

Written Ministerial Statement

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Department of Finance

2022-23 BUDGETARY POSITION

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Mr C Murphy (The Minister of Finance): I have written to my Ministerial colleagues today to provide an update on the increasingly challenging budgetary position we are facing for the remainder of 2022-23 and to emphasise the urgent need for a Budget to be agreed by an Executive.

The latest forecast of expenditure provided by departments is showing a significant overspend against our Treasury control for Resource DEL. While a large proportion of the increased costs are due to energy costs and pay pressures resulting from the cost of living crisis, the position has been exacerbated by the lack of an Executive agreed Budget to help planning, constrain departmental spending, and inform decision making and prioritisation.

It had been hoped that the Chancellor's fiscal statement would provide sufficient support to cover public sector energy costs increases as well as some additional funding through Barnett consequential, which could be used to provide additional support or offset other pressures. Unfortunately that has not been the case.

Whilst there remains uncertainty around the level of support that will be provided for public sector energy costs, and it will be for individual departments to assess the impact on their costs, it is apparent that this will fall far short of the amount needed to offset the pressures identified.

With no additional money to fund public services, including public sector pay, the energy scheme likely to only partially cover the rise in public sector energy costs, combined with the projected level of overspend and inflationary pressures meaning our budget is now worth considerably less than it was last October, we are in a much more challenging position than could have been reasonably expected.

Chancellor's Announcement

I continue to have serious reservations about the inadequacy of the measures announced by the Chancellor in providing the level of support to citizens and businesses here. I raised these concerns with the Chief Secretary to the Treasury on a call after the announcement on 23rd September. The fiscal event did not provide the necessary level of support to ordinary workers and businesses and it provided no direct funding for our public services here. The reaction of the financial markets to the announcements suggest that those already under-pressure businesses and households will likely face even higher borrowing and mortgage costs as a consequence of the decisions that have been taken.

While I continue to make the case that more support is needed we now have a clear view as to the budget envelope we must live within.

2022-23 Budget

The absence of an agreed Budget continues to pose very significant challenges for all departments as spending decisions are being taken without an agreed funding envelope at departmental level. To help provide some certainty, DoF provided each department with a Resource and Capital DEL contingency planning envelope for 2022-23 at the start of the year, with further revisions being made as the year has progressed, however this was only ever intended to be a short term measure.

As these contingency planning envelopes did not reflect the total level of funding available my department was clear that departments were not constrained to these totals and advised that they

should not make decisions to cease services where there was a reasonable expectation that they will receive further funding later in the financial year once a Budget is put in place.

The approach taken by individual departments has been a matter for individual departmental Ministers and their Accounting Officers. In the absence of an Executive this has been the only possible approach to avoid services being unnecessarily affected when there remained significant funding which could not be allocated. However, the latest forecasts provided by departments have shown that spending now reflects budget levels which most departments could not have a reasonable expectation of receiving.

Unfortunately the continued absence of an Executive means we are now at the stage where the DoF Permanent Secretary has stepped in to authorise the use of cash and resources, using the powers available to him. While this will ensure that funding can continue to flow to public services it is no substitute for a Budget which can only be agreed by an Executive.

Latest Assessments of Spend

All departments provide DoF with monthly returns in which they forecast their expenditure for the financial year. The data received in September shows departments collectively projecting an overspend of £961 million, against their updated Draft Budget position. With unallocated resources of £300 million, (an increase from £272 million due to updated central items forecasts and an emerging underspend in relation to victims' pensions), this results in a net overspend of **£661 million in Resource DEL**.

As set out, this takes account of the funding which has been provided to the Executive since the Draft Budget meaning there is no further funding available to address the projected overspend. Therefore, current forecasts indicate that a breach of the Block is now a very real risk if action is not taken.

Action Required

The overall financial position facing us is hugely concerning. Steps must be taken now to ensure an incoming Executive is not faced with a scenario where it cannot manage its budget within Treasury control totals. Under the Statement of Funding Policy any overspend would be taken from next year's Budget, exacerbating an already difficult financial position.

Although there is no budget for departments to work to, as Finance Minister I still have a duty to advise Ministerial colleagues of my concerns about the overall financial position and I have asked them to take appropriate steps to ensure that our spending remains within the overall budget provided to us.

Given the gravity of the situation, we are facing into a very difficult autumn and winter in terms of provision of public services, the ability to support people in their homes, the ability to support businesses, the ability to provide sufficient and fair public sector pay awards for people who have been delivering services. This enormously difficult situation is exacerbated by not having an Executive and a Budget in place.

I have re-iterated my call to Ministerial colleagues to re-form an Executive so that collectively we can work together to deliver for those we have been elected to serve.

Although the lack of an Executive has made it extremely difficult to control spending, Ministers still have a collective responsibility to ensure that we live within the Block.

Pay

Normally, public sector pay policy needs to be put in place before pay awards can be progressed. A draft pay policy was included in the draft Budget to ensure that: (i) public sector pay could be fully considered as an integral part of the budget process to determine what might be affordable, and (ii) the policy could be put in place ahead of the financial year starting so that pay awards for staff could be put in place in a timely fashion. Doing so as part of a multi-year budget would have enabled a longer term strategic approach to be taken to pay. None of this unfortunately is possible given the absence of an Executive.

Nonetheless given the current cost of living crisis I consider it vital that a pay award be provided for public sector staff. Unfortunately, the latest spending forecast provided by departments would indicate that such a pay award is unaffordable. In this context it is not possible to set either pay policy which provides for increases or agree a pay award for NICS staff. Therefore, in order to provide a pay award to staff it would be necessary to reduce spending in other areas.

I would like to do more but given the financial limitations imposed on us, if an Executive was in place I would be recommending a pay deal for NICS staff that offers:

- progression plus £1932 for AA/Ind1 (to ensure that living wage commitments are met),
- progression plus £1400 for AO-Grade 6, and
- progression plus £1000 for the Senior Civil Service.

This would cost approximately £50 million and I would be recommending that the departments manage increases up to 2.5% with circa £30 million of central support to cover costs above this.

Funding Available

As well as the £300 million Resource DEL that has become available since the Draft Budget, the Executive Office has identified a further easement of £32.6 million above the £10 million already identified as part of the latest Forecast Outturn. This is due to a lower than anticipated requirement for Victims' Pensions funding this year.

This brings the total funding available for allocation since the Draft Budget to some £333 million.

Energy Costs

The recent spending forecast from departments included some £250 million of energy cost pressures. While the Chancellor announced that the public sector would be included in energy bills support, the lack of detail in this announcement has made it difficult to calculate the impact this will have here. Individual departments will have to assess the impact on their own spending, but at this stage I anticipate this support will fall far short of the £250 million energy costs identified to date. Therefore, some departments, with high exposure to energy price increases, will require additional support once an Executive is in place.

The Cost Crisis for Households and Businesses

It is clear that the funding available is simply not sufficient to allow us to support people and businesses through this cost crisis to the extent we would like to.

Whilst the approach taken by the British Government does not go far enough it does provide a level of support across the board including cancellation of the National Insurance Contribution increase, support for increased energy costs and tax reductions.

Therefore I feel it is important that our support is targeted at those who need it most. In that context should an Executive be restored I would recommend an additional allocation to DfC to enable it to meet the unprecedented demand for Discretionary Support Grants, which help the most vulnerable people when faced with a financial crisis.

I am also very conscious that many businesses are struggling to survive as a result of rising costs and tightening consumer spending. I have commissioned the UU Economic Policy Centre to identify the sectors which should be prioritised for additional support, should an Executive be restored.

Other Departmental Pressures

DoH and DE are forecasting the highest level of overspend in monetary terms. There is no doubt that both these departments are facing significant budget pressures including pay costs. Therefore I would like to see additional allocations going to these Departments, should an Executive be restored.

It was recognised, at the time of the draft Budget that the DoJ settlement provided it with a lower level of increase against baseline than other departments. In light of this and the ongoing pressure of the legal aid budget I would support an additional allocation to DoJ. I would also recommend an allocation to PPS in recognition of the pressures it is facing.

Departmental Action

As set out above it is imperative that departments take action now to ensure our spending remains within the budget provided to us by London. In addition, we should endeavour to make the best pay award to staff that is affordable in the circumstances. Within my own department I have instructed my Permanent Secretary to identify savings.

I will, of course, continue to press Treasury for additional support both for business and households as well as the public sector. However, the recent announcements of Whitehall departments being asked to find efficiencies would indicate that there is very little likelihood of any additional support for the public sector.

I hope that an Executive can soon be restored in order to agree a budget, and deliver a pay award for workers. Until that happens Ministers still have a collective responsibility to ensure the integrity of the Block and I will continue to instruct my officials to work with their departmental colleagues in managing the position.