Northern Ireland Assembly

Committee for Finance

Engagement on the 2024-25 Draft Executive Budget

Ordered by the Committee for Finance to be published on 22 May 2024

This report is embargoed until the commencement of debate in Plenary on 28 May 2024

Report: NIA 29/22-27 Committee for Finance

Mandate 2022 – 2027 **First Report**

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Powers and Membership

Powers

The Committee for Finance is a statutory departmental committee established in accordance with paragraphs 8 and 9 of Strand One of the Belfast Agreement and under Assembly Standing Order No 48. The Committee has a scrutiny, policy development and consultation role with respect to the Department of Finance and has a role in the initiation of legislation.

The Committee has power to:

- consider and advise on Departmental budgets and Annual Plans in the context of the overall budget allocation;
- approve relevant secondary legislation and take the Committee Stage of relevant primary legislation;
- call for persons and papers;
- initiate Inquiries and make reports; and
- consider and advise on matters brought to the Committee by the Minister of Finance.

Membership

The Committee has 9 members, including a Chairperson and Deputy Chairperson, and a quorum of five members. The membership of the Committee is as follows:

- Mr Matthew O'Toole (Chairperson)
- Ms Diane Forsythe (Deputy Chairperson)
- Dr Steve Aiken
- Mr Philip Brett
- Miss Nicola Brogan

- Mr Gerry Carroll
- Mr Paul Frew
- Miss Deirdre Hargey
- Mr Eoin Tennyson

List of Abbreviations and Acronyms used in this Report

CBI:	Confederation of British Industry
CEF:	Construction Employer's Federation
CIPFA:	Chartered Institute for Public Finance and Accountancy
C&AG:	Comptroller and Auditor General
ERPS:	Executive Restoration Package Settlement
Integr8:	Transformation of HR and Finance Services in Northern Ireland Civil Service
NERI:	Nevin Economic Research Institute
NIAC:	Northern Ireland Assembly Commission
NIAO:	Northern Ireland Audit Office
NICVA:	Northern Ireland Council for Voluntary Action
NIPSO:	Northern Ireland Public Services Ombudsman
NMPBs:	Non-Ministerial Public Bodies
NOVA:	Digital Transformation Programme within Land and Property Service
PfG:	Programme for Government
UKG:	United Kingdom Government
UUEPC:	Ulster University Economy Policy Centre

Introduction / Timeline of Consideration

1. Following its meeting on 28 February 2024, the Committee wrote to the Minister of Finance asking for clarification on issues around the process to agree the Executive's Budget for 2024-25. Members acknowledged that the timing of the Executive's restoration created complexities to an already difficult Budget Process. The Minister was asked to confirm intentions in relation to the timing of a draft budget as well as the timescale and extent of consultation on the draft Budget for 2024-25.

2. In response to the Committee, the Minister confirmed that the intention was to bring forward an agreed Budget before the end of April but that the short time frame would not allow for the ideal process of 12 weeks consultation before agreeing a final Budget. The Minister also indicated that once the Executive had agreed the funding envelope for each department, individual departments would conduct Equality Screening/Impact Assessments in line with their published Equality Schemes the result of which could be considered by the Executive as part of the first in-year monitoring round.

3. On 5 March 2024, the Minister provided the Committee with further detail on the amounts contained within the financial package which accompanied the return of the Executive. The detail of which can be found in appendix 4, however the Minister indicated that the Executive could move to consider requests for funding to be provided for original purposes in the context of competing pressures. Departments had been asked to identify where bids submitted in the current Budget 2024-25 exercises relate to projects which were previously funded from the funding streams now contained in the £708.0 million included in the financial package. This would allow the Executive to consider whether, and how, these should be funded.

4. The Committee wrote to the Minister again on 21 March asking for an update on progress with both the budget process and on agreeing the 2024-25 Budget. Members also requested that the Committee should receive timely updates on progress to agree the Budget for 2024-25.

5. The Minister of Finance wrote to the Committee on 26 March 2024, notifying it of a written statement in relation to funding for 2024-25 as notified by the Secretary of State: “The Budget Envelope”. It was at that point the Committee was made aware of a series of bi-lateral meetings between Executive Ministers and the Finance Minister in an effort to agree the Executive’s Draft Budget for 2024-25.

6. On 8 April, the Minister provided assurances that the Department was working at pace to ensure that a budget for 2024-25 would be in place for the end of April and that the Committee would be provided with briefing and updates in a timely manner.

7. At its meeting on 10 April, the Committee received an oral briefing from officials on the internal budget pressures within the Department of Finance. Members were briefed on the potential in-year savings which would have to be made in order to live within the budget allocation. Members were concerned at the scale of the challenges potentially faced by the Department and requested further detail on the implications of insufficient funding for projects including NOVA and Integr8 as well as detail on new projects which could not be taken forward in such a constrained financial position. This additional information can be found at appendix 4 and was noted pending an update briefing from officials – scheduled for 22 May 2024.

8. At its meeting on 22 May, the Committee heard again from officials from the Department’s Public Spending Directorate. The evidence session had originally been planned as a further update on the progress of the draft budget for 2024-25 prior to the ‘Vote on the Budget’ scheduled for 28 May. However, the Department laid a further budget document for the debate on 28 May, as well as publishing an Interim Fiscal Framework document just prior to the meeting. Members took the opportunity of the evidence session to question officials on the Framework, including what it delivers and the work that is required to be done by the Department to arrive at an agreed Fiscal Framework with the UKG. Members expressed concern that appropriate resources should be made available for this work to be done. In addition, the Committee interrogated details of the Interim Framework and sought a number of clarifications. Members moved on to the budget itself and engaged with officials on a number

of issues, including the upcoming June Monitoring Round, which is expected to deliver significant ‘Barnett Consequentials’ following the Main Estimates process at Westminster. Further information on the session can be found at appendix 2.

9. At the Committee meeting on 17 April, officials highlighted to Members that the Draft Budget would be brought to the Executive, for agreement “at the earliest opportunity” by the Finance Minister.

10. At the Committee meeting on 24 April, Members noted that the Committee Forward Work Programme would need to be amended to allow for substantial briefings on the Draft Executive Budget and on that basis postponed scheduled briefings on other issues as the likelihood of agreement approached.

11. On 1 May 2024, the Committee agreed to focus its resources on scrutiny of the Draft Executive Budget 2024-25 and as such received a briefing from Departmental officials on agreement reached by the Executive for the 2024-25 Draft Budget. A number of issues were discussed during the session including the absence of an agreed Programme for Government, the Department of Health Budget allocation, ongoing workstreams including revenue raising and Sustainability Plan, Funding for Childcare, Capital allocations and pressures, potential Barnett consequentials as a result of the UKG’s Main Estimates and timing of the June Monitoring Round.

12. In light of a Vote on the Draft Executive Budget 2024-25 taking place at the end of May, Members noted that the Committee’s proposed briefings and potential engagement with stakeholders was limited therefore scope for substantial scrutiny was severely curtailed by circumstance.

13. Members agreed that a series of in-person briefings would be scheduled and agreed to a list of relevant stakeholders from whom written views could be sought on the whole Draft Executive Budget 2024-25, the strategic direction the Executive has taken, and its priorities rather than specifics on individual departmental budgets. Members were aware that the pool of stakeholders was reduced by the fact that views were sought on the whole Budget for 2024-25 rather than comment on individual department’s budgets. The stakeholders were asked to give their views on the application of the Budget envelope,

including the Centrally Held and various ‘earmarked’ items. It was highlighted that the Committee has a lead role in scrutinising the Budget as a whole – the strategic direction the Executive has taken and its stated priorities, rather than specifics around individual departments which are the purview of the relevant Statutory Committee.

14. The Committee agreed to approach a number of stakeholders directly for their views on the Budget. Responses were received from:

- CBI
- Development Trusts NI
- Construction Employers Federation
- Employers for Childcare
- Social Enterprise NI
- Chartered Institute for Public Finance and Accountancy (CIPFA – NI Branch)

Committee Approach

15. The Committee took oral Departmental evidence on 1 May 2024 and on 22 May 2024.

16. The Committee took oral evidence from the Ulster University Economic Policy Centre on 8 May. At its meeting on 15 May 2024, Members received an oral briefing from the Fiscal Council as well as a joint oral briefing with Pivotal and the Nevin Economic Research Institute. On 22 May, Members heard evidence from NICVA on the implications of the Draft Executive Budget 2024-25. At the same meeting, Department of Finance officials provided an update briefing on internal budget pressures as a result of the 2024-25 Draft Executive Budget.

17. The Hansard transcripts for all these oral sessions will be added to appendix 2 of this report as and when available.

18. Written evidence was received from a number of relevant stakeholders and can be found at appendix 3 of this report.

19. The Committee considered a draft of this report at its meeting of 22 May 2024 and ordered that the report should be published. This tight timescale would ensure that a report would be available in time for the anticipated Budget debate, indicatively scheduled for Tuesday 28 May 2024.

Department of Finance – Departmental Budget

20. In order to scrutinise the Department of Finance's own Budget position, the Committee took oral evidence from officials on 10 April 2024, the Hansard transcript of this session can be found in appendix 2 of this report.

21. Members noted the challenging financial position on the Department's resource and capital pressures and the proposals to address the £25m shortfall to meet these pressures. Some of these proposals would have a severe limited impact on reform initiatives which could be seen as providing significant efficiencies in the long-term.

22. In light of these legitimate concerns, the Committee sought information from the Department of Finance on the specific costs and implications as well as the challenges that would be posed if NOVA and Integr8 be paused or stopped should no additional funding be provided and existing baseline funding released. The Committee also requested information on new projects that could not be taken forward due to budgetary constraints. Finally to assist its deliberations, Members requested information on where the budget for the NI Fiscal Council will sit and as well as its funding arrangements once the Council becomes independent and the necessary legislation process is complete. The response from the Department of Finance can be found in appendix 4 of this report.

23. The Committee received an update briefing from the Department on 22 May - a Hansard transcript will be published in due course. Members received the Minister's Written Statement on the Interim Fiscal Framework on 21st May, with

a further briefing paper on this received on 22 May, just before the Committee’s briefing from the Department on its budget. Members sought information on the resource that the Department will require to support the work that is required to do under the Interim Fiscal Framework, including developing the Budget Sustainability Plan, now that its scope has been agreed in the Framework, scheduled to be published in August 2024. Treasury have also agreed that the level of relative need, the 24% that has been widely referenced, can be reviewed if the Executive’s position is supported by, “evidence from multiple, credible independent experts”. In the short space of time between the publication of the Interim Fiscal Framework and the briefing to the Committee, it has not been possible to develop detailed costings for this work. However, the Committee acknowledges its considerable importance and Members strongly advocate that appropriate resourcing is immediately forthcoming.

Northern Ireland Audit Office (NIAO), Northern Ireland Public Services Ombudsman (NIPSO) and Northern Ireland Assembly Commission (NIAC)

24. At its meeting on 21 February, the Committee considered correspondence from the C&AG regarding the NIAO Budget position for 2024-25. Members forwarded the correspondence to the Northern Ireland Assembly Audit Committee (copied to the Finance Minister) asking it to keep the Finance Committee appraised of developments in this regard. The Minister of Finance wrote back to the Finance Committee on 12 March, providing some clarification on issues raised in the original correspondence, indicating that it was now for the Northern Ireland Assembly Audit Committee to agree the NIAO budget requirement. (Copies of correspondence can be found in appendices 4 & 5)

25. At its meeting on 13 March, the Committee took oral evidence from the Minister of Finance – during this session Members discussed the NIAO Budget and the need for small bodies such as NIAO and Northern Ireland Utility Regulator to have sustainable finances.

26. Given the Northern Ireland Assembly Audit Committee's role in agreeing the Budgets for the NIAO, NIPSO and NIAC, the Committee notes that the NI Audit Committee took evidence from these 3 non-Ministerial Public Bodies on their Budgets for 2024-25, agreed its position and carried out its scrutiny in line with the timeframe for the Budget process, which has been extremely limited. Correspondence from the NI Audit Committee to the Minister of Finance detailing this scrutiny can be found at appendix 5 of this report.

27. The Committee for Finance notes that the NI Assembly Audit Committee will seek assurances from the 3 NMPBs that they will deploy their budget allocations to maximum effect and endeavour to realise savings and efficiencies where possible during the course of the year ahead. In addition, Members are content that the Audit Committee will be monitoring finances carefully over the next year and will encourage the NMPBs to identify surrenders at the earliest opportunity.

Assembly Statutory Committees

28. At its meeting on 8 May, the Committee for Finance agreed that information and views on budget scrutiny should be sought from other Statutory Committees on the Draft Executive Budget 2024-25, including any Hansard reports of scrutiny sessions performed by Statutory committees regarding the 2024-25 Draft Executive Budget. Again given the circumstance, the deadline for response from other Statutory Committees was extremely tight, as a result the opportunity for substantial comment is severely restricted. Copies of written submissions from Committees can be found at appendix 3.

29. Only some Statutory Committees were in a position to provide a response. This was due to a combination of factors, not least the extremely short timescale, but also that many have been unable to schedule update Budget briefings before June, limiting their ability to contribute not only to this report, but to the Vote of the Budget debate scheduled for 28th May 2024.

Key Themes Identified

30. As a result of its evidence gathering and oral briefings the Committee has been able to identify a number of distinct themes around the 2024-25 draft Executive Budget. These reference the backdrop against which it is set and the timescales that this has created, the wider strategic impact and implications of the Budget, as well as what might be missing from the Budget and what might have improved it. While this report does not seek to make recommendations around the Budget, the themes it highlights below make clear what might make this, and future budgets, better.

31. **This is a “Challenging” Budget** – as has been said repeatedly by the Finance Minister and departmental officials, as well as those inputting to this Report, this is a challenging budget which seeks to balance a wide range of conflicting priorities. It has been well rehearsed that the size of the Budget envelope meant that a significant number of the bids put forward by departments could not be met. Indeed, the Department of Finance highlighted that Resource bids amount to three times the Resource available for allocation. Capital bids also greatly outstripped the quantum available to be allocated to departments. Therefore, all departments are left with gaps in their budgets. The Committee acknowledges that a significant part of the Executive Restoration Package Settlement from the UKG met pay pressures; however, Members are very mindful that there are a number of pay claims across a range of sectors that have not yet been settled or met, and need to be completed with extremely limited resources.

32. In its Assessment of the Budget, the Fiscal Council highlights that it is 7% higher than the Secretary of State’s Budget for 2023-24, but 2% less than the Final Plan the departments were working to by the end of 2023-24. The Council indicates that, while most NI departments will see smaller decreases in their budgets than their Whitehall counterparts, the Executive’s two biggest spenders – Health and Education – will see larger decreases than their Whitehall counterparts. There has been significant discussion around how budgets covering different years should be measured – should the Final Plan for one year be compared to the opening budget of the next for individual departments,

or should opening budgets, or Final Plans be compared. The Department indicated to the Committee that its preferences was to compare opening budgets in different financial years. However, comparisons aside, the Budget remains challenging.

33. In its Assessment of the Budget, the Fiscal Council notes a real-term fall in Resource and Capital in this Budget compared to the 2023-24 Budget as a ‘red flag’ that will require difficult decisions in every department regarding the delivery of services. This reinforces the nature of this Budget as challenging. The Council sees a further ‘red flag’ in every department having budgeted for a 3% wage growth, meaning that they start the fiscal year with an in-built wage-cost pressure. This is a far from ideal place to be and Council identifies yet another ‘red flag’ with respect to the Executive saying it intends to run a balanced budget while seeking further funding from the Treasury, as well as the Health Minister’s refusal to accept the budget. Thus, the potential for continued overspend exists. In its Assessment, the Council highlights that the NI Block Grant was 40% above per head of population than equivalent UK government spending as late as 2018-19, leaving the Executive in a difficult position.

34. Employers for Childcare acknowledge the “unprecedented burdens” on the 2024-25 Budget, highlighting challenges such as: rising childcare costs; continuing high levels of economic inactivity; deprivation; public sector pay; regional imbalances; skills shortages and hard to fill vacancies across many sectors; relatively low productivity and competitiveness; and long health waiting lists.

35. The timing of the Budget adds to its challenges. The restoration of the Executive coincided with a key point in the budget cycle. However, it was too late in the 2023-24 financial year to make a significant impact, as well as being at a point when the 2024-25 Budget should normally have been ‘ready to go’. Many contributors have highlighted that NI budgets rarely conform to any ‘normal’ cycle, however, the timing has added to the difficult context for this Budget. In its Assessment, the Fiscal Council believes that ensuring future budgets are set in advance as part of a ‘normal’ budget cycle will also help to manage ongoing budget pressures.

36. **Another Single-Year Budget** - This draft Budget represents the tenth in a row that has covered a single year. Social Enterprise NI, along with most contributors and the Committee, strongly advocates that multi-year budgets offer significantly greater stability, certainty and sustainability to their sector, the Executive departments and the economy more widely. These would also be the ideal in combination with a Programme for Government – another theme dealt with below. The Department has highlighted that the Executive's ability to set multi-year budgets is constrained by what the UKG is doing.

37. The periods during which the Assembly has not been sitting has also mitigated against setting multi-year budgets and it has been acknowledged that due to the upcoming UK election the opportunity to do so is unlikely to arise. Even following that election, multi-year budgeting might not come until a spending review has been undertaken, particularly if there has been a change of government.

38. Additionally, contributors have indicated that single-year budgets can often mitigate against sensible spending, with rash decisions being made in deploying funds if these need to be used before the cliff edge of the end of the financial year. This led to further comment around the current Budget Exchange Scheme being too limited in scope and size. Multi-year budgets remove some of the pressure on departments to 'frontload' bids for capital in particular, meaning that funds are more likely to be sought in a timely way if there is secure funding over a period of years. Departmental officials recognised the benefits offered by multi-year budgeting in their evidence to the Committee. However, they again stressed that the Executive's ability to bring these forward is largely dependent on the UK budget cycle and how the UKG wishes to proceed. The Committee has highlighted its interest in pursuing how the Executive might seek to bring forward multi-year budgets, even when the UKG is not.

39. **The Need for a Programme for Government** – along with the challenging nature of the Budget and the need for multi-year budgets, this was the most often raised issue. Universally, the issue of a PfG was raised in the context of the Budget would have been better if it had been linked to a PfG.

40. Again, like the majority of other contributors, Social Enterprise NI stated that each Executive department should have a series of policy interventions sitting under PfG objectives. NICVA's submission strongly supported this stance, also highlighting the need for an accompanying Investment strategy. SENI went on to say that these objectives should be linked clearly and effectively across departments, offering the Local Labour Market Partnerships in local councils (funded by the DfC) as a good example of a mechanism for linkage.

41. It was agreed by all those referencing a PfG that one would make budgeting easier – mitigating some of the challenges that this Budget presents, as departmental bids are linked to this and are prioritised against it accordingly. Additionally, a PfG supports joint bids from departments, which DoF would support – although such bids are not usual. A PfG would also be multi-year and over a number of budgets – mitigating against the issues caused by single-year budgets outlined above.

42. In their evidence to the Committee, both the Nevin Institute and Pivotal, highlighted a lack of strategic goal-setting underpinning the budget. A PfG offers greater accountability and gives clarity of year-on-year funding. Additionally, the Nevin Institute recommended that a PfG should follow an analysis of impact/benefit of Executive economic policy – failures must be acknowledged and assessed, and a PfG should be qualitatively evidence-based. In its Assessment of the Budget, the Fiscal Council also suggests that a PfG would help to ameliorate budget pressures over the next few years. The Council goes on to include the lack of an agreed PfG as a 'red flag' in its Budget Assessment.

43. In the absence of a PfG, contributors advocate greater co-operation across the Executive and departments than has been seen in the past; and, in the absence of a PfG, departments should focus on a more strategic use of the funds available. There was wide support for the development a PfG as soon as possible to provide a level of stability and certainty going forward and, if it is possible, for this to be supported by multi-year budgets, as highlighted above.

44. Like many other contributors, Employers for Childcare suggested key elements for a future PfG, with the organisation recommending that it should be reflective of the critical nature of childcare with a corresponding multi-year budget

attached. Reflective of the need for a PfG with multi-year budgets, the Construction Employers Forum advocates that the Committee ensures the Executive impresses upon the next UKG the need to provide budget certainty going forward. Similarly, the CBI recommends a PfG with an associated budget with short, medium and long-term spending plans.

45. Additionally, CIPFA suggests that the way to achieve budget sustainability is a five to ten-year PfG which sets out strategic objectives to which all departmental and ALB business plans will align. CIPFA also advocates that multi-year revenue raising, budget and resource plans should be identified to meet these objectives. They believe that this would overcome the previous absent linkage between budgets and the PfG. They suggest that these spending plans should be reviewed regularly, with annual budget finalised in December for the next financial year, as per a ‘normal’ budget cycle.

46. In their submission, Development Trusts NI suggested that the Executive sets up a capital fund specifically for the use of “civic organisations”, which would support the development of a community wealth building approach. Additionally, DTNI suggest that a qualification of the ‘private sector entities’ criteria for the application of Financial Transactions Capital (FTC) could mean that it could be utilised by voluntary, community and social enterprise organisations. DTNI also suggests a Development Fund to strengthen capacity and capability in the third sector, as well as a Revenue Fund to facilitate the sector’s service delivery and financial autonomy. These Funds would allow the sector to make a sustainable contribution to the delivery of a range of community-focused objectives in a PfG. The submission goes on to detail how Community Wealth Building and ownership can be supported.

47. NICVA’s submission details the significant role played by the community and voluntary sector in the provision of services across a range of areas, including health. They highlight the extreme impact that disproportionate budget cuts and short-term budgeting can have on the sector – often it is the case that once provision is cut it cannot be replaced as skills and expertise have often moved on. NICVA advocates early engagement with the voluntary and community sector in the development of a PfG to ensure that the sector’s expertise can be fully utilised in the development of PfG objectives and outcomes.

48. **Lack of Scrutiny of the Budget** - while most Assembly Statutory Committees managed to receive some kind of briefing from their respective departments regarding the bids process based on a 'flat cash' budget, few will have been able to receive a briefing on their department's 'post-allocation' budget position prior to the Vote on the Budget scheduled for 28th May 2024. The Committee is aware that departments will forward their bids to the Department on a specific template which goes into the detail around the bid. Unfortunately, these templates are not being shared with the Statutory Committee in the majority of cases. This inaction, whether deliberate or otherwise, mitigates against good and transparent scrutiny of the Budget. Committees' scrutiny is based on a statutory role and should not be seen in any way as being at the discretion of the corresponding department. In the absence of a public consultation, scrutiny by the Assembly Statutory Committees becomes even more important.

49. It should also be noted that this Budget Scrutiny Report has been compiled prior to the Department of Finance's laying of the Budget paper that will be the subject of the debate on 28th May. This is poor practice and the Committee highlights it as such. The considerable talk from Executive ministers and officials that this is been an "exceptional" Budget must be borne out by better practice and significantly greater transparency going forward.

50. As highlighted, the lack of a public consultation on the Budget carries considerable risk. Finance officials have suggested to the Committee that the Executive believes that there would have been a greater risk in waiting to complete a public consultation than not having a Budget. However, the Committee notes that the Budget was not in place by the beginning of the financial year and still remains in draft. The recent Supply Resolution motion in the Chamber agreed a 65% Vote on Account means that departments have budgetary cover until the autumn. In response to issues around the lack of a public consultation raised by the Committee, Finance officials indicated that previously received legal advice supports departments applying their own schemes as per statutory equality responsibilities. However, compliance with equality responsibilities may mean budget reallocations at a later stage.

51. The Committee has highlighted that the lack of a public consultation on this Budget means that the usual process of challenge and 'sense-testing' provided by such a consultation is absent, and this is a potential cause for concern going forward. As noted above, a lack of information provided by departments to Statutory Committees has significantly impacted on their scrutiny of the Budget.

52. In its submission to the Committee, CIPFA made suggestions around different models of scrutiny. They suggested that DoF relinquishes some of its scrutiny and audit roles to NI Audit Office, with these then being reviewed by the Public Accounts and Audit Committees. They see the Department's scrutiny happening at a more strategic level – i.e. the linking of budget and the PfG as discussed above would be managed by the Department of Finance. CIPFA also suggest that governance systems and financial management need to be reformed.

53. **The Need for Strategic Budgeting to support Economic Growth** – in its evidence to the Committee, the Ulster University Economic Policy Unit (UUEPC) highlighted the need for departments to put much greater emphasis on the aspects of their remit that drive economic growth through their budgeting. Indeed, this could have formed a key strand of a PfG if there had been one. However, the UUEPC specifically referenced a greater focus on in-work training and mapping of skills deficits, including strategic investment around capital and skills. As stated by a number of contributors, these are key levers to support economic growth. Plans should be developed to give working adults greater access to careers advice, particularly those in 'vulnerable' industries/sectors.

54. Skills shortages, or deficits, act as a constraint on the growth of our economy. Level of qualifications and educational attainment here, as well as our levels of economic inactivity, are the worst in the UK. Issues around our skills shortage/deficit were incited by a number of key stakeholders, including the CBI and CIPFA. Social Enterprise NI further suggests that rather than spend more, we ***"spend better"***, ensuring that social value is at the core of government's spending. They advocate that social value legislation is placed at the heart of our budgeting and economy by mirroring that which applies in rest of UK. This is strongly supported in the NICVA submission.

55. In highlighting their views on the inadequacy of Capital budgeting to address our infrastructural difficulties, the CEF advocated an Infrastructure Commission. They highlighted that capital investment in infrastructure and communication links fell away in 2008 and is now inadequate. They believe that these are key to economic growth and need to be prioritised in budgets going forward.

56. The CEF continued by emphasising that it is vital the Executive maximises its use of the Reinvestment and Reform Initiative to ensure that the £220m available, and highlighted in the Executive Restoration Package Settlement, is used in the current financial year. The CEF also believes that ‘earmarked’ Capital allocations in the Budget are more realistic than they have been in the past and called on the Committee to ensure that the progress of these is closely monitored.

57. The CBI also advocates the need for macro-level infrastructure spending, while highlighting issues at the micro-level constraints and pressures point caused by planning approvals and the business continuity and the cost of doing business here. They suggest that the lack of investment in public infrastructure puts businesses at risk and can jeopardise employee safety, as well as creating a ***“downward economic spiral”***.

58. In its submission to the Committee, CIPFA advocated against taking a salami-slicing approach to budgeting in difficult circumstances as it is not strategic and doesn’t prioritise public spending. They too support what has been highlighted above around growing the economy and skills development, as well as echoing the infrastructure and issues raised. They too suggest a longer-term infrastructure plan is needed for NI which will support local economic growth. CIPFA also suggested that the Executive takes greater cognisance of the long-term impact of public pay awards.

59. **The Importance of Childcare** – this was an issue raised by many contributors and it was identified as a key element of creating foundation for addressing our skills shortages/deficits and, hence, our economic growth, as well as a vital part of any forthcoming PfG. Countless studies have shown the benefit/need for early interventions, such as good quality childcare and nursery places, for the development of our economy. While the Executive has

highlighted the issue is a priority, it will be the Department of Education's 'Task and Finish' group that will lead work the allocation of the centrally held £25m. Each department can bid from this central fund, but can also use its own budget for this purpose. As yet, an Executive Childcare Strategy is not agreed. Officials have indicated to the Committee that the centrally held money could be reallocated if it is not spent.

60. The UUEPC's evidence to the Committee highlighted that a lack of affordable, readily available childcare creates a poverty trap. This lack means that some people are unable to go out to work and are also unable to access opportunities to acquire skills. Trapped in this position, they are more likely to remain in poverty. The UUEPC highlighted that packages of skills support need to be linked to the provision of childcare and free childcare should be provided at Further and Higher Education campuses to enable parents to access the learning and skills development opportunities that these provide.

61. In their submission, Employers for Childcare welcome the centrally-held childcare fund as it is cross-departmental/Executive-wide and is additional to existing work on the issue. However, they believe that the fund is too small, and express concern that it is not accompanied by proposals for delivery, with a lack of clarity about what is covered within departments' remits. They fear the "new and additional" element may not be honoured and express concern that the fund might displace other planned spending. They suggest the fund should be invested in the childcare sector conditional on reducing fees for parents and suggest, for this to be meaningful and sustainable, further funding must follow.

62. They advocate clarity on what individual departments are going to do regarding childcare, with timelines provided. They highlight that childcare provision is linked to issues around parental employment opportunities, poverty, educational inequalities and underachievement, and skills shortages. They state that good childcare is essential for, ***"Enabling parents to move into, stay in and progress in work"***; it also helps to improve educational outcomes for children and supports families to move out of poverty. Like other contributors, the CBI supports the reduction of the service cost of childcare for working parents. NICVA also strongly advocates for the reform of childcare, however, they

acknowledge that the immediate priority must be financial intervention to support the sustainability of childcare providers, such as SureStart.

63. **Reform and Sustainability** – these themes were highlighted by a number of contributors. They suggested that the Budget does not deal with either in any clear or specific way. The UUEPC's evidence suggested that the issue for Health is not really resources, it is reform. The Nevin Institute stated that Health spending is unsustainable on its current trajectory. This is not a new issue and reform of our Health system, specifically the outworkings of the Bengoa Report, have been discussed for a number of years. Education was also cited as an area in need of reform with difficult decisions about the school estate requiring immediate attention.

64. The strong message from contributors is that reform is now essential against a backdrop of a challenging Budget and the Sustainability required by the Executive Restoration Package Settlement.

65. The UUEPC believes that the Executive must improve its communication with the public about what reform, or transformation, means. It is almost always associated with closures in Health and Education, rather than increased opportunities and services. The Executive needs to get behind the message that local provision does not always equate to the best provision. The UUEPC suggests that it is much better to make a case regarding proactive investment to improve and save to the UKG, rather than simply ask for cash to plug gaps whose cost will continue to escalate – i.e. sustainability is the only way to move forward.

66. UKG underinvestment over many years is acknowledged by contributors, and recouping this needs to be set against any plan presented to the UKG around investment/sustainability. The Department has told the Committee that, ***"nothing is off the table"*** re sustainability. It is hoped that the scope of a Sustainability Plan for the UKG – as requested in the Package Settlement, will be available soon, with details in a completed plan in the autumn. There is £47m in the Budget for transformation as part of the Package Settlement. Currently, it is unclear how that will be spent as it is subject to the approval of the Public Sector Transformation Board, which has yet to be established.

Contributors were disappointed that there is not more detail accompanying the Budget as to how the Transformation and Sustainability issues will be approached.

67. With regard to public sector reform, the UUEPC suggested to the Committee that the current welfare benefits system acts as a disincentive to taking up training as benefits fall away before skill acquisition has led to income replacement. Micro and Small and Medium enterprises need to be brought into interventions as they form the majority of our businesses. The UUEPC suggests that it is positive that we know what reform needs to be undertaken and believe that technology will support us in getting there. The UUEPC suggested the need for a regional migration strategy for NI as our workforce needs are not the same as those of the wider UK. These issues need to be fed to the Migration Advisory Committee. CIPFA also cited a lack of movement on reform as being a problem that mitigates against greater budget sustainability.

68. **Fiscal Issues and Revenue Raising** – the Executive Restoration Package Settlement (ERPS) has put these topics into focus in a way that they have not been previously. It is therefore not surprising that they were raised by a number of contributors in a range of contexts. The Fiscal Council highlighted in its Assessment that the ERPS is providing 5% of this budget. The Council believes that the level of in-year transfers to departments in 2023-24 highlights the underfunding that NI faces, reinforcing the need for the Fiscal Floor/needs adjustment that has been referenced. The Minister has indicated that discussions with the Treasury on how this will be applied are ongoing and the Committee looks forward to the positive conclusion of these.

69. The UKG has referenced a figure of 24% as a needs adjustment, or fiscal floor, to be applied to the Barnett Formula calculation. However, contributors, including the Fiscal Council, have highlighted that it isn’t clear if this will be applied retrospectively to NI’s allocations under this CSR period, or whether it will be applied to Barnett Consequentials coming from the Chancellor’s Spring Statement. Additionally, officials have highlighted that upcoming Westminster Main Estimates will mean further Barnett Consequentials, however, it is unclear whether the 24% (or otherwise) will be applied to these.

70. The UUEPC stated in evidence to the Committee that nailing the fiscal floor into the budget baseline would be extremely beneficial, whether this is 24% or more. They, as well as others, suggested that this Fiscal Floor is currently a Fiscal ceiling and at the end of the period of the ERPS there is a budget cliff edge. It was highlighted that Scotland and Wales are funded above need and it should not be the case that we are funded below. The Nevin Institute suggested that the UKG's definition of "need" in this discussion is entirely "arbitrary". They would not support the UKG's method to reach a Fiscal Floor. Pivotal agreed that the Fiscal Floor of 24% should be applied immediately, as the ERPS is not a sustainable basis for going forward. Pivotal also questioned the UKG needs analysis, and highlighted the basis for calculating Barnett is relative, not absolute – it is simply based on spending in England. A more absolute solution is needed. The Nevin Institute stated that NI sustainability is not based on an absolute, it is based on what the UKG says it is.

71. The ERPS also set a figure of £113m of revenue for the Executive to raise over the next two years – following greater flexibility being applied. This follows on from consultations directed by the Secretary of State regarding revenue raising measures and reform of the rates system with the purpose of increasing revenue raised through the Regional Rate. The Executive has, to date, not indicated how they will proceed regarding this issue, although the Regional Rate was raised by 4% for this financial year, not the 10% that was suggested by the UKG to raise the £113m referenced in the ERPS.

72. Discussion on these themes inevitably raised the issue of how greater fiscal devolution could allow more tax revenue to remain in NI. Contributors highlighted that there is always a cost to devolution of anything using Treasury models. Like many contributors, the Nevin Institute believes that revenue-raising is not the answer to our budgetary challenges, rather the Devolved Administrations need to be properly empowered by the UKG to work.

73. The Nevin Institute told the Committee it believes that there is scope for reforming the rates system, but highlights that this must be done in a sustainable way and used as a planned device applied over a number of years to let households plan. They add that any reform should be reflective of the fact that in NI taxes are higher as a portion of income. The Fiscal Council state in

their Assessment that an increase in the Regional Rate would need to be significant to make an impact on the budget. The Council believes introducing explicit water charges linked to a rise in the Regional Rate could raise significant funds, e.g. contributing as much as 4% (£615m) to the 2024-25 budget if applied at levels similar to water charges and Council Tax in England; however, the Council acknowledges that this is politically controversial and unlikely to be pursued by the Executive at this time.

74. The UUEPC suggested that new ideas around rates reform might be worthwhile considering for revenue raising, such as lifting the £400k cap on domestic rates. Business rates need reform, however, the sector is not offering an alternative model. The UUEPC suggested that the many reliefs offered by the current rates system suggest that it is overdue for reform; but, NI does not have a significant pool of wealthy people to make a greater contribution. The Nevin Institute suggests that reform of the rates system could act as a signal to support further discussion around revenue raising, but they would highlight that the Council Tax is regressive and should not be applied as a model.

75. With regard to wider fiscal reform, the UUEPC referenced the non-delivery of Corporation Tax devolution as having dented overseas confidence after it had been talked up as a key lever for economic growth here. It was also highlighted that political stability is important for investor confidence. Some contributors suggested the devolution of the Apprenticeship Levy would be useful as NI businesses have less access to the proceeds of this than their GB counterparts. The CEF was supportive of this.

76. More widely, the Fiscal Council notes that public pay restraint, departmental savings and uplifts to fees and charges could be used to improve the budget position here. The CEF suggested road tolling as a means of revenue raising. The CEF suggested that Stamp Duty might be devolved. A number of contributors highlighted the end of EU funds and their replacement by UKG funding as an issue. UKG funds have been highlighted by officials to the Committee as lower in quantum and less aligned to Executive policy than the EU funds they are supposed to replace. The Committee has raised these issues with the Secretary of State for Levelling Up, Housing and Communities, the Rt. Hon. Michael Gove MP.

Conclusion

77. The Committee is grateful to all those who have contributed their views on the Budget. While the themes above are referenced separately, they are clearly linked and need to be addressed as such. The Committee looks forward to a Budget for 2025-26 that is reflective of the content of this report and makes good on the reassurances that Members have received that the 2024-25 Budget is exceptional and its progress does not represent good practice. Additionally, the Committee would ask that Executive departments reflect on how they provide opportunities for their respective Statutory Committees to scrutinise their budgets. As their name suggests, these committees have a statutory role in scrutiny of the Budget; however, it is clear that they have been afforded little opportunity to do so with respect to the 2024-25 Budget. The Committee suggests that cannot be repeated.

Links to Appendices

Appendix 1: Minutes of Proceedings

View Minutes of Proceedings of Committee meetings related to the report.

Appendix 2: Minutes of Evidence

View Minutes of Evidence from evidence sessions related to the report.

Appendix 3: Written Submissions

View written submissions received in relation to the report.

Appendix 4: Memoranda and Papers from the Department of Finance

View memoranda and papers from the Department of Finance to the report.

Appendix 5: Non-Departmental Papers

View non-departmental papers received in relation to the report.

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