive's block grant funding.
- The needs-based factor of 24%, based on a range suggested by the independent Northern Ireland Fiscal Council, will apply from 2024-25 to new Barnett consequential arisings since the Executive was restored in February 2024
- The UK Government will consider a review of Northern Ireland's relative need if multiple independent and credible sources provide evidence that relative need is different to 124%.
- If the Northern Ireland Executive's funding relative to UK Government spending in England falls below its relative need of 124%, the needs-based factor in the Barnett formula will be set at 24%.
- If the Northern Ireland Executive's funding is above its relative need of 124%, there will be a transitional needs-based factor of 5%, mirroring the approach in the Welsh Government's Fiscal framework. For this purpose, funding from the restoration financial package is excluded from the relative funding calculation.
- At the relevant Spending Review, HM Treasury agrees to review and discuss the Northern Ireland Executive's funding approach, including concerns about 2026-27 funding.

## Current arrangements

2. The Northern Ireland Executive is largely funded through a block grant from the UK Government<sup>1</sup>. Changes to the block grant are currently generally determined by the Barnett formula. Under this formula, the block grant in any given financial year is equal to the block grant in the previous year plus a population share<sup>2</sup> of changes in UK Government spending on areas that are devolved in Northern Ireland.
3. The UK Government also provides block grant funding to the devolved administrations outside the Barnett formula, called non-Barnett additions. There are various non-Barnett elements of the devolved administrations' block grants, notably for farming, fisheries and City and Growth Deals. The Northern Ireland Executive has also had previous funding packages with non-Barnett additions, including funding for "New Decade, New Approach", "New Deal for Northern Ireland" and, most recently, the 2024 Northern Ireland Executive Restoration financial package.
4. Under these funding arrangements, the Northern Ireland Executive block grant is around £15 billion per year over the 2021 Spending Review period. Based on funding for the UK Government to deliver comparable public services, the Northern Ireland Executive's Barnett-based block grant funding in this Spending Review period is, on average, 21% more per person than equivalent UK Government spending in other parts of the UK. This excludes the additional funding packages for the Northern Ireland Executive and any borrowing the Northern Ireland Executive has undertaken. Under the Barnett formula, funding per person converges towards English levels when UK Government spending grows (in cash terms), all else being equal.
5. Changes to the Northern Ireland Executive's block grant through the Barnett formula are currently abated (i.e. reduced) by 2.5% in relation to VAT. This level was set in the second version of the Statement of Funding Policy in 2000. The adjustment reflects the fact that the Northern Ireland Executive, unlike UK Government departments and the Scottish and Welsh Governments, has many of the responsibilities of local authorities in the rest of the UK so has its VAT refunded by HM Revenue and Customs. The Northern Ireland Executive, like all other devolved administrations, is subject to HM Treasury's Statement of Funding Policy and Consolidated Budgeting Guidance.

## New Needs-based funding

6. The UK Government and Northern Ireland Executive have agreed to implement a needs-based funding mechanism from 2024-25.
7. As set out in the 2024 Northern Ireland Executive restoration financial package, this needs-based factor will be set at 24%, based on the assessment of relative need published by the independent Northern Ireland Fiscal Council.

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<sup>1</sup> The Northern Ireland Executive receives separate ringfenced funding for Annually Managed Expenditure (largely for pensions and benefits) and also has its own sources of revenue (for example from the domestic and non-domestic Regional Rate).

<sup>2</sup> Using the annual published mid-year ONS population figures.

8. From 2024-25, if the Northern Ireland Executive un-ringfenced TDEL<sup>3</sup> block grant funding per head falls below 124% relative to equivalent UK Government funding in England per head, a 24% needs-based factor will apply in the Barnett formula.
9. When Northern Ireland Executive relative funding is above 124%, a 5% transitional needs-based factor will apply. This mirrors the approach taken in the needs-based funding factor model agreed with the Welsh Government. For this purpose, funding from the restoration financial package is excluded from the relative funding calculation.
10. The UK Government will consider a review of Northern Ireland's relative need if multiple independent and credible sources provide evidence that relative need is different to 124% (which uses the Northern Ireland Fiscal Council broad brush estimate).
11. The UK Government and Northern Ireland Executive will agree a detailed methodology for assessing relative funding. At each future Spending Review and annual autumn fiscal event a transparent assessment will be conducted to identify Northern Ireland's relative funding per head.
12. The diagram below sets out the existing Barnett formula and how this will be applied in Northern Ireland under this agreement:

Previous Barnett formula arrangements								
<b>Change in UK Government department expenditure limit</b>	x	Comparability factor	x	Population share	x	VAT abatement factor	=	Change in Northern Ireland Executive block grant

New Needs-Based Factor in the Barnett formula										
<b>Change in UK Government department expenditure limit</b>	x	Comparability factor	x	Population share	x	VAT abatement factor	x	New needs-based factor	=	Change in Northern Ireland Executive block grant

13. HM Treasury recognises the relative need of Northern Ireland. As a result of the additional funding provided through the 2024 Northern Ireland Executive restoration

<sup>3</sup> Total Departmental Expenditure Limit (TDEL) is calculated as the sum of Resource Departmental Expenditure Limit (RDEL) and Capital Departmental Expenditure Limit (CDEL), less the ring-fenced element of RDEL that is for depreciation



financial package, the Northern Ireland Executive is forecast to be funded above 124% relative need in 2024-25, which is the final year of this Spending Review.

14. At the relevant Spending Review, HM Treasury agrees to review and discuss the Northern Ireland Executive's funding approach, including concerns about 2026-27 funding.
15. The Northern Ireland Executive's budget for future years, as is the case for all other devolved administrations and UK Government departmental budgets, will be set by HM Treasury at the next Spending Review. Until budgets are confirmed at the Spending Review, the Northern Ireland Executive will continue to plan on the assumption that they will be funded at or above the 124% level of relative need in future financial years.

## Additional non-Barnett funding

16. Since the 2024 Northern Ireland Executive Restoration financial package was published in February, the UK Government has provided funding to the Northern Ireland Executive as follows:
- £846 million RDEL<sup>4</sup> at Supplementary Estimates 2023-24. This funding can be used to support public services and address pressures including pay.
  - £520 million RDEL at Main Estimates 2024-25 for stabilisation of public services.
  - £34 million RDEL at Main Estimates 2024-25 to tackle health waiting lists.
  - £94.6 million RDEL at Main Estimates 2024-25 un-ringfenced funding.
17. The Northern Ireland Executive has announced public sector pay awards for 2023-24 and set the Regional Rate for 2024-25 with a 4% increase compared to 2023-24.

## Stabilisation of Northern Ireland Executive Public Finances

18. £559 million of debts were incurred over 2022-23 and 2023-24 when there was a governance gap in Northern Ireland and comparable funding for the Northern Ireland Executive (excluding Northern Ireland Executive financial support packages) fell below its independently assessed relative level of need. This resulted in less funding than was required to meet needs and a lack of the political decisions necessary to balance the Northern Ireland budget. The default is that these loans, which the UK Government provided to prevent a breach of control totals, are repayable. Debt repayment terms for the Devolved Administrations are set out in section 8.7 of the Statement of Funding Policy.
19. The 2023 Northern Ireland Executive Restoration financial package includes a commitment to write off these same £559 million debts if the Executive publishes and implements a plan to deliver sustainable public finances and public services by August 2024, with the scope agreed between the Department of Finance and HM Treasury by May 2024.
20. This Sustainability Plan will demonstrate how the Northern Ireland Executive intends to deliver a balanced budget in 2024-25 and future years, including looking at options to deliver efficiencies and generate revenue. The Plan will cover how the Executive intends to meet the condition in the financial package to raise at least £113 million in additional revenue from 2025-26. The scope of the Sustainability Plan has been agreed between HM Treasury and Department of Finance. The scope is set out in Annex C.

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<sup>4</sup> Resource Departmental Expenditure Limit (RDEL) is the budget allocated to and spent by government departments and devolved administrations on resource spending which includes money that is spent on day to day resources and administration costs.

21. To support the stabilisation of public services, the UK Government has agreed to provide £1.04 billion of additional un-ringfenced RDEL funding over the next two years, with £520 million in each of 2024-25 and 2025-26.

## Transformation of Northern Ireland Executive Public Services

22. The UK Government and Northern Ireland Executive recognise the unique challenges faced by Northern Ireland's public services. To tackle these challenges, the UK Government will increase the Executive's spending flexibility by £708 million. This will be achieved by relaxing the original ringfence on £623 million existing and new UK Government funding streams and the provision of £85 million additional funding. Full details of the funding streams can be found at the following [link](#).

23. The £708 million includes £473 million of un-ringfenced RDEL. This funding will be provided over five years with £94.6 million provided in each year from 2024-25 to 2028-29.

24. The remaining £235 million will be ringfenced for the purpose of public service transformation. Release of this funding will be in annual tranches of £47 million from 2024-25 to 2028-29 and will be subject to approval by a new Public Service Transformation Board, comprising officials from the Northern Ireland Civil Service and UK Government supported by independent experts. This Board may also provide strategic advice on long term Public Service Transformation at the request of Northern Ireland ministers.

## Reporting on ring-fenced funding

25. Annex A sets out the funding profiles for each funding stream agreed as part of the financial package to restore the Executive.

# Capital Borrowing

26. The Northern Ireland Executive's updated capital borrowing arrangements are summarised in Box 2 and set out in further detail below.

## Box 2: Summary of the agreed capital borrowing arrangements

- The Northern Ireland can currently borrow up to £200 million capital per year within a £3 billion overall cap on outstanding debt. These limits are fixed in cash terms.
- The Northern Ireland Executive's annual limit will now increase by 10% in 2024-25 to £220 million.
- This limit will then increase annually in line with inflation from 2025-26 onwards using the GDP deflator and 2024-25 prices.

27. The Northern Ireland Executive can currently borrow up to £200 million per year for capital purposes within an overall cap of £3 billion on outstanding debt. Within these parameters, the Northern Ireland Executive can borrow for any purpose within its devolved responsibilities. Borrowing is from the National Loans Fund via the Secretary of State for Northern Ireland. Borrowing is typically over 15 to 25 years with the interest rate fixed over the term and set at the National Loans Fund rate on the day of issue.

28. The UK Government and Northern Ireland Executive have agreed that the annual limit will be increased in 2024-25 by 10%, from £200 million to £220 million.

29. From 2025-26, the annual capital borrowing limit will increase each year using the Office for Budget Responsibility's GDP deflator published in the most recent official forecast before the Northern Ireland budget is introduced to the Assembly. This provides the Northern Ireland Executive with additional capital to invest in Northern Ireland in the coming years while remaining within the overall £3 billion overall cap. The Northern Ireland Executive will keep to existing borrowing reporting arrangements.

## Strategic Infrastructure Plan

30. The Northern Ireland Executive will publish a comprehensive and costed Strategic Infrastructure Plan, which will set out the priority areas for action on infrastructure and how this will support prosperity and growth.

31. This Plan will outline how the Northern Ireland Executive intends to fund significant infrastructure projects over the next five years. Publication will be required by Autumn 2024. Further detail on the Plan is set out in Annex D.

# A final Fiscal Framework for Northern Ireland

32. This interim Fiscal Framework provides additional certainty to the Northern Ireland Executive in 2024-25 and ahead of agreement on a final Fiscal Framework.
33. This interim Fiscal Framework seeks to address pressing issues relating to Northern Ireland's funding, including delivering the 24% needs-based factor from 2024-25. This will help ensure the Northern Ireland Executive has the resources necessary to deliver comparable public services to elsewhere in the UK.
34. The key components that will be considered for a final Fiscal Framework are detailed below:
- Principles of fiscal devolution
  - Block Grant Adjustments
  - Budgetary management tools
  - Implementation arrangements
  - Forecasting responsibilities

This list is not exhaustive and the scope and scale of the final Fiscal Framework will be subject to discussions between the UK Government and the Northern Ireland Executive.

# Annex A – 2024 Restoration Financial Package UK Government Funding

The 2024 Northern Ireland Executive restoration financial package provided by the UK Government provides the following additional non-Barnett funding to the Northern Ireland Executive.

<b>£m RDEL excluding depreciation</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>
Stabilisation for public services	0	520.0	520.0	0	0	0
Health waiting lists support	0	34.0	0	0	0	0
2023-24 pressures	846.0	0	0	0	0	0
Un-ringfenced funding	0	94.6	94.6	94.6	94.6	94.6
Ringfenced public sector transformation funding	0	47.0	47.0	47.0	47.0	47.0
<b>Total<sup>5</sup></b>	<b>846.0</b>	<b>695.6</b>	<b>661.6</b>	<b>141.6</b>	<b>141.6</b>	<b>141.6</b>

<sup>5</sup> Additional funding will be provided through the operation of the Barnett formula, including the new 24% needs-based factor, and Northern Ireland Executive spending power will also increase due to the uplift in annual capital borrowing limits.

# Annex B – Joint Exchequer Committee (Northern Ireland)

This annex sets out the Terms of Reference for the Joint Exchequer Committee (JEC) between the Northern Ireland Executive and the UK Government.

## Purpose

The JEC is the intergovernmental ministerial forum to discuss matters relating to the Fiscal Framework, for the Northern Ireland Executive (NIE). This includes the NIE's interim Fiscal Framework.

The JEC will discuss implementation of the relevant aspects of the interim Fiscal Framework and matters relating to the agreement of the full Fiscal Framework. The JEC may also discuss any other issues arising which Ministers from either the Northern Ireland Executive or UK Government refer to the JEC.

The JEC will oversee and provide assurance to individual projects tasked with implementing individual elements.

## Remit

The JEC will consider evidence and options and where appropriate make decisions in the following areas:

- a. Issues where the Northern Ireland Executive and UK Government need to reach agreement in order to implement specific elements of the Interim Fiscal Framework.
- b. The timetable for implementation of the Interim Fiscal Framework.
- c. Scope, timetable and implementation of the full Fiscal Framework.
- d. Other bilateral financial and fiscal issues related to the Fiscal Framework that require discussion between the Northern Ireland Executive and UK Government.

## Membership and Meetings

The JEC will be made up of Ministers from the Northern Ireland Executive and UK Government. Ordinarily, these would be the Minister of Finance in the Northern Ireland Executive and relevant Ministers from HM Treasury (currently the Chief Secretary). Officials may attend the JEC with consent of their respective Minister.



The JEC will be supported by an Officials Group made up of an equal number of officials from the Northern Ireland Executive and UK Government (JEC(O)).

The JEC may decide to establish other groups to support it, as it sees necessary. The Chair of the meeting should alternate between Ministers from the Northern Ireland Executive and UK Government, starting with the Northern Ireland Executive Minister.

The agenda for each meeting is to be agreed by JEC(O) prior to the meeting. Ordinarily, the agenda will be agreed and circulated with any papers no more than three working days prior to the meeting. By exception, and with agreement of both parties, the agenda may be agreed via email correspondence where necessary.

Minutes will be written of each meeting, ordinarily by officials accompanying the Minister chairing the meeting.

The meeting will ordinarily take place at a location selected by the Chair. The JEC is able to decide to meet virtually (for example by video-conference or online) where appropriate.

All efforts will be made to reduce the cost and environmental impact of JEC meetings to both the Northern Ireland Executive and the UK Government.

## Decision-making

Decisions are to be reached jointly by Ministers of both the Northern Ireland Executive and UK Government. A decision of the JEC is one which has been agreed by both Ministers. Decisions on issues described in these Terms of Reference as falling within the scope of the JEC should not be taken by any other mechanism than the JEC, nor taken forward without the agreement of both the Northern Ireland Executive and UK Government.

In the event that the Northern Ireland Executive is not functioning, the JEC structures will not be used to reach decisions in scope of these Terms of Reference.

## Transparency

After each JEC meeting, a Communiqué will be agreed by both Ministers. This will be published online on both the Northern Ireland Executive and UK Government's websites and made available to both the Northern Ireland Assembly and UK Parliament. The discussions at each meeting, the agenda, the minutes and any papers are to be confidential to the Northern Ireland Executive and UK Government, unless the JEC specifically decides otherwise. Both the Northern Ireland Executive and UK Government will respect this confidentiality.

## Review

These Terms of Reference can be amended, re-written or supplemented as agreed by JEC members.

# Annex C - Northern Ireland Executive Sustainability Plan

The UK Government and Northern Ireland Executive agreed that, ahead of publication of a Sustainability Plan in August 2024, the scope and structure of the Plan should be agreed by May 2024.

The overall objective of the Plan should be to support the Executive, ensuring it uses its available resources and flexibilities sustainably to help deliver public services in Northern Ireland.

The UK Government and Northern Ireland Executive have agreed that the following issues will be covered in the Sustainability Plan:

- The process to deliver a balanced budget in 2024-25 by the Northern Ireland Executive.
- The process to deliver a balanced budget following completion of the next Spending Review.
- An assessment of the existing in-year monitoring process, with consideration given to the Northern Ireland Fiscal Council's 'Improving Transparency of In-Year Monitoring' publication.
- An assessment on the sustainability of funding of Executive policies, including looking at options for delivery of efficiencies, revenue generation, self-financed expenditure, enhanced borrowing powers etc.
- An assessment of how the Executive will meet the condition in the financial package to raise at least £113 million in additional revenue from 2025-26.
- How budget management tools could be used to ensure the delivery of balanced budget.

Agreement of this list fulfils the condition for the £559 million debt write-off that the scope and structure of the Sustainability Plan will be agreed by May 2024.

# Annex D - Northern Ireland Executive Strategic Infrastructure Plan

The Northern Ireland Executive are required to publish a comprehensive and costed long-term Strategic Infrastructure Plan that sets out the priority areas for action on infrastructure and how this will support prosperity and growth. The Executive will publish the Plan by Autumn 2024.

The Strategic Infrastructure Plan, setting out the Executive's long-term Investment Strategy, will provide an assessment of the key infrastructure projects, with further detail on:

- The approach to the prioritisation of projects;
- How the Northern Ireland Executive will manage the challenging profile of spend;
- How the Executive can make use of additional capital borrowing powers and asset receipts, as well as leveraging in additional investment, including from the private sector, to support its capital programme; and
- An assessment of the barriers that the Northern Ireland Executive has previously experienced in delivering major infrastructure projects.



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