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**Public Finance Scrutiny Unit**

# UK Spending Review & Autumn Budget 2021: key points to inform Draft NI Executive Budget 2022-25

This briefing paper outlines relevant information and data recently provided by the United Kingdom (“UK”) central government and the Northern Ireland (“NI”) Department of Finance, which will help to inform the formulation of the 2022-25 Draft Executive Budget. It follows on from the 2021 Spending Review and Autumn Budget, which the UK Chancellor announced in Westminster on 27 October 2021. The paper seeks to support the Committee for Finance, along with other Assembly statutory committees, when undertaking their advisory and scrutiny functions.

This information is provided to MLAs in support of their Assembly duties, and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as professional legal advice or as a substitute for it.

## Introduction

The Committee for Finance (“CfF”) commissioned this briefing paper from the Public Finance Scrutiny Unit, located within the Finance and Economics Research Team of the Assembly’s Research and Information Service (“RaISe”). From a Northern Ireland (“NI”) perspective, the paper aims to identify key points arising from the United Kingdom (“UK”) Spending Review (“SR 2021”) and United Kingdom Autumn Budget (“UK AB 2022-25”), which the UK Chancellor announced in Westminster on 27 October 2021, and was followed by a statement made by the NI Minister of Finance (“MoF”) that same day. In doing so, the paper seeks to support the Assembly – in particular, the CfF and other statutory committees - when undertaking their advisory and scrutiny functions.

The paper is presented using 5 themed sections, as follows:

1. Refresher on key elements of NI Public Finance Framework
2. Current overview of NI economic context
3. Timeline of critical events for SR 2021 and UK AB 2022-25
4. NI allocations under SR 2021 and UK AB 2022-25 – key “take aways”
5. Different baseline interpretations – Treasury v NI Department of Finance

Throughout the paper, potential issues for consideration are identified using blue highlighted boxes, to support CfF and other committees’ deliberations in this area.

### 1. Refresher on key elements of NI Public Finance Framework

This section revisits aspects of NI’s “Public Finance Framework” (“PFF”); the Framework that establishes the parameters (“the rules”) in which the financial arrangements under the current NI devolved settlement operate. The section provides a refresher on the Chancellor’s Spending Review (“SR”) and UK Budget, which both determine the overwhelming majority of money that is available for the Executive Budget. That money comprises funding in various forms.

#### 1.1 Chancellor’s SR and UK Budget from a NI perspective

The Chancellor’s UK Budget announcement accompanies his SR announcement. That Budget is premised on the SR, but it goes beyond, encompassing:

- **Block that is typically determined by Barnett at a UK fiscal event and can include “Barnett Guarantees”** - Departmental and DAs’ allocations/spending (Resource and Capital Departmental Expenditure Limits (“RDEL” and “CDEL”), with Financial Transaction ring-fence within CDEL - known as the “block grant” for DAs, as determined under the

“Barnett formula”; **Block that is non-Barnett determined** – Examples of this are:

- Farm Funding
  - Fisheries Funding
  - New Decade New Approach Funding
  - Confidence and Supply Funding
  - European Union (EU) Exit
  - New Deal for NI (NI Protocol related)
  - Stormont House Agreement/Fresh Start Agreement
  - Additional Security Funding
  - Tackling Paramilitary Programme
  - Debt Advice
  - Business Rates Relief Repayment
  - Non-Domestic Renewable Heat Incentive (NDRHI): Scheme Closure
- **Non-block<sup>1</sup>** – For example:
    - Receipts from specified tax, rating, charging, other revenue raising
    - Capital receipts
    - Trading receipts
    - European Union (“EU”) funding
    - Other Income
    - Borrowing

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<sup>1</sup> Treasury. [Statement of Funding Policy 2021](#). Pages 25-27. October 2021.

For reference, Box 1 below outlines the key types of Executive public expenditure:

**Box 1: Types of public expenditure**

Public spending is divided into two main categories.

**Departmental Expenditure Limits (“DEL”)** covers spending over which departments have control, and for which they can plan. (The SR generally focuses on this category.)

The other category - **Annual Managed Expenditure (“AME”)** - is more volatile and cannot be planned for with much certainty, such as Social Welfare payments and Pensions.

Public spending also is divided into Resource (day-to-day spending on salaries, general running costs of a department) and Capital spending (investment in assets such as new schools or roadworks).

The headline figures quoted from the SR usually refer to Resource DEL (“RDEL”). As noted above, RDEL is the largest component of public spending and funds “day-to-day” spending.

For illustrative purposes, Table 1 below shows the NI Executive’s 2021-22 baseline, plus a series of block and non-block allocations made throughout the 2021-22 financial year, up until the Main Estimates in May 2021:

**Table 1: NI Executive 2021-22 Budget baseline, plus in-year allocations**

<b>£ million</b>	
<b>Baseline</b>	<b>12,871.6</b>
<b>+ Barnett</b>	
Spending Review 2020	917.7
Budget 2021	411.9
Carry forward from 2020-21	327.1
Main Estimates	363.1
<b>+ Non-Barnett</b>	
Farm funding	315.6
Fisheries Funding	3.1
New Decade New Approach Funding	162.0
Confidence and Supply Funding	72.3
EU Exit	0.8
New Deal	8.0
Stormont House Agreement/Fresh Start Agreement	35.6
Additional Security Funding	32.1
Tackling Paramilitary Programme	5.0
Debt Advice	1.1
Business Rates Relief Repayment	3.3
NDRHI: Scheme Closure	91.0
<b>Total</b>	<b>15,621.3</b>

Source: Block Grant Transparency: June 2021 publication (Treasury)<sup>2</sup>

## 1.2 Key items of note

It is important to note the following in relation to the SR and the UK Budget from a NI perspective:

1. AME typically is not of concern because the Executive does not have discretion over it. However, AME potentially does become of concern if the Executive departs from UK-wide measures funded through AME, such as enhancing Social Welfare payment provision (“topping up”). Then, under the “rules”, the Executive is required to fund that top up with DEL.
2. Multi-year budgets provide planning certainty for the Executive, enabling government to prioritise spending that most effectively delivers its priorities.
3. Both the SR and the UK Budget follow on from prior engagement between Chancellor/Treasury with Whitehall departments and DAs (to lesser or greater extents).

<sup>2</sup> Treasury. [Block Grant Transparency: June 2021 publication](#). June 2021.

4. The SR and the UK Budget is informed by the UK economic and fiscal outlook forecasted by the Office of Budget Responsibility (“OBR”) and includes projections for economic growth, tax revenues and public spending for the next five financial years.

## 2. Current overview of NI economic context

This section provides a brief overview of the economic environment in which the SR 2021 and the UK AB 2022-25 were announced.

### 2.1 Recovery from lockdown

#### UK-wide

The UK economy shrank by 9.7% during 2020.<sup>3</sup> This was the worst contraction since records began in 1948. In the first half of 2021, UK central and devolved government lockdowns due to the implications arising from the pandemic caused another downturn; although not as severe as during the initial lockdown in 2020. As the Covid-19 vaccine rollout gathered pace across the UK, and the infection rate fell, the UK economy began to recover; growing by 5.5% in Q2 2021.<sup>4</sup>

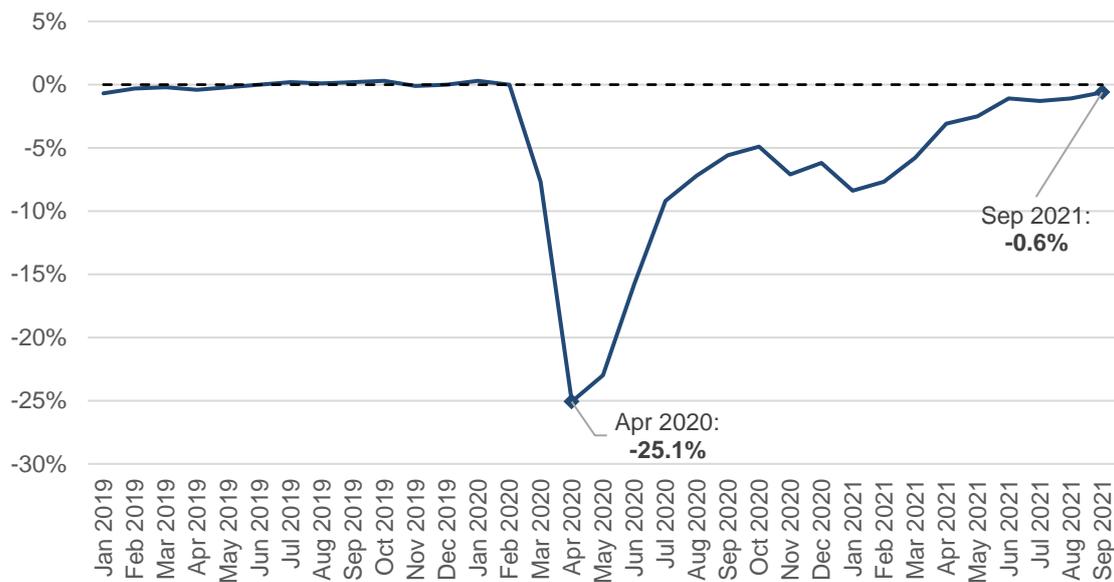
After this strong initial rebound, economic growth slowed again over the course of summer 2021, as the spread of the “Delta” variant took hold. That caused staff shortages across the economy, as people were required to self-isolate. That saw GDP (“Gross Domestic Product”) to fall slightly in July 2021; before returning to modest growth of 0.2% in August – driven mostly by consumer spending.<sup>5</sup> GDP in September 2021 was still 0.6% - below its pre-pandemic level of February 2020 - meaning the UK economy is still smaller than it was before the pandemic. These were the most recent UK GDP figures available at the time of SR 2021 and UK AB 2022-25 – see Figure 1 below:

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<sup>3</sup> GDP is a metric used to measure the size and health of a country's economy.

<sup>4</sup> ONS, [Monthly GDP series \(ECY2\)](#). 11 November 2021.

<sup>5</sup> OBR. [Economic and fiscal outlook – October 2021](#). Paragraph 1.14, page 13. 27 October 2021.

**Figure 1: UK GDP, % difference compared to February 2021**

Source: ONS, November 2021.<sup>6</sup>

## NI

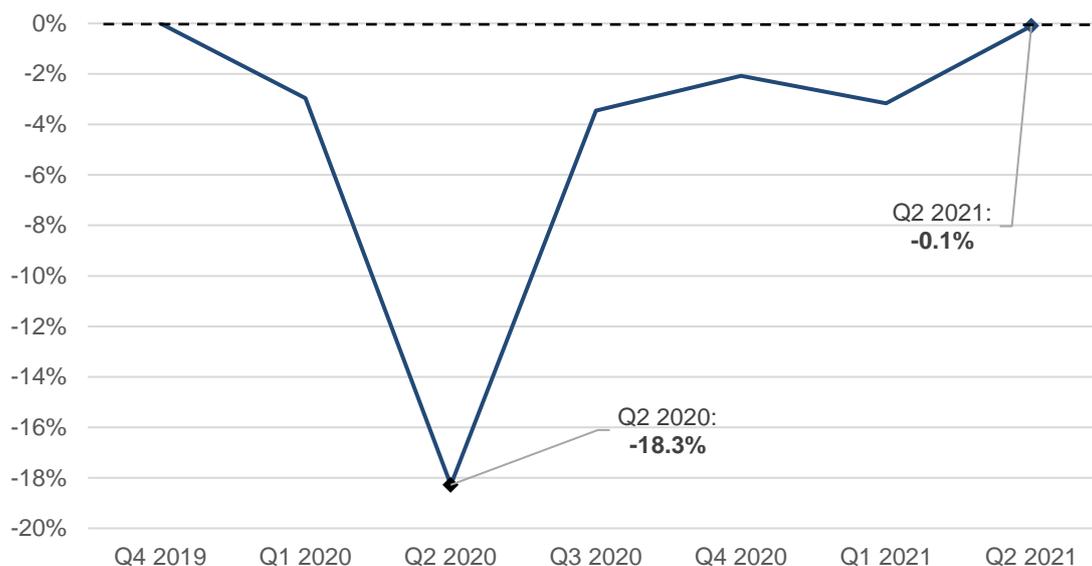
Although GDP data at the NI level is unavailable for the noted period, the NI Statistics and Research Agency (“NISRA”) produce a broadly equivalent measure - the “NI Composite Economic Index” (“NICEI”). This Index is instructive in two ways:

- (i) Gives an indication of how the NI economy has performed each quarter; and,
- (ii) Enables broad comparisons with the UK as whole.

In Quarter 2 of 2020 (“Q2 2020”), the NI economy contracted by 15.5% – the largest fall since the NICEI began in 2006. Similar to the UK-level trend, growth in NI stalled in early 2021 as lockdown restrictions were re-introduced; falling by 1.1% in Q1 2021. Summer 2021 saw a relaxation of restrictions and a largely successful vaccine rollout. Economic output subsequently increased by 3.1% in real terms in NI over the quarter to Q2 2021 – the second highest rate of quarterly growth on record. However, the NI economy is still marginally smaller than it was before the pandemic.<sup>7</sup> Figure 2 below highlights the NI economic context using the NICEI:

<sup>6</sup> ONS, [Monthly GDP series \(ECY2\)](#). 11 November 2021.

<sup>7</sup> Based on the Q4 2019 NICEI index value of 101.2, the latest figure for Q2 2021 is 101.1. A difference of just 0.1%.

**Figure 2: NI Composite Economic Index, % difference compared to Q4 2019**

Source: NISRA, September 2021.<sup>8</sup>

## 2.2 The economic outlook

At the start of October 2021, a Treasury survey of economic forecasters showed that the average forecast for UK GDP growth was 7.0% in 2021.<sup>9</sup> This was an improvement from the May and June 2021 surveys – where the average forecasts for 2021 were 6.5%<sup>10</sup> and 6.8%<sup>11</sup>, respectively. It is most likely a result of data showing a stronger recovery through spring and summer of 2021.

The OBR published its new forecasts on 27 October 2021, when the Chancellor’s SR 2021 and UK AB 2022-25 were presented. **The OBR reported that it now expects the UK economy to grow by 6.5 per cent in 2021**; 2.4 percentage points faster than it predicted in March 2021.<sup>12</sup>

In NI, the outlook for growth is slightly weaker than the UK overall. Danske Bank’s Q3 2021 outlook<sup>13</sup> has **forecast economic growth in NI of 5.8% in 2021**, following a contraction of 10.2% in 2021. This is a slightly weaker 2021 figure than the UK average, but still represents a strong rate of expansion. However, it should be noted that historically high growth rates are a result of the rebound from historically large falls in economic output.<sup>14</sup>

<sup>8</sup> NISRA. [NICEI publication and tables Q2 2021](#). Table 1. 30 September 2021.

<sup>9</sup> Treasury. [Forecasts for the UK economy: October 2021](#). 20 October 2021.

<sup>10</sup> Treasury. [Forecasts for the UK economy: May 2021](#). 19 May 2021.

<sup>11</sup> Treasury. [Forecasts for the UK economy: June 2021](#). 16 June 2021.

<sup>12</sup> OBR. [Economic and fiscal outlook – October 2021](#). 27 October 2021.

<sup>13</sup> Danske Bank. [Northern Ireland Quarterly Sectoral Forecasts 2021 Q3](#). 30 September 2021. Note: Danske Bank forecasts are prepared in conjunction with Oxford Economics.

<sup>14</sup> The Ulster University Economic Policy Centre, and EY ITEM Club also produce economic forecasts for NI – but have yet to release Autumn/Winter outlooks. They have therefore not been included here as their most recent (summer) outlooks were not

## 2.3 Key issues facing the economy

This sub-section highlights key issues facing the economy, which have informed the SR 2021 and the UK AB 2022-25. Going forward, they will serve to inform the formulation of the draft Executive Budget 2022-25.

### Supply chain

As the global economy recovers from pandemic-related recession, there has been increased demand for consumer goods and materials. At the same time, outbreaks of the Delta variant – and efforts to contain it – have caused disruptions in global supply chains. Strong recovery-driven demand, combined with disrupted supply chains, have therefore led to increased shipping and transportation costs. The Ulster Bank Purchasing Manager's Index ("PMI") is an indicator of private sector activity in the NI economy. The most recent data for November 2021 has shown that business input costs and output prices are increasing at record rates. The PMI states that:

*...surging price rises acted as a brake on the Northern Ireland private sector, restricting growth of business activity and contributing to a decrease in new orders.*<sup>15</sup>

### Labour shortages

Labour shortages are adding to these problems, with many firms in a range of sectors<sup>16 17</sup> reporting difficulty in recruiting staff. 765,600, the number of employees on company payrolls in NI in September 2021 was 1.6% above the pre-Covid-19 total recorded in March 2020. The InterTradeIreland All-Island Business Monitor,<sup>19</sup> an indicator of business activity in NI/the Republic of Ireland ("RoI") stated in its Q3 2021 update that:

*There are also a number of other issues that are starting to weigh heavily on firms. The rising costs of overheads, increasing energy bills, the impact of Brexit and recruiting the correct skills are all issues for businesses. Rounding out the top six worries for firms are concerns over logistics.*

Continued labour shortages over the rest of 2021 and into early 2022 could hamper economic recovery. Also, there is still a degree of uncertainty as to how these issues will evolve and how businesses, households and government will react to them.

### Increased cost of living

Inflation has increased throughout 2021. Consumer prices, as measured by the Consumer Price Index ("CPI")<sup>20</sup>, were 3.1% higher in September 2021 than a year before. This is above the Bank of England's target of 2%. The Bank expects inflation to

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prepared at the same time as those published by Treasury and the OBR. Economic outlooks from UU and EY will be forthcoming before the end of 2021.

<sup>15</sup> Ulster Bank. [Surging price rises lead to fall in new orders](#). 8 November 2021.

<sup>16</sup> Belfast Telegraph. [Labour shortage damaging trade, says fitout boss](#). 2 August 2021.

<sup>17</sup> BBC. [Staff shortage fears dampen jobs recovery figures](#). 12 October 2021.

<sup>18</sup> BBC. [Brexit: NI 'may lose industry over migrant workers shortage'](#). 6 October 2021.

<sup>19</sup> InterTradeIreland. [All-Island Business Monitor: Economic recovery on track despite challenges](#). 1 November 2021.

<sup>20</sup> Bank of England. [Inflation and the 2% target](#).

rise to 4.5% in November 2021, and remain at that level through the Winter 2022, before **peaking at around 5% in April 2022**.<sup>21</sup> That is expected to be driven by rising energy prices, as household energy tariffs and petrol prices continue to increase. Wholesale gas prices in particular have risen sharply since August 2021.<sup>22 23</sup>

### NI Protocol

Following the UK's exit from the European Union ("EU"), there have been ongoing discussions both within and outside the UK regarding the NI Protocol, including its Article 16 and related recent speculation of "trade wars".<sup>24 25 26 27</sup>

### Infrastructure challenges

The need for increased investment in infrastructure has been the subject of much debate and discussion by NI businesses and policy-makers. A lack of capacity in the water and sewerage system in particular may act as a constraint on economic development, if it is not improved.<sup>28</sup> The Infrastructure Minister stated recently that the establishment of an Infrastructure Commissioner would help with a long-term approach to wider infrastructure planning and delivery.<sup>29</sup> Informing that long-term approach will be the outcome of the 2021 United Nations Climate Change Conference of the Parties ("COP 26").<sup>30</sup> Immediately following<sup>31</sup> the SR 2021 and the UK AB 2022-25 announcement, the Chancellor made an additional statement, which will be instructive in this area.

### Historic regional imbalances

Furthermore, the long-term structural challenges that have limited NI's economic growth in the past remain. These include, amongst other things, the need to: boost productivity growth; reduce economic inactivity; create higher-paying jobs; and, address regional imbalances within the economy.

## **3. Timeline of critical events for SR 2021 and UK AB 2022-25**

To orientate later consideration of the detail of SR 2021 and the UK AB 2022-25, below is a timeline identifying critical events at both central and devolved government levels prior to and after the Chancellor's announcement on 27 October 2021:

<sup>21</sup> Bank of England. [Monetary Policy Summary, November 2021](#). 4 November 2021.

<sup>22</sup> Ofgem. [Gas Prices: Forward Delivery Contracts – Weekly Average \(GB\)](#). 31 October 2021.

<sup>23</sup> Utility Regulator. [Energy Prices – October 2021](#). 22 October 2021.

<sup>24</sup> UK in a Changing Europe. [The border after Brexit](#). 22 October 2021.

<sup>25</sup> UK in a Changing Europe. [The Protocol: 'dynamic alignment' in post-Brexit Northern Ireland](#). 25 September 2021.

<sup>26</sup> BBC. [Brexit: 'Clear opportunities and frictions' in NI Protocol, says Invest NI](#). 23 July 2021.

<sup>27</sup> BBC. [Brexit: What's the Northern Ireland Protocol?](#) 8 November 2021.

<sup>28</sup> BBC. NI Water: [Wastewater crisis stalling big projects, say builders](#). 6 July 2021.

<sup>29</sup> Northern Ireland Executive. [Minister Mallon: Infrastructure Commission the game changer we need](#). August 2021.

<sup>30</sup> [UN Climate Change Conference UK 2021](#).

<sup>31</sup> Treasury. Chancellor: [UK will be the world's first net zero financial centre](#). 3 November 2021.

**Figure 3: Spending Review 2021 and UK Autumn Budget 2022-25 - Critical Events Timeline**

Source: RalSe, November 2021.

Key to note about the timeline was, in June 2021, the NI MoF urged the Chancellor to return to the multi-year spending review model stating:<sup>32</sup>

*The British Government's Spending Review is of crucial importance to the Executive. It is essential that the British Government delivers a multi-year budget as this will enable the Executive to strategically plan the delivery of public services.*

<sup>32</sup> Department of Finance. [Murphy presses Chancellor for multi-year budgeting](#). June 2021.

Outlining the Executive's priorities for this period, the Minister of Finance stated:

*The Executive has agreed to prioritise health. There is also consensus that additional resources should be diverted to support economic development including skills, the transition to net zero and tackling inequality. Departments have been asked to submit proposals against these priorities. It will be challenging to deliver on all of these given the limited funding available to us. The task for the Executive now is to make the best possible use of the resources available.*

He added:

*Over the next few weeks I will be meeting with Executive colleagues, the business sector and community groups to discuss how our budget should be distributed between different Departments and different priorities.*

The DoF has stated that its intention is to have a draft budget agreed before Christmas. There will then be a period of consultation before the budget is finalised by the end of March next year. For further detail on the Executive Budget process see previous RaISe research papers, NIAR 44/21 and NIAR13/21.<sup>33 34</sup>

It is clear that the Executive will face challenges in allocating this funding, with the Department of Education (DE) (which accounts for the second largest share of resource spending after Health) already stating that it will require an extra £350 m in funding to meet “inescapable pressures”.<sup>35</sup>

#### **4. NI allocations under Chancellor's SR 2021 and UK AB 2022-25 – key “take aways”**

On 27 October 2021, the Chancellor announced the outcome of the SR 2021 and the UK AB 2022-25, alongside Treasury's publication of the “Autumn Budget and Spending Review 2021: A Stronger Economy for the British People” and its accompanying documents.<sup>36</sup> Included amongst those documents was the most recent version of the “Statement of funding policy: funding the Scottish Government, Welsh Government and Northern Ireland Executive” (“Statement of funding policy”),<sup>37</sup> which defines “rules” that inform the financial arrangements under current devolution in NI – its Public Finance Framework (“PFF”).

<sup>33</sup> NI Assembly, RaISe. [Executive Budget 2021-2022. NIAR 44/21](#). 16 June 2021.

<sup>34</sup> NI Assembly, RaISe. [Draft Executive Budget 2021-2022. NIAR 13/21](#). 4 March 2021.

<sup>35</sup> BBC. Education: [Extra £350m needed for 'inescapable' pressures](#). 4 November 2021.

<sup>36</sup> Treasury. [Autumn Budget and Spending Review 2021](#). 27 October 2021.

<sup>37</sup> Treasury. [Statement of Funding Policy 2021](#). October 2021.

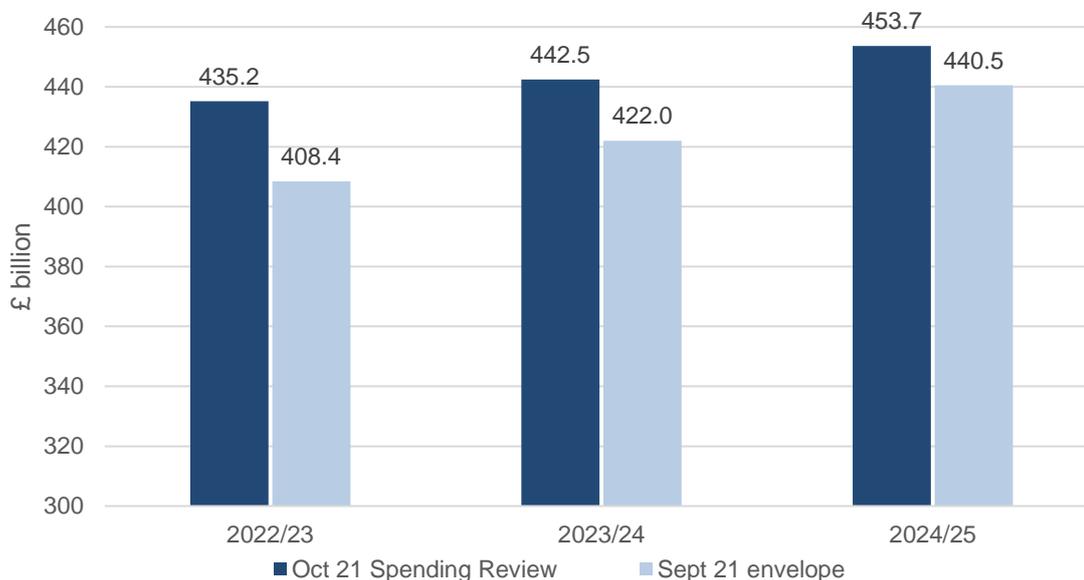
**Potential issues for consideration:**

1. Was there any DoF involvement/input relating to the revised Statement of Funding Policy?
2. Did the DoF engage in any manner with Treasury on the revised Statement of Funding Policy?

From a NI perspective, **key “take aways”** from the SR 2021 and the UK AB 2022-25 are:

1. **NI Budget 2021-22 baseline, plus in-year allocations** – To contextualise SR 2021 and UK AB 2022-25, there is a need to revisit allocations made to NI under the Chancellor’s SR 2020 and the UK Budget 2021-22. Why? Because, as set out in the UK Budget 2021-22, the March 2021 totals for NI constitute the formal NI spending envelope for that year. And, those totals underpin the Chancellor’s October 2021 SR 2021 announcement, covering the period 2022-25, which in turn underpins NI’s allocations under the UK AB 2022-25. For detail regarding the different interpretations of what those baseline figures are for Treasury and the DoF, refer to section 5 below.
2. **Discrepancy in central government figures** - A discrepancy arises between the figures outlined in the Chancellor’s SR 2021 statement in March 2021, when compared to those in the final outcome of the SR in October 2021. For ease of reference, Figure 4 below illustrates that variance – see sub section 5.2 below for Treasury’s explanation as to why this occurred.

**Figure 4: Discrepancy in spending envelope figures for 2022-23 to 2024-25, Treasury**



Source: Treasury, October 2021,<sup>38</sup> and Treasury, September 2021,<sup>39</sup>

<sup>38</sup> Treasury. [Autumn Budget and Spending Review 2021](#). Table 4.19, page 127. 27 October 2021.

<sup>39</sup> Treasury. [Chancellor launches vision for future public spending](#). September 2021.

#### 4.1 Core DEL – Barnett determined block funding

“Core funding” is defined as funding for “business as usual” services, and is not used for specific purposes such as Covid-19 support. This funding includes baseline funding, in addition to “top-ups”, both determined using the Barnett formula. Table 2 below lists NI’s “core” DEL (Departmental Expenditure Limits – both Resource and Capital) funding under SR 2021 and UK AB 2022-25, as announced by the Chancellor on 27 October 2021:

**Table 2: NI core DEL block funding 2022-23 to 2024-25**

£ million	2022-23	2023-24	2024-25
Resource, of which:	<b>13,043.9</b>	<b>13,248.7</b>	<b>13,442.3</b>
<i>Non-Ring-fenced Resource DEL</i>	12,583.9	12,788.7	12,982.3
<i>Ring-fenced Resource DEL</i>	460.0	460.0	460.0
Capital DEL	1,686.2	1,784.7	1,759.2
FTC	162.8	66.4	62.2
<b>Total DEL</b>	<b>14,892.9</b>	<b>15,099.8</b>	<b>15,263.7</b>

Source: Treasury, October 2021<sup>40</sup> and DoF, November 2021.<sup>41</sup>

This core funding is broken down as follows:

- **2022-23** – £13.04 billion (bn) Resource DEL<sup>42</sup> (RDEL); £1.85 bn Capital DEL<sup>43</sup> (CDEL);
- **2023-24** - £13.25 bn RDEL; £1.85 bn CDEL; and,
- **2024-25** - £13.44 bn RDEL; £1.82 bn CDEL.

According to Treasury’s “Autumn Budget and Spending Review 2021” publication,<sup>44</sup> those figures equate to **an additional £1.6 bn per year** for NI – £1.4 bn RDEL and £0.2 bn CDEL – on average. Treasury calculates this by subtracting the 2021-22 baseline figure from the planned spending for each year of the given SR period. In other words, on average it shows how much higher spending will be each year, relative to 2021-22.

The published figures show that:<sup>45</sup>

- RDEL spending will increase by an average of 2.1% per year from 2022-23 to 2024-25; and,
- CDEL spending will increase by an average of 2.5% for those years.

<sup>40</sup> Treasury. [Autumn Budget and Spending Review 2021](#). Table 4.19, page 127. 27 October 2021.

<sup>41</sup> Department of Finance. Written Ministerial Statement, Budget 2022-25: Funding available. October 2021.

<sup>42</sup> Includes both non-Ring-fenced and Ring-fenced Resource DEL.

<sup>43</sup> Includes both Capital DEL and Financial Transactions Capital (FTC) DEL.

<sup>44</sup> Treasury. [Autumn Budget and Spending Review 2021](#). Page 128. 27 October 2021.

<sup>45</sup> These growth rates are presented in “real terms”, meaning that the effect of inflation has been accounted for in the calculations.

The table in Annex 1 shows the total funding available to NI from the UK Government for 2022-23 – 2024-25.

#### 4.2 Additional RDEL - non-Barnett block funding

The Chancellor also sets out further funds for 2022-25 for RDEL funding, including:

- **£969.4 m** over the SR period for farmers and land managers;
- **£9.3 m** to support fisheries; and,
- **£14.9 m** for the Tackling Paramilitarism Programme (“TPP”).

These funds are non-Barnett and form part of the NI block grant. The annual breakdown of this funding are shown in Table 3 below:

**Table 3: RDEL block funding 2022-23 to 2024-25**

£ million	2022-23	2023-24	2024-25
Farm Payments	312.8	327.2	329.4
Fisheries	3.1	3.1	3.1
Security	31.2	31.2	31.2
Tackling Paramilitarism	5.0	5.0	4.8
<b>Total DEL</b>	<b>352.1</b>	<b>366.5</b>	<b>368.5</b>

Source: DoF, November 2021.<sup>46</sup>

#### 4.3 Existing Funding Packages – non-Barnett block funding

On 29 October 2021, the NI Secretary of State confirmed Resource and Capital funding that is to be made available under the existing agreements: Fresh Start Agreement, the Confidence and Supply Agreement, the New Decade New Approach Agreement and City Deals arrangements. This funding is non-Barnett and forms part of the NI block grant, and shown in Table 4 below:

<sup>46</sup> Department of Finance. Written Ministerial Statement, Budget 2022-25: Funding available. November 2021.

**Table 4: Additional funding to 2024-25<sup>47</sup>**

£ million	2022-23	2023-24	2024-25
Fresh Start Agreement *	51.3	64.4	37.2
Confidence and Supply Agreement Broadband *	49.4	37.2	-
New Decade New Approach (NDNA) Transformation	49.0	49.0	49.0
NDNA Medical School	5.0	5.0	5.0
NDNA Medical School Capital *	15.0	-	-
NDNA - Unique Circumstances Communities in Transition	4.1	3.3	-
City Deals	41.7	41.7	41.7
<b>Total</b>	<b>215.5</b>	<b>200.6</b>	<b>132.9</b>

Source: DoF, November 2021.<sup>48</sup>

Note: \* denotes capital funding

#### 4.4 Other funding

The Chancellor also sets out further funds for 2022-25 relating to specific funding and projects in NI, including:

- **Community Ownership Fund** - The SR 2021 and the UK AB 2022-25 confirmed that £300,000 is to be allocated to the Glens Digital Hub in Cushendall from the first round of the Community Ownership Fund.<sup>49</sup> This is a Fund worth £150 m and is intended to support community groups by taking ownership of such groups' assets, when they are "at risk of being lost to the community". This funding is non-block and is to be allocated centrally, through at least 8 bidding rounds over 4 years. At least £4.3 million is to be allocated in NI over the given SR period.<sup>50</sup>
- **UK-wide business support** - The SR 2021 and the UK AB 2022-25 confirmed £70 m additional funding for the British Business Bank's ("BBB") regional funds. That funding is to build on BBB's existing programmes in NI.

Northern Ireland will also benefit from its share of national programmes, including:

- £5 bn for Project Gigabit, rolling out gigabit capable broadband for homes and businesses across the UK.
- The new £1.4 bn Global Britain Investment Fund will help spread economic opportunities more evenly across the UK by supporting investment in the UK's life sciences, offshore wind and automotive manufacturing sectors.

<sup>47</sup> In the written Ministerial Statement from the MoF, it was noted that the funding package profiles set out by the Secretary of State do not reflect the latest position as advised by DoF officials to NIO earlier in October – and that work would be needed to adjust these later in the year.

<sup>48</sup> Department of Finance. Written Ministerial Statement, Budget 2022-25: Funding available. October 2021.

<sup>49</sup> Department for Levelling Up, Housing & Communities. [Community Ownership Fund: prospectus](#). July 2021.

<sup>50</sup> Treasury. [Autumn Budget and Spending Review 2021](#). Page 89. 27 October 2021

- The continuation of the Turing Scheme for the next three years, including £110 million for the Academic Year 2022/23, enabling students from Northern Ireland to go on life-changing placements and exchanges overseas.

Details of three sources of funding (two are new; one is a pilot) were announced in the SR: The Levelling Up Fund (“LUF”); the UK Shared Prosperity Fund (“SPF”); and, the “Community Renewal Fund” (“CRF”):

- The LUF<sup>51</sup> will invest in infrastructure projects throughout the UK – particularly town centre and high street regeneration, local transport projects, and cultural and heritage assets. The SR confirmed that **£49 m** is to be allocated for 11 projects<sup>52</sup> in NI from the first tranche of allocations.
- The SPF<sup>53</sup> is the successor to the EU Structural Fund. The SPF is to be administered centrally,<sup>54</sup> which raises the possibility that its future operation will be disputed by the DAs, in that it will allocate funding in devolved areas.<sup>55</sup> Numerous written Parliamentary Questions<sup>56 57</sup> have been submitted in the House of Commons about the SPF’s operation in NI; and it appears there is still a lack of detailed information on that Fund and how it is to operate.
- The March 2021 UK Budget provided details on the CRF – intended as a pilot for the SPF in 2021-22. The CRF operates on a UK-wide basis, and is administered by the UK Government. The pre-determined allocation for NI was set at £11 m.

**Potential issues for consideration:**

3. Would the DoF provide clarification on how the Executive will receive all the funding highlighted here in sub section 4.4? Please detail the form in which Treasury will allocate these funds, such as: will they be ring-fenced? what does “centrally administered” mean in practice?

#### 4.5 Non-block funding

The Chancellor also sets out changes to Air Passenger Duty and announced a new Health and Social Care Levy.

<sup>51</sup> Treasury. [Levelling Up Fund: Prospectus](#). 29 October 2021.

<sup>52</sup> Treasury. [Levelling Up Fund: first round successful bidders](#). 27 October 2021.

<sup>53</sup> House of Commons Library. [The UK Shared Prosperity Fund](#). 29 January 2021.

<sup>54</sup> BBC. [New UK Shared Prosperity Fund to bypass Holyrood](#). 17 January 2021.

<sup>55</sup> On the subject of inter-governmental relations within the UK, and how any potential future disputes would be managed, useful detail can be found in the Treasury’s [Statement of Funding Policy \(SoFP\), updated in October 2021](#). The SoFP is a non-statutory policy document, which is routinely reviewed, amended and re-issued alongside Spending Reviews.

The current version states: “*If there is a disagreement between HM Treasury and the devolved administrations about the application of the Statement, the relevant devolved administration can pursue the matter with HM Treasury.*”

<sup>56</sup> UK Parliament. [UIN 59717](#), tabled on 20 October 2021.

<sup>57</sup> UK Parliament. [UIN 35769](#), tabled on 19 July 2021.

- **Air Passenger Duty** – The SR 2021 and the UK AB 2022-25 confirmed – following consultation – that the UK Government is to introduce a new domestic band for Air Passenger Duty (“APD”); set at £6.50. The rate is to apply to all flights between airports in England, Scotland, Wales and NI (excluding private jets); and is estimated that 9 million passengers will pay less APD in 2023-24. The rate for the short- and long-haul bands are expected to increase in line with the Retail Price Index (“RPI”) measure of inflation, meaning that the short-haul economy rate will remain frozen at £13 and the long-haul economy rate will increase by £3. There are currently no long-haul flights operating out of NI; a watching brief could be maintained in this area.

**Potential issues for consideration:**

4. Would the DoF provide clarification on how the Executive will receive the funding relating to APD? Please detail how this will work in practice.
5. Has any work been done by any relevant players to forecast/estimate the financial implications arising from this policy – including consideration of any adjustments that may need to be made following implementation of this policy?

- **Health and Social Care Levy** – To support health and social care across the UK, from April 2022 the UK Government is expected to raise around £13 bn per year through the new Health and Social Care Levy and an increase to the rates of dividend tax. This investment aims to enable the UK government and DAs to tackle the electives backlog in the NHS, put the NHS on a sustainable footing and address the long-term challenges in social care.

**Potential issues for consideration:**

6. Would the DoF provide clarification on how the Executive will receive the funding relating to the Health and Social Care Levy? Will this come in the form of a Barnett consequential, or another mechanism?

## 5. Different baseline interpretations – Treasury v NI Department of Finance

Treasury and the NI Department of Finance (DoF) have interpreted the baselines differently. That became apparent following the Chancellor’s 27 October 2021 announcement and the NI Minister of Finance’s (“MoF’s”) statement later that day. When the MoF explained that the SR 2021 and the UK AB 2022-25 would **not** provide an additional £1.6 bn per year. He stated that:<sup>58</sup>

*When compared to the Executive’s 2021-22 Budget there will be an additional £450m, £670m and £866m for day-to-day spending against growing demand for public services. This represents a marginal 0.9% real*

<sup>58</sup> Department of Finance. [Spending Review leaves public services under pressure – Murphy](#). 27 October 2021.

*term increase to the Executive's Budget next year, turning to zero real terms change by 2024-25.*

## 5.1 DoF interpretation explained

The DoF asserts two reasons why Treasury and the DoF interpretations differ:<sup>59</sup>

1. **The 2021-22 baseline figures used to calculate the increase each year during the SR period are different:**
  - a. Treasury used lower baseline 2021-22 figures of £11.7 bn RDEL, and £1.7 bn CDEL; whilst,
  - b. The DoF used higher figures for its baseline for the Executive 2021-22 Budget – i.e. £12.48 bn RDEL and £1.68 bn CDEL.
2. **The figures stated by Treasury and the DoF are not directly comparable for the following reasons:**
  - a. Aside from the differences in methodology described above, the Treasury figure of £1.6 bn additional spending includes both RDEL and CDEL.
  - b. The figures of £450 m, £670 m and £866 m stated by the DoF relate to RDEL only – equivalent to average additional funding of £0.7 bn per year. If CDEL was included, it would increase to £0.8 bn per year. However, that is still significantly lower than the £1.6 bn quoted by Treasury.

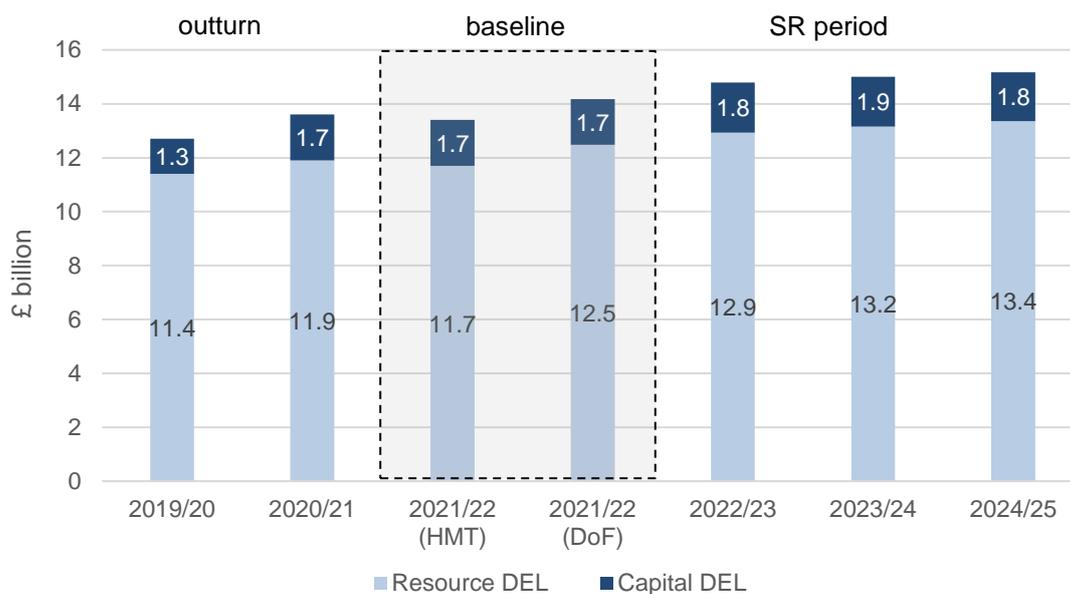
## 5.2 Treasury interpretation explained

Treasury justifies its use of the lower baseline for reasons relating to its removal of certain time-bound allocations. It explains that those allocations – were made since the SR 2015, and NI previously had used them to fund recurrent pressures that form part of NI departmental everyday spending.<sup>60</sup>

Figure 5 below presents the funding amounts, based on the above. It shows: the confirmed outturns for 2019-20 and 2020-21; the two different baseline figures used by Treasury and the DoF for 2021-22; and the planned spending figures for the S R 2021, for the period of 2022-23 to 2024-25:

<sup>59</sup> The figures stated in the Spending Review and Executive Budget 2021/22, and the PFSU's understanding of how DoF and Treasury have presented them was confirmed in email correspondence with DoF officials, dated 29 October 2021 and 8 November 2021.

<sup>60</sup> NICVA. [Budget 2022-25: Update from the Finance Minister](#). 4 November 2021.

**Figure 5: NI core DEL funding 2019-20 to 2024-25**

Source: Treasury (October 2021). Table 4.19, page 127.<sup>61</sup>

The differences in additional spending available each year of the SR 2021 period are presented below at Tables 5 and 6.

Table 5 shows that, using the 2021-22 baseline figure of £13.4 bn, total DEL funding would be £1.4 bn higher in 2022-23, £1.6 bn higher in 2023-24 and £1.8 bn higher in 2024-25. Those figures are **equivalent to an average of £1.6 bn** –as stated by the Chancellor during this SR period. A majority of it is RDEL (£1.4 bn), as highlighted in Table 5 below:

**Table 5: Additional core DEL funding 2022-23 to 2024-25 – Treasury**

£ billion	Baseline-2021-22	2022-23	2023-24	2024-25	Average yearly difference
Resource DEL	£11.7	+£1.2	+£1.5	+£1.7	+£1.4
Capital DEL	£1.7	+£0.2	+£0.2	+£0.1	+£0.2
<b>Total DEL</b>	<b>£13.4</b>	<b>+£1.4</b>	<b>+£1.6</b>	<b>+£1.8</b>	<b>+£1.6</b>

Source: Treasury (October 2021)

Table 6 below further shows the additional funding available over the SR period, using the Executive Budget 2021-22 baseline figure of £14.2 bin. The MoF quoted the RDEL figures of £450 m, £670 m and £866 m. This is not a direct comparison with the Treasury figures, which also include CDEL. When these are included, total DEL funding would be

<sup>61</sup> Treasury. [Autumn Budget and Spending Review 2021](#). 27 October 2021.

£616 m higher in 2022-23, £836 m higher in 2023-24 and £1 bn higher in 2024-25 – equivalent to an average of £0.8 bn in the SR period:

**Table 6: Additional core DEL funding 2022-23 to 2024-25 – DoF**

£ billion	Baseline-2021-22	2022-23	2023-24	2024-25	Average yearly difference
Resource DEL	£12.5	+£0.451	+£0.670	+£0.866	+£0.7
Capital DEL	£1.7	+£0.165	+£0.166	+£0.137	+£0.2
<b>Total DEL</b>	<b>£14.2</b>	<b>+£0.616</b>	<b>+£0.836</b>	<b>+£1.003</b>	<b>+£0.8</b>

Source: Treasury (October 2021), DoF (April 2021).<sup>62</sup>

Note: figures presented to 3 decimal places to be consistent with MoF's 27 October statement.

### 5.3 Observations

**It is important to note that the amount of RDEL and CDEL funding for each year in the tables provided in this section are the same according to Treasury and the DoF. The differences highlighted in this section of the paper is the 2021-22 baseline interpretation that each uses.**

**Potential issue for consideration:**

7. Why did Treasury and the DoF use different baselines for 2021-22 when calculating additional funding for the given SR period? It appears that this did not happen in the context of the two other DAs. Please provide a detailed explanation.

<sup>62</sup> DoF. [2021-22 Budget](#). April 2021.

## Annex 1: Total funding available

The table below shows the total funding available to NI from the UK Government for 2022-23 – 2024-25.

£ million	2022-23	2023-24	2024-25
<b>non-Ring-Fenced RDEL</b>			
SR - Core DEL	12,583.9	12,788.7	12,982.3
SR - non Barnett Funding	352.2	366.6	368.6
Funding packages	58.1	57.3	54.0
<b>Total non-Ring-Fenced RDEL</b>	<b>12,994.2</b>	<b>13,212.6</b>	<b>13,404.9</b>
<b>Ring-Fenced RDEL</b>			
SR - Core DEL	-	-	-
SR - non Barnett Funding	-	-	-
Ring-Fenced RDEL	460.0	460.0	460.0
Student Loan Impairment	574.8	574.8	574.8
<b>Total Ring-Fenced RDEL</b>	<b>1,034.8</b>	<b>1,034.8</b>	<b>1,034.8</b>
<b>Capital DEL</b>			
SR - Core DEL	1,686.2	1,784.7	1,759.2
SR - non Barnett Funding	-	-	-
Funding packages	157.4	143.3	78.9
<b>Total Capital DEL</b>	<b>1,843.6</b>	<b>1,928.0</b>	<b>1,838.1</b>
<b>FTC DEL</b>			
SR - Core DEL	162.8	66.4	62.2
SR - non Barnett Funding	-	-	-
Funding packages	-	-	-
<b>Total FTC DEL</b>	<b>162.8</b>	<b>66.4</b>	<b>62.2</b>

Source: DoF, November 2021.