Northern Ireland Fiscal Council
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The NIO's 2023-24 Budget for Northern Ireland: initial summary

May 2023

Introduction

On 27 April 2023 the Secretary of State for NI (SoSNI) released his Budget for the NI Departments in 2023-24 in a Written Ministerial Statement (WMS).[1]

In this note we briefly summarize the key implications of the Statement.

The NIO's Final Budget for 2022-23

- The SoSNI inherited responsibility for the NI Budget when Caretaker Ministers left office on 28 October 2022. He inherited a position in which Departments were on course to overspend relative to their available funding for resource spending (i.e. the day-to day costs of public services and administration, plus debt interest) and conventional capital spending (e.g. infrastructure and buildings). In contrast, Departments were – as usual – on course to underspend against their available funding for Financial Transactions Capital (which can only be spent on loans to and capital injections into private sector entities).

Table 1 – Financing of the NIO final Budget for 2022-23

	Resource		Conventional capital		Financial Transactions Capital	
	£ million	%	£ million	%	£ million	%
Block Grant, of which	13,488	93.7	1,810	90.0	304	100
Barnett[1]	*12,992*	*90.3*	*1,712*	*85.2*	*304*	*100*
Non-Barnett additions	*496*	*3.4*	*98*	*4.9*		
Regional Rates	606	4.2				
Treasury Reserve	297	2.1				
RRI borrowing			200	10.0		
Total	**14,390**	**100**	**2,010**	**100**	**304**	**100**

Note[1]: Barnett/non-Barnett split is an NIFC estimate based on Department of Finance source data

Source: Department of Finance

- Table 1 shows that by the end of the financial year, the SoSNI was proposing to balance the budget for resource spending by making a £297 million claim on the Treasury Reserve (which would normally need to be repaid in the following year) and for capital spending by borrowing the full £200 million permitted by agreement with the Treasury in any one year rather than the £140 million that

[1] https://questions-statements.parliament.uk/written-statements/detail/2023-04-27/hcws748 When we refer to the NI Budget, we refer only to spending within the NI Departmental Expenditure Limits (DEL) set by the Treasury and not to Annually Managed Expenditure (AME), such as social security benefit and pension payments.

the NI Department of Finance had originally proposed in its Draft Budget published for consultation in December 2021.

- The need to repay the Reserve claim implied an overall fall in funding for resource spending of 3.1 per cent in cash terms and 5.5 per cent in real terms this year, with a rebound in 2024-25. This profile would not have been conducive to efficient or effective workforce and service planning.

Treasury flexibility

- The SoSNI said in his WMS that the Treasury had agreed to be more flexible regarding the repayment of the Reserve claim to “provide some protection to front line public services in NI from having to take the most severe reductions”.

- The Treasury has pushed the deadline for repaying the claim back a year to 2024-25. The SoSNI said in his WMS that: “To support this, I am committing any future in-year Barnett consequentials for 2023-24 to repaying the Reserve claim. Should this not amount to £297 million, I will work with HM Treasury to reallocate funding from previously announced NI funding packages, with the residual to be repaid in 2024-25.”

- Barnett consequentials are increases in the NI Block Grant that arise when the UK Government increases spending in England (or elsewhere in GB) on items that NI Departments are responsible for delivering in NI. Under the Barnett formula funding per head rises by the same cash amount in NI as equivalent UK Government spending. This commitment means that if any Barnett consequentials arise this year up to £297 million – for example because the UK Government wants to finance higher pay awards in England – NI departments will see the benefit in 2024-25 rather than 2023-24, because they will reduce the claim repayment next year rather than boost the Block Grant this year.

- The concrete impact of reallocating previously announced UK Government funding packages to the repayment of the Reserve claim is hard to judge, as one cannot be sure if and when that money would have been spent anyway. The two main potential pots to draw upon would appear to be the 2020 ‘New Deal’ funding to help businesses following Brexit under the NI Protocol and the 2014 Stormont House Agreement funding for institutions to address the legacy of the Troubles. The former totaled £400 million, although it is not clear how much has already been spent. The latter totaled up to £150 million over five years.

- Taken literally, the WMS seems to suggest that the SoSNI would wait to see what Barnett consequentials arise through 2023-24 before ‘working with the

Treasury' to see how far these previously-agreed funding commitments should be reduced when setting the 2024-25 Block Grant.

- The Treasury flexibility deal has several implications:

    - The decision to offer flexibility in repaying the Reserve claim highlights the fact that the NI administration's ability to smooth its own spending when hit by a shock (or a punishment for overspending) is very limited. The Treasury does not allow it to run a contingency reserve (as the Scottish and Welsh Governments can) or to borrow to finance resource spending other than to smooth its cash flow within any given year.

    - The deal avoids a very sharp real terms cut in Departmental spending this year. Under the deal total funding for resource spending falls by 0.7 per cent in cash terms and 3.2 per cent in real terms in 2023-24 rather than 3.1 per cent and 5.5 per cent respectively without it.

    - But tough decisions are still going to be needed on spending and revenue raising by Departments to remain within their allocations. The NI Civil Service believes that they may need to find £800 million this year given the pressures on their budgets. Revenue raising would likely be focused on fees and charges as the SoSNI has already set the Regional Rate for 2023-24. This is the only major locally determined tax.[2]

    - Despite these challenges, individual Departments would appear to have a much firmer budget envelope from which to plan this year than last and the likelihood of overspending is reduced. The flexibility deal by the UK Government means that fresh Barnett consequentials are unlikely to increase the overall funding envelope by much, as the initial proceeds will be devoted to repaying the Reserve claim. And relatively little funding is being held centrally for later allocation, which reduces the risk that departments have an unrealistic view of their eventual slice of that cake.

    - Even though Departments have a firmer financial basis to plan from, in the absence of an Assembly and Executive it is unclear whether Permanent Secretaries or the SoSNI will feel they have sufficient legislative and/or political authority to take significant cash-saving decisions.

    - Once the extent of any Barnett consequentials for this year are known, the SoSNI (or a restored Executive) will have to make a trade-off between

[2] Fees and charges totaled around £700m in 2020-21, this includes some receipts from within the public sector, where one part of government is paying another for specific goods and services. We have not yet been able to identify these payments systematically, and exclude them, so to the extent that they are included for the time being their net effect will be lower than this figure.

forgoing past political package funding (which is earmarked for particular purposes) and using some of next year's Block Grant to repay the Reserve claim. If the Reserve claim was fully repaid from Barnett consequentials and package reallocation this year, the overall funding for 2024-25 would rise by 1 per cent in cash terms and fall by 0.6 per cent in real terms. If none of it was repaid this year, and the Reserve claim was instead deducted from the Block Grant in 2024-25, overall funding would fall by 1.1 per cent in cash terms and 2.6 per cent in real terms next year.

- In the event that Departments confront a further significant cut in real funding and prospective spending in 2024-25, the Treasury may come under pressure to extend its flexibility again.

Departmental allocations for resource spending

- Under the allocations set out in the SoSNI's WMS, resource spending by NI departments will fall by 0.9 per cent in cash terms and 3.3 per cent in real terms this year against the final 2022-23 Budget position (see Table 2). This differs from the 0.7 per cent and 3.2 per cent falls in total funding because of debt interest and centrally held items.

- This implies a tighter squeeze on spending than that confronted by Whitehall departments, where the equivalent resource Departmental Expenditure Limits (DEL) are set to rise by 1.8 per cent in cash terms and fall by 0.7 per cent in real terms. This reflects the ongoing 'Barnett squeeze' on core Block Grant funding and a fall in non-Barnett additions to the Grant.

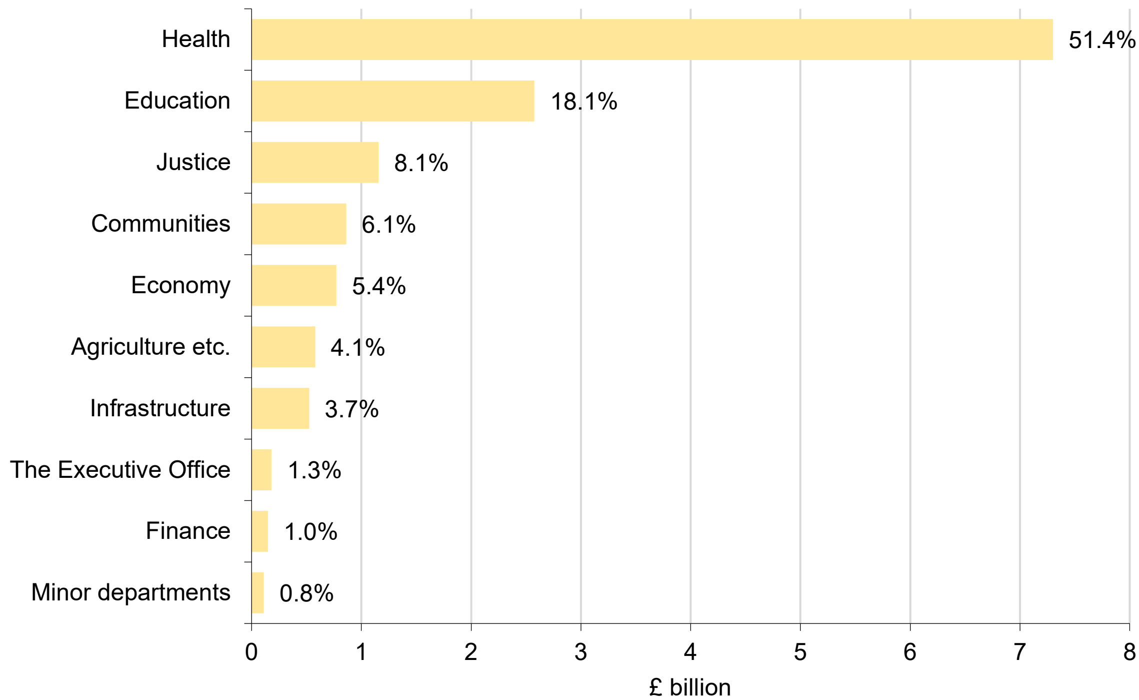
Table 2 - Change in Resource DEL from 2022-23 to 2023-24

	NI Departments %	UK Departments %
Cash terms change	-0.9	1.8
Real terms change	-3.3	-0.7

Source: NIFC calculations

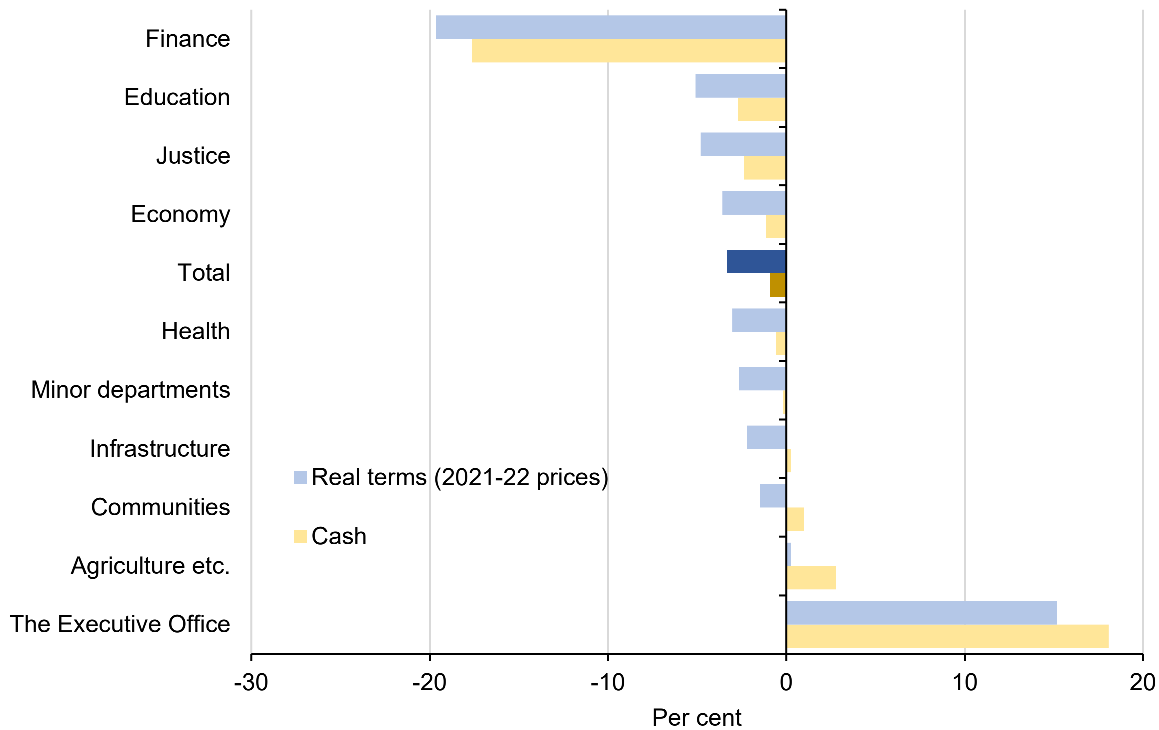
- Chart 1 shows that the Department of Health remains the largest prospective NI spender this year, accounting for over half the resource budget. Chart 2 shows that compared to their allocations in 2022-23, Finance, Education, Justice and Economy lose more than average, although the reduction for Finance a large annual payment that is expected but not known with enough certainty for inclusion this early in the fiscal year. The relatively large cut for Education may in part reflect the fact that it was the largest percentage over-spender against plans last year, but the 2.7 per cent reduction means that it compares unfavourably to the 6.5 per cent planned rise in the English schools budget. The big increase for TEO reflects proposed funding for victims of the Troubles.

Chart 1 - 2023-24 Budget: planned resource spending by department



Source: NIO

Chart 2 – 2023-24 Departmental resource allocations compared to final plan 2022-23

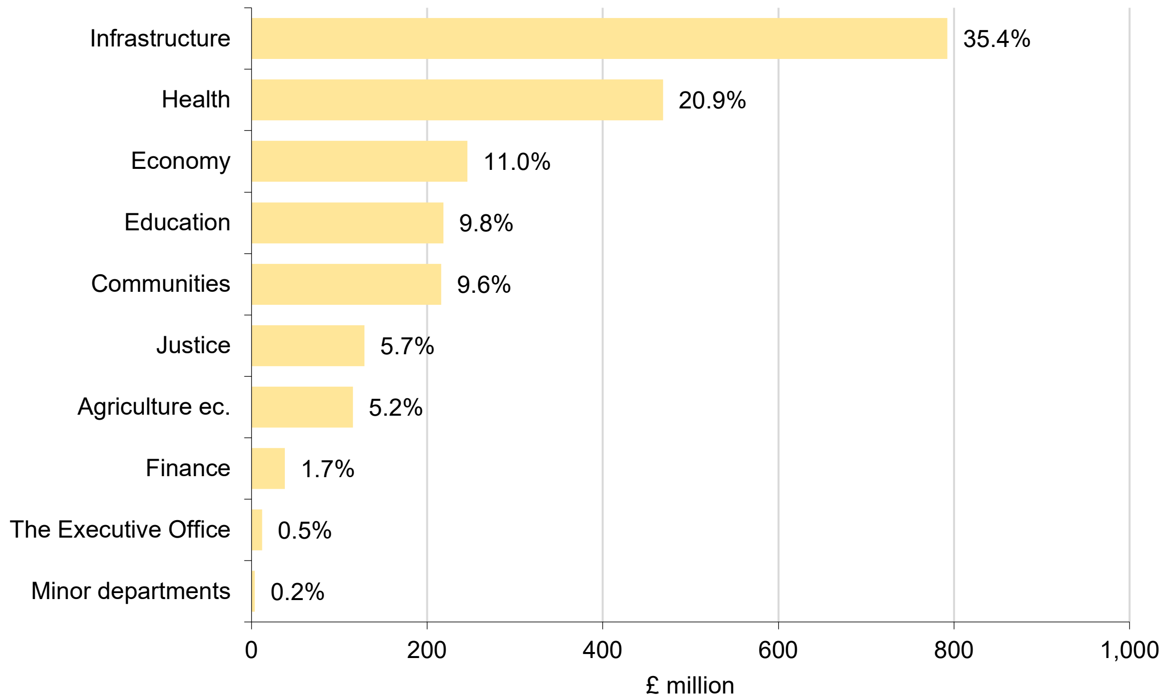


Source: NIO

Departmental allocations for capital spending

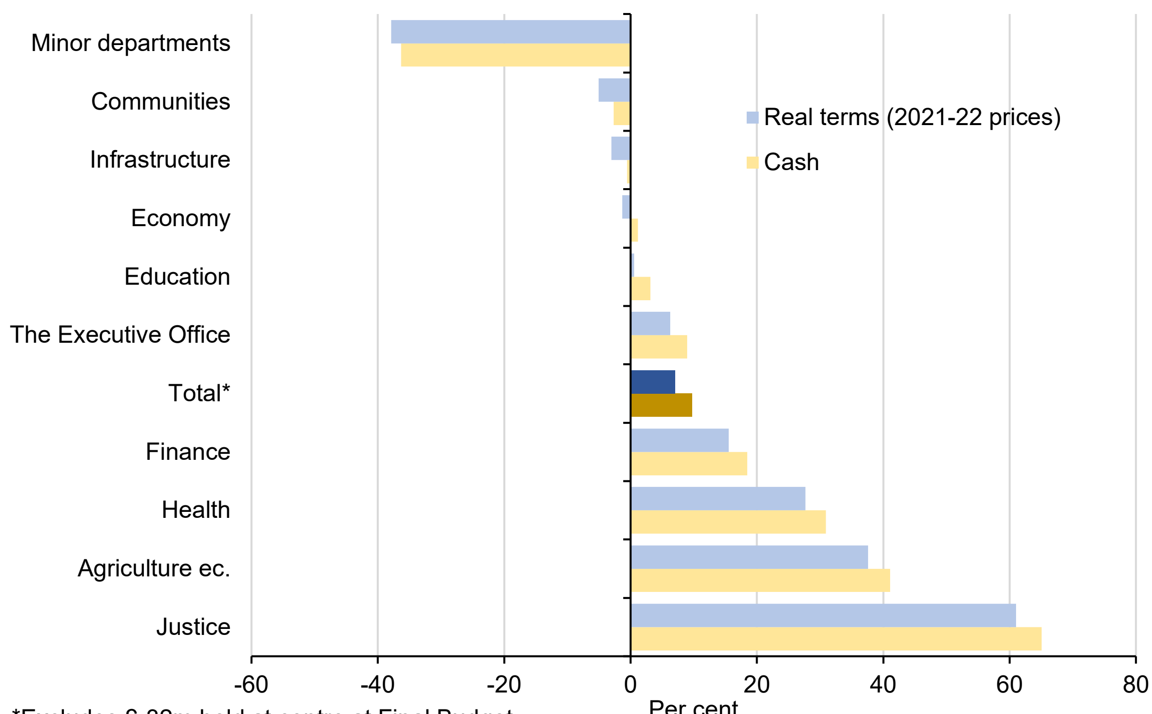
- Allocations for conventional capital spending are 7 per cent up on 2022-23, compared to the small reduction for resource spending. Chart 3 shows that Infrastructure is the biggest capital spender, accounting for more than half the total. Compared to their allocations last year (Chart 4), Justice Agriculture, Health and Finance fare above average. Communities is the biggest loser among the Executive Departments although the Minor departments fare worse.

Chart 3 - 2023-24 Budget: planned capital spending by department



Source: NIO

Chart 4 – 2023-24 Departmental capital allocations compared to final plan 2022-23



*Excludes £-32m held at centre at Final Budget

Source: NIO

- As regards Financial Transactions Capital, Communities is allocated £26 million (down from £33 million last year) and Economy £3 million (up slightly from £2 million). Most of the funding available for FTC spending is left unspent, as loans to and capital injections into private entities are not generally convenient ways to finance capital spending. That said, it has been used to finance capital spending by universities, notably Ulster University's Belfast campus.