Written Ministerial Statement

The content of this written ministerial statement is as received at the time from the Minister. It has not been subject to the official reporting (Hansard) process.

Department of Finance

UPDATE ON THE EXECUTIVES BUDGET SUSTAINABILITY PLAN

Published at 12:00 on Thursday 3 October 2024

Dr Archibald (The Minister of Finance): I would like to provide members with an update on the Budget Sustainability Plan.

My written statement to the House on 15 May 2024 regarding the Interim Fiscal Framework set out that the framework contained a requirement that the Executive publishes a Budget Sustainability Plan as part of the actions required to avoid the repayment of the £559 million Reserve Claim.

However the agreement of the Plan is not simply about meeting a Treasury target.

We are all aware of the ever-increasing pressures on our budget not least because of the years of Tory austerity and the underfunding of public services, coupled with changing demographics, geopolitical and economic challenges and the need to protect our environment. All of these place ever increasing demands on our public services. Our citizens deserve good public services.

It is only with long term planning, transformation and adaptation that we will be able to provide those services.

We need budgeting and financial management that looks at tomorrow as well as today and is not constantly focussed on the short term.

When it comes to public finances, our aim is to secure and maintain sustainable finances and integrate sustainability into the Executive's processes, developing comprehensive longer term sustainability plans, and improving budget practices.
The publication of the Executive's Budget Sustainability Plan today will be the impetus required to drive further improvements in our fiscal system.

CONTENTS OF PLAN

The Budget Sustainability Plan covers the following elements:

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

It sets out what is required to sustainably manage public expenditure including the existing checks and balances for monitoring the 2024-25 Budget.

It also covers the key components required when developing and implementing a balanced budget going forward and a review of the in-year monitoring process and a discussion on the sustainability of funding Executive policies.

Income Generation

The Plan also sets out how the Executive will generate the £113 million of additional income with departments having identified and quantified additional income for the financial years 2024-25 and 2025-26.

The options put forward to meet this £113 million target are not exhaustive, but rather represent the most realistic options for shorter term income generation.

As the 2024-25 Budget has been set, the decisions on the associated income generation in this financial year have already been taken by Ministers and the position is generally clearly quantified. We are currently projecting that approximately £80 million of additional income will be raised this financial year. The Plan provides a detailed breakdown of the source of income generation with approximately half of it coming from the Regional Rate increase.

Decisions on this additional income have been taken by myself, other Ministers and the Executive, with the aim of progressing public services in a sustainable and progressive way. Consideration of the financial context of those who pay, with a particular emphasis on protecting those who are most vulnerable in our society, is a key part of our decision-making.

As the budget envelope for next year will not be known until the Spending Review later in October the figures for 2025-26 are projections based on either a department's best estimate at this stage or on an increase similar to that applied last year. Ministers will take final decisions on 2025-26 income generation as part of their budget setting processes.

I believe this is a pragmatic approach until a fuller understanding of the overall 2025-26 financial picture is known.

Lastly, the plan also contains a synopsis of the Budget management tools that currently exist and could be implemented to assist the Executive in providing sustainable finances.

The plan will help the Executive consider and bring forward fully informed policy choices that provide the vital stable conditions for economic development that allow our local businesses to not just survive but to thrive, while also allowing us to deliver public services as effectively and efficiently as possible.

Today's publication of the plan includes five key commitments agreed by the Executive:

- The implementation of multi-year budgets where possible.
- The routine publication of supplementary financial tables for in- year monitoring to promote transparency and accountability.
- The regular, strategic consideration of income generation measures.
- Engagement with Treasury on flexible use of existing tools and longer-term solutions including those that will form part of any Fiscal Framework.
- Agreement to a future workplan to help secure and maintain sustainable finances.

As part of this future workplan, the Executive has agreed to the following key actions:

- Development of departmental Financial Sustainability Plans - comprehensive five-year financial sustainability plans for each department, looking at what a department plans to deliver and how it can do so within its budget.
- A Budget Improvement Plan - focusing on key strategic improvements to the Budget process.

This workplan is envisioned to be the platform that will allow us to begin integrating important sustainability discussions into the heart of our processes and decision making while allowing the development of longer-term plans and improvements to the budgeting process.

I have established a small budget sustainability unit within my department to lead on this future work programme and my officials have already begun the work of engaging with groups and organisations who are keen to meet and provide views on how the delivery of public services can be improved.

CONCLUSION

The Budget Sustainability Plan provides a strategic framework for financial planning, highlighting the important work already done and the significant work still to be undertaken and a focus on the difficult policy choices we face.

However, the development of the Budget Sustainability Plan is not sufficient on its own to avoid the repayment of the £559 million overspend. The Executive must deliver a balanced budget for 2024-25.

Members will be aware of the budgetary pressures facing us after my speech to the House on 10 September 2024, outlining that departments have reported some £767 million of pressures above their budgets.

Therefore, alongside today’s publication of the Budget Sustainability Plan all Ministers will have to play their part and take necessary action to live within their budget.

Collectively we all must work together to ensure a balanced Budget is delivered. Not doing so would have grave consequences for future funding and our public services.

Department of Finance
An Roinn Airgeadais
www.finance-ni.gov.uk

BUDGET SUSTAINABILITY PLAN

OCTOBER 2024

Contents

Glossary

AI – Artificial Intelligence

BoE – Bank of England

CPI – Consumer Prices Index

DEL – Departmental Expenditure Limits

DoF – Department of Finance

EU – European Union

HMRC – His Majesty's Revenue and Customs

IFF – Interim Fiscal Framework

ISNI – Investment Strategy for Northern Ireland

MPMNI – Managing Public Money Northern Ireland

NIFC – Northern Ireland Fiscal Council

OFO – Outturn and Forecast Outturn

ONS – Office of National Statistics

PfG – Programme for Government

RRI – Reinvestment and Reform Initiative

SR – Spending Review

Executive Summary

The Executive's Budget Sustainability Plan will help ensure long-term fiscal stability, efficient resource allocation, transparency, economic resilience, and sustainable public service delivery. The underfunding of public services through the austerity agenda of the previous UK government and the relative underfunding of the Executive in recent years has contributed significantly to the difficult position which public services are now in. The financial package, later formalised in the interim Fiscal Framework, delivered short-term funding certainty. However, it remains the position of the Executive that the 124% level of need should have been baselined from the start of the current Spending Review period and there is more work to be done to provide greater long-term certainty including realising the commitments in the interim Fiscal Framework. The plan will support the Executive to fulfil their financial obligations, meet strategic objectives, and ultimately improve the quality of life for their citizens. The publication of this plan fulfils a commitment of the draft Programme for Government.

The Plan sets out key components of sustainability including the checks and balances in place to monitor the Budget for 2024-25, the key components required to develop and implement a balanced Budget going forward, a review of the in-year monitoring process and a discussion on the sustainability of funding Executive policies.

The Plan also sets out how the Executive will generate the £113 million of additional revenue along with a synopsis of the Budget management tools that currently exist and that could be implemented to assist the Executive in providing sustainable finances.

The publication of this plan is not the culmination of sustainability work, rather it is a stepping stone to the Executive's larger ambition to secure and maintain sustainable budgets. In that vein, the Executive has agreed to a number of key actions that will help to produce sustainable finances going forward. These are:

- **The implementation of multi-year budgets where possible.**
- **The routine publication of supplementary financial data tables for in year monitoring to promote transparency and accountability.**
- **The regular, strategic consideration of income generation measures.**
- **Engagement with the Treasury on flexible use of existing tools and longer-term solutions including those that will form part of any Fiscal Framework.**
- **Agreement to a future workplan to help secure and maintain sustainable finances.**

The path to sustainable finances is not straightforward. There are a number of key fiscal limitations when considering working within a devolved context and these can impact the ability to achieve fiscal stability and deliver effective public services.

Sustainable finances will require decisions that will impact on the public services that the Executive deliver and with some six months of the current financial year already passed, achieving fiscal balance in 2024-25 will prove challenging. There remains significant risk around balancing the budget for the current financial year and a series of actions have been put in place to determine the most appropriate course of action required by both individual Ministers and the Executive collectively.

The publication of this plan in itself will not make the Executive's finances more sustainable. It is however the first stage in a process that will set the Executive's finances on a more stable trajectory. The Executive's aim is to secure and maintain sustainable finances and the forward work plan outlines the approach to integrating sustainability into the Executive's processes, developing comprehensive longer term sustainability plans, and improving budget practices, with continuous performance tracking and reporting to ensure accountability and progress.

1. Introduction

Purpose of a Budget Sustainability Plan

A Budget Sustainability Plan is a strategic framework designed to support the long-term financial health and viability of the Executive's budget. Its primary purpose is to facilitate the alignment of resource allocation with strategic priorities while maintaining fiscal discipline. The following are the benefits that a sustainability plan will typically bring to public administration and service delivery[1].

- *Supporting Public Service Delivery*
- *Supporting Long-Term Fiscal Stability*
- *Optimising and Prioritising Resources*
- *Enhancing Transparency and Accountability*
- *Increasing and Diversifying Funding*
- *Fulfilling Financial Obligations*

Importance of a sustainable approach to resource management and public service delivery

A Budget Sustainability Plan will help support long-term fiscal stability, efficient resource allocation, transparency, economic resilience, and sustainable public service delivery. By adhering to such a plan, the Executive can fulfil their financial obligations, meet strategic objectives, and ultimately improve the quality of life for their citizens. The extent to which the Executive can do this depends on the Westminster government making a political commitment to further investment in public services. The underfunding of public services through the austerity agenda of the previous UK government and the relative underfunding of the Executive in recent years has contributed significantly to the difficult position which public services are now in. This is all the more important considering that according to research carried out by the Nevin Institute[2], citizens here pay more tax as a share of GDP than England, Scotland and Wales.

Agreement between the Executive and UK Government

The Interim Fiscal Framework (IFF) agreed between the Executive and the UK Government is a structured approach to addressing current fiscal challenges while setting the stage for more robust financial management and public service delivery in the future. The framework's emphasis on needs-based adjustments, increased

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[1] Additional detail is available at www.finance-ni.gov.uk/publications/budget-sustainability-plan

[2] https://www.nerinstitute.net/sites/default/files/events/downloads/2023/Sustainable%20public%20finances%20and%20fiscal%20devolution.pdf

borrowing capacity, and strategic planning begins to align the Executive's fiscal levers to those in other Devolved Administrations. Work is ongoing on developing a final Fiscal Framework.

During 2022-23 and 2023-24 £559 million of overspend was incurred which in the view of the Executive was primarily as a result of the underfunding of public services. This meant that there was a reliance on Reserve Claims in both 2022-23 and 2023-24. As a default, these Reserve Claims, provided by Treasury to prevent breaches of control totals, are repayable in full the following year. The conditions for access to the Treasury Reserve for the Devolved Administrations are outlined in section 8.7 of the Statement of Funding Policy[3].

The 2024 Executive Restoration financial package included a commitment to write off the £559 million overspend, provided that the Executive publishes and implements a plan for sustainable public finances and services by August 2024, with the scope agreed between the Department of Finance (DoF) and HM Treasury by May 2024. Given the subsequent General Election and change of Government the new Chief Secretary to the Treasury agreed to extend the August publication target to September.

This plan is part of the fulfilment of the conditions set by the UK Government in relation to the agreement for that £559 million write-off.

Importance of the Principles of Devolution

The 1998 Good Friday Agreement established the framework for devolution and ensured power-sharing among different political parties; an arrangement which is unique on these islands. The principles of devolution are integral to maintaining this delicate balance, providing a platform for cooperative governance and ensuring that all communities have a stake in the political process.

The Executive and Assembly are empowered to make decisions on a wide array of local matters, including health, education, and justice, which are tailored to the specific needs and preferences of our communities. This local governance structure ensures that devolved policies and laws are more responsive and reflective of the region's unique demographic, cultural, and economic circumstances. It empowers local politicians to address issues pertinent to our context, ensuring that the governance system remains closely connected to the citizens it serves. This approach is crucial in promoting social cohesion and economic development in a region with unique challenges and opportunities.

Inappropriate intervention in devolved matters has the potential to undermine the autonomy of the Assembly and Executive, potentially destabilising the political equilibrium established by the Good Friday Agreement. Such interventions can be

[3] https://assets.publishing.service.gov.uk/media/63f3a4188fa8f561335b4efd/Statement_of_Funding_Policy_update_Feb_2023.pdf

perceived as breaches of trust and may provoke political friction, eroding the progress made towards peace and self-governance.

The principles of devolution are crucial for ensuring that the Executive can govern itself in a way that reflects its unique needs and circumstances. The UK government's ongoing respect for these principles is vital in maintaining the delicate balance of power, fostering local governance, and supporting the peace process.

2. Objectives

Scope

The Executive's Budget Sustainability Plan will cover the following issues ensuring the Executive uses its available resources and flexibilities sustainably to help deliver public services:

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

Ensuring Sustainable Use of Resources to Support Public Services

The sustainable use of resources is crucial for the long-term viability and effectiveness of public services. In the context of the Executive's Interim Fiscal Framework, ensuring sustainability means strategically managing financial resources to maintain and improve public service delivery while avoiding fiscal imbalances and unsustainable cost increases. The Executive faces particular challenges in achieving economies of scale due to our size and geography.

Ensuring the sustainable use of resources to support public services requires a multifaceted approach that encompasses strategic resource allocation, revenue diversification, cost efficiency, prudent Reinvestment and Reform Initiative (RRI) debt management, and strategic investment in infrastructure. By adopting these practices, the Executive can achieve fiscal sustainability and deliver high-quality public services that meet the needs of its citizens both now and in the future.

3. Key Areas of the Sustainability Plan

This section provides a roadmap for the Executive to navigate its financial responsibilities, emphasising the importance of strategic planning, rigorous monitoring, and innovative solutions in achieving fiscal stability and sustainability. The following areas are explored in more detail:

- Balanced Budget for 2024-25
- Balanced Budget Post-Spending Review
- In-Year Monitoring Process Transparency
- Sustainability of Funding Executive Policies
- £113 million Revenue Generation
- Budget Management Tools

Delivering a Balanced Budget for 2024-25

This section intends to outline and describe the processes implemented by the DoF and the Executive to develop, monitor, and manage the challenges of delivering a balanced budget for 2024-25.

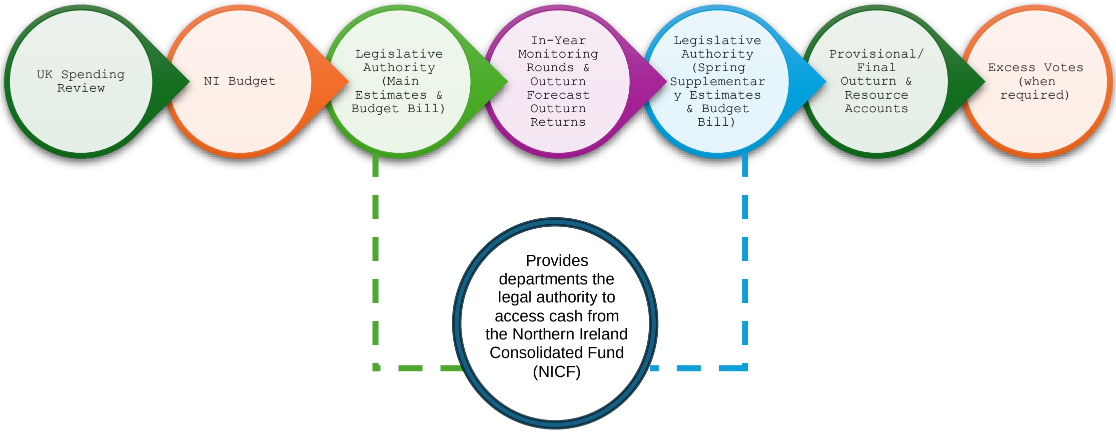
Budgets are the spending plans set by the Executive that provide the vehicle through which public expenditure is managed, underpinning good decision making within government departments while helping to ensure that spending plans are affordable when taking expected revenue (or income) into consideration, alongside the management of Executive RRI borrowing[4]. These spending plans are composed of several different component parts or “control totals” which are set as part of a Spending Review. The component parts of the control totals are outlined at Appendix A**.**

Setting the 2024-25 Budget

The budget setting process can change from year to year and is highly dependent on factors external to the Executive such as the timings of a Spending Review (SR) outcome and the period covered. Significant periods where the Assembly and Executive have not been sitting have impacted the ability of DoF to effectively manage these processes in recent years.

The process map below shows a high-level overview of how the budget for 2024-25 was set, enshrined in legislation, and is currently being managed with the aim to deliver a balanced outcome at the end of the financial year.

[4] The Executive can borrow up to £220 million of capital per annum. This will increase annually in line with inflation.



A more detailed process map is available at https://www.finance-ni.gov.uk/publications/budget-sustainability-plan.

In-Year Monitoring

Along with the budget setting process, the in-year monitoring process provides a formal mechanism for departments, the Executive and statutory departmental committees to review current spending plans and priorities taking account of the most up to date information available.

While the in-year monitoring process is covered in more detail later within this document it should be noted it is another key control available to the Executive in the delivery of a balanced budget with usually three monitoring rounds in a financial year ensuring that new and recycled resources are being distributed towards the highest priority areas as decided by the Executive.

It should be noted that the outcome of the recent June Monitoring as agreed by the Executive was announced by the Finance Minister on 1 July 2024 in a Witten Ministerial Statement[5] detailing the allocation of over £250m Resource Departmental Expenditure Limits (DEL) and over £50m Capital DEL to departments to fund vital areas such as health, education, justice and new build social housing.

Outturn and Forecast Outturn (OFO) Returns

OFO returns are an important tool for the management of public expenditure. This information allows DoF to report the actual year to date outturn information and provide a full year forecast of the financial position. The OFO returns also facilitate financial decision making at Executive level. The information is collected for all the component parts that make up the Executive's Block Grant control total as well as Annually Managed Expenditure.

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[5] https://www.finance-ni.gov.uk/publications/ministerial-statement-2023-24-provisional-outturn-and-2024-25-june-monitoring

For 2024-25 Departments are allowed to report forecast overspends against their agreed budget position on individual spending lines but to ensure that control totals are not exceeded, departments must offset this with an overcommitment and then show how their proposed actions will allow the overcommitment to be managed down reducing to zero over the course of the year so they can demonstrate their ability to manage and live within the budget set. This allows DoF to monitor the position, challenge departments and advise the Executive of issues. More detail of the Outturn and Forecast Outturn process is set out at Appendix B.

OFO returns provide the opportunity for DoF to monitor actual spend against their forecasted budget/in-year positions. This allows DoF the ability to identify and challenge departments on spending trajectories early within the financial year to manage these overcommitments with the aim of delivering a balanced budget for the Executive.

The summer monthly forecast outturn returns indicated increasingly significant departmental overcommitments, and in response DoF commissioned an urgent in-year exercise to assess the scale of the issue and proposed actions required to be taken by departments.

The Finance Minister is conducting bilateral engagements with each Executive Minister and a special Executive meeting was convened on how they can address the pressures identified by their departments and what further collective Executive action may be required.

The Executive is acutely aware it must deliver a balanced budget for 2024-25 and will take the necessary steps to do so.

Moving forward DoF will continue to focus on and utilise the information and analysis gained from departmental engagement and OFO returns to enable it, the Executive, and the statutory departmental committees to monitor the position and carry out their robust scrutiny functions while providing a vital challenge function on the prudent use of public expenditure.

Conclusion

As set out above there are a number of key processes implemented by DoF and the Executive to develop, monitor, and manage the budget for 2024-25.

- Budget envelopes were set by the Treasury and presented as Total DEL within the budgeting framework. It is split between Resource DEL and Capital DEL, with a depreciation ringfence within Resource DEL and a Financial Transactions ringfence within Capital DEL. These set firm limits on the departmental expenditure available to the Executive.
- The Executive agreed a final Budget for 2024-25 including informing the Assembly of the overall budget envelope in advance of the publication of the

budget. The budget outcome was then set out in legislation, providing departments with clear limits on spend.

- The Executive conducts an in-year monitoring process that allows them to review the budget position (usually three times a year) and make adjustments according to the latest financial position.
- Departments submit monthly OFO returns to DoF to report actual year-to-date expenditure and forecast the full year's financial position. Departments can report forecast overcommitments but must show how they will offset these to avoid exceeding control totals by the year's end. OFO returns are signed off by the Permanent Secretary and Finance Director.
- The data is provided to the Finance Committee, NI Fiscal Council (NIFC), for scrutiny and (in the case of the Executive) decision-making.
- Accounting Officers responsibilities are set out in Managing Public Money (MPMNI) and the appointment letter issued to all Accounting Officers is set out at https://www.finance-ni.gov.uk/publications/budget-sustainability-plan.
- A bespoke in-year exercise was conducted to ascertain the scale of issues being identified by departments through the Forecast Outturn process.
- A series of bilateral engagements between the Finance Minister and Executive colleagues were set up to assess the actions needed individually and collectively to achieve financial balance.
- A special Executive meeting was convened to discuss the approaches needed to achieve a balanced Budget for 2024-25.

The Executive is taking urgent steps to identify the actions that will be needed to deliver a balanced budget through these comprehensive monitoring and control measures, specific in-year assessments, Ministerial bilateral engagements and targeted Executive discussions, however with interventions requiring time and potential legislative change to implement, achieving fiscal balance in 2024-25 will prove challenging and will require further engagement with all stakeholders.

Balanced Budget Post-Spending Review

Looking forward, beyond the current financial year the Executive will need to set a budget following the outcome of the next Spending Review.

To date, the UK Government has set budgets for one or more years under its Spending Review process. The Executive's funding envelope is set as part of that process, primarily through application of the Barnett formula to the outcomes for Whitehall departments.

Where a Spending Review sets a multiyear budget the ensuing balanced budget for the Executive necessitates a more comprehensive and strategic approach to managing finances than the implementation of a single year budget. This chapter outlines the critical factors involved in formulating such a budget, encompassing the Programme for Government, Investment Strategy, borrowing, revenue raising, public sector pay, and the Spending Review outcome itself. Additionally, it examines the external factors outside the Executive's control that can influence budgetary decisions.

Executive Actions

There are a number of factors within the Executive's control that will influence its Budget setting strategy and facilitate the setting of a balanced budget for the years beyond 2024-25.

Programme for Government (PfG). Following the Executive's agreement of its PfG, subsequent Executive Budgets will reflect the priorities contained within the PfG. The PfG sets out the strategic priorities and desired outcomes for the Executive and therefore provides a frame of reference within which budget decisions can be made. The budget should align with these priorities, ensuring finite resources are allocated to programmes and initiatives that support the PfG's objectives.

Investment Strategy. It is anticipated that the Investment Strategy for Northern Ireland (ISNI) will be published prior to the next Executive Budget and the subsequent Capital Budget will be aligned to the ISNI priorities and will consider, in parallel, Capital outside the scope of ISNI. A robust investment strategy is essential for fostering long-term economic growth and improving public infrastructure. A post SR budget will outline significant capital investment in sectors such as healthcare, education, transportation, and housing, aligned to the costed plan set out in ISNI. Capital projects would be prioritised based on their potential impact, feasibility, and alignment with PfG objectives.

Multi-year Budget Setting. The Chancellor announced that the next multiyear Spending Review would cover the period 2026-2029. Implementing a similar multi-year Executive Budget will help facilitate the stability needed for a balanced budget and sustainable finances. The last time a multi-year Budget was set by an Executive was 2011. It will be important that the next multi-year funding envelope is used to set a multi-year budget. Given the differing mandate timings of Parliament and the Assembly it is likely that the implementation of a multi-year budget may overlap with an incoming Executive's mandate. In previous years there has been an understandable reluctance for Ministers in post to set a Budget for an incoming Executive, however given the need to provide stability to local finances, going forward multi-year budgets should be set for as long as possible, with the acknowledgement that an incoming Executive will review the budget as appropriate. **In that regard the Executive commits to implementing multi-year Budgets where possible**. More information on the strategic importance of multi-year budgets is set out at https://www.finance-ni.gov.uk/publications/budget-sustainability-plan.

Borrowing. The IFF included confirmation that the RRI borrowing facility would increase by 10% from £200 million to £220 million in 2024-25 with the limit increasing annually in line with inflation. This provides the Executive with more scope to manage its Capital Budget, taking into account the wider Investment Strategy. In future budgets a long-term borrowing strategy should be developed to manage existing debt effectively and plan for future borrowing needs.

Alternative Financing. Further examination of alternative financing would help ensure that the Executive are levering in all available funding sources. By collaborating with outside partners, governments can leverage external expertise, innovation, and funding which has the potential to benefit both the government and the public. However, it will be important to both acknowledge the benefits of public ownership/public investment and bear in mind the limitations of public expenditure rules on outside partners and the need to appropriately share risks and benefits.

Efficiency Delivery. Identifying and implementing efficiencies within public sector operations can free up resources for other priority areas without compromising service quality. Whilst all departments are continually examining the potential for efficiencies, there is scope for further work to help develop this area. This area is explored in more detail on page 22.

Public Sector Pay. With the public sector pay bill comprising 59%[6] of overall Resource DEL it is important that any budget process takes appropriate account of the potential impact of pay on budgets. A clear approach to determining public sector pay should be established, balancing the need to attract and retain skilled workers with managing public sector wage bills. Pay negotiations should be conducted transparently and in alignment with broader fiscal objectives. Regular reviews of public sector pay structures will, therefore, be important.

Regional Rates. The Regional Rates is the primary fiscal lever that the Executive can currently deploy to increase the funding available for the delivery of public services. Setting a Regional Rate that takes account of inflation and the wider social and financial context will play its part in helping to provide sustainable finances. More detail on Regional Rates can be found on page 26.

Other Income Generation. A post SR budget should include an assessment of revenue raising options to help address the rising cost and demand of services. The Executive should also actively seek other funding sources such as external funding

[6] Based on the final budget position for the 2023-24 financial year

opportunities from the UK Government, European Union, and other international bodies to supplement its revenue base.

Fiscal Framework. The Executive will benefit from the increased stability that will come from an agreed fiscal framework. The IFF formalised the application of a needs-based factor in the Barnett formula and committed the UK Government to consider a review of relative need, if multiple independent and credible sources provide evidence that relative need is higher. However, it is the position of the Executive that the 124% level of need should have been baselined from the start of the current Spending Review period. The interim Fiscal Framework commits the Treasury to agree a detailed methodology for assessing relative funding, to review and discuss the Executive's funding approach for later years, including concerns about 2026-27 funding and the baselining of the level of need, and to the agreement of a final Fiscal Framework including the further consideration of fiscal devolution.

Building on the IFF and moving towards a final Fiscal Framework should help to provide greater long-term funding certainty for the Executive, giving greater assurance in the level of resources it will have to deliver quality public services for our citizens. A final Fiscal Framework should also deliver additional decision-making powers for the Executive, providing greater control for locally elected politicians to make different policy choices to suit local needs, change behaviours, spur economic activity or raise revenue for public services. A final framework will take time to negotiate and implement.

Treasury Engagement. As part of the IFF agreement was reached to review and discuss the Executive's funding approach, including concerns about future funding. It is imperative that discussions on funding take place as part of future Spending Review processes.

Public Sector Transformation. As part of the financial package for the restored Executive, £235 million of ring-fenced funding was provided for Public Sector Transformation. On 9 May 2024, the Executive agreed to a proposal from the Finance Minister for making progress on the use of this funding, and since then an interim Public Sector Transformation Board has been established, who have called for transformation proposals from Departments focussed on:

i. Increased financial sustainability of public services;
ii. Transforming the model of delivery of public services to improve effectiveness and efficiency to meet increased demands and improve outcomes for citizens; and
iii. Prevention, Cost Savings, and Early Intervention.

The interim Board are now undertaking their assessment of returns in order to make recommendations to the Finance Minister for onward transmission to the Executive, who will make the final decision as to which proposals should be funded.

It is recognised that the £235 million of transformation funding will in no way tackle the magnitude of the issues at hand, however the Executive is committed to using these resources as effectively as possible to develop and implement a model of delivery which will stimulate the wider transformation of public services. Further engagement on how best to fund Public Sector Transformation will be required with stakeholders.

Fiscal Council. The Fiscal Council has made a significant impact in improving the transparency, scrutiny and understanding of our public finances since it was established in March 2021, publishing 18 reports to date. The Council provided the independent evidence base that enabled the Executive to agree the 124% needs-factor in its IFF. The Department of Finance is now taking forward legislation that will underpin the Council's work on a statutory basis, safeguarding its independence and ensuring its continued access to information. Significant preparatory work had already been undertaken in developing the Bill, and it has been included on the Executive's legislative programme for this year.

Factors Outside Executive Control

Spending Review Outcome. The timing and scope of the UK Government Spending Reviews are beyond the Executive's control. Uncertainty in the timing or content of these reviews can complicate budget planning and necessitate flexible, adaptable financial strategies. The announcement of a single year Budget for 2025-26 means a multi-year Executive Budget cannot be taken forward from 1 April 2025. The Executive does welcome the Chancellor's announcement of regular Spending Reviews every two years and going forward that will help provide certainty for future budgets.

Long-term Funding Settlement. The UK Government, in their 2024 financial settlement, committed to providing a needs-based factor in the Barnett formula to be set at 24% from 2024-25. This was later formalised in the IFF. Whilst this delivered short-term funding certainty, there is more work to done to provide greater long-term certainty including realising the commitments in the interim Fiscal Framework. Including, to consider a review of relative need, if multiple independent and credible sources provide evidence that relative need is higher. The IFF also commits the Treasury to agree a detailed methodology for assessing relative funding, to review and discuss the Executive's funding approach for later years, including concerns about 2026-27 funding, and to the agreement of a final Fiscal Framework including the further consideration of fiscal devolution. It is important to note that the IFF agreement means that the Executive can plan on being funded at 124% at least until the Spending Review.

Economic Conditions. Most recently, the local economy has been performing relatively well with total economic activity increasing by 1.4% over past year[7]. Encouragingly, the local labour market continues to improve, however a tight labour market along with economic inactivity[8] remaining stubbornly high at 27.1%[9] and low

[7] Source: NISRA Northern Ireland Composite Economic Index. Refers to annualized change: Q2 2023 to Q1 2024 compared with Q2 2022 to Q1 2023.
[8] A labour market is "tight" if vacant jobs are plentiful and available workers are scarce – source: GOV.UK
[9] Source: NISRA Labour Market Report. Refers to Economic inactivity rate for 16-64 year olds for Q2 2024.

productivity levels, could limit our future economic success. In addition, as a small open economy, we are sensitive to evolving global economic and geo-political factors, and there will always be inherent exposure to economic factors outside of the Executive's control.

After a period of sustained highs, CPI inflation has fallen back to 2.2%[10], now sitting closer to the Bank of England (BoE) target rate over the last 6 months – and which will play into considerations on any future BoE interest rate cuts – potentially providing opportunities to boost economic growth here. While optimism around local economic growth prospects remains, there are downside risks on the global stage, including rising geopolitical tensions and fears of a global economic slowdown.

These external factors could significantly impact on revenue projections and expenditure needs. For example, an economic downturn in the UK could impact on revenue rising by the UK Chancellor of the Exchequer with consequent reductions in spending and the Barnett formula consequentials for the Executive. Slowdown in economic growth can also place increased demand for public services here.

Inflation. Inflation can erode the purchasing power of allocated funds, necessitating adjustments in budget allocations to maintain service levels. High inflation rates can also increase the cost of borrowing.

Conclusion

Formulating a balanced multi-year budget for the Executive is a complex task that requires careful consideration of various factors.

Aligning the budget with the PfG, developing a sound investment strategy, managing borrowing responsibly, generating revenue effectively, and managing public sector pay are essential components that provide certainty to the finances and allow for departments to plan appropriately. Additionally, the Executive must remain adaptable to external factors beyond its control, such as Spending Review outcomes, inflation, and economic conditions, to ensure fiscal sustainability and the achievement of strategic objectives. One of the critical factors will be the timing of future Spending Review outcomes and how that aligns with the timing of the Executive's budget setting process.

Key Commitment:

The Executive commits to implementing multi-year budgets where possible.

[10] Source: ONS Consumer Price Inflation (CPI) statistics. Refers to July 2024.

In-Year Monitoring Process Transparency

Whilst the discussion above on a 2024-25 balanced budget set out the specific details for the current financial year, this section examines the principles of In-Year Monitoring and how improvements on transparency may be made in line with the Fiscal Council Report.

The in-year monitoring process provides the Executive with the opportunity to examine and adjust previously approved departmental spending plans after a budget has been set for the year in question. The process allows for departments to return resources and for the Executive to consider the re-allocation of existing resources and the allocation of new resources to departments.

The process usually begins promptly after the start of the financial year with DoF normally commissioning 3 exercises during the year (June, October and January), with the main stages outlined below:

- Commissioning note and guidance issued by DoF.
- Departmental returns sent to DoF following consultation and agreement of their Minister**.**
- No later than 7 days following submission to DoF, departments provide their respective Committee with a written or oral briefing.
- Additional Barnett Consequentials and the available funding calculated to inform the quantum of resources available for allocation.
- DoF collates and analyses departmental returns (Bids, Reduced Requirements etc.).
- DoF Minister issues a draft Executive Paper for comment.
- The Executive meet to agree recommendations.
- DoF Minister announces the monitoring round outcome in the Assembly[11] as either an Oral or Written Ministerial Statement.
- DoF officials present oral evidence to the Finance Committee on the monitoring round outcome.

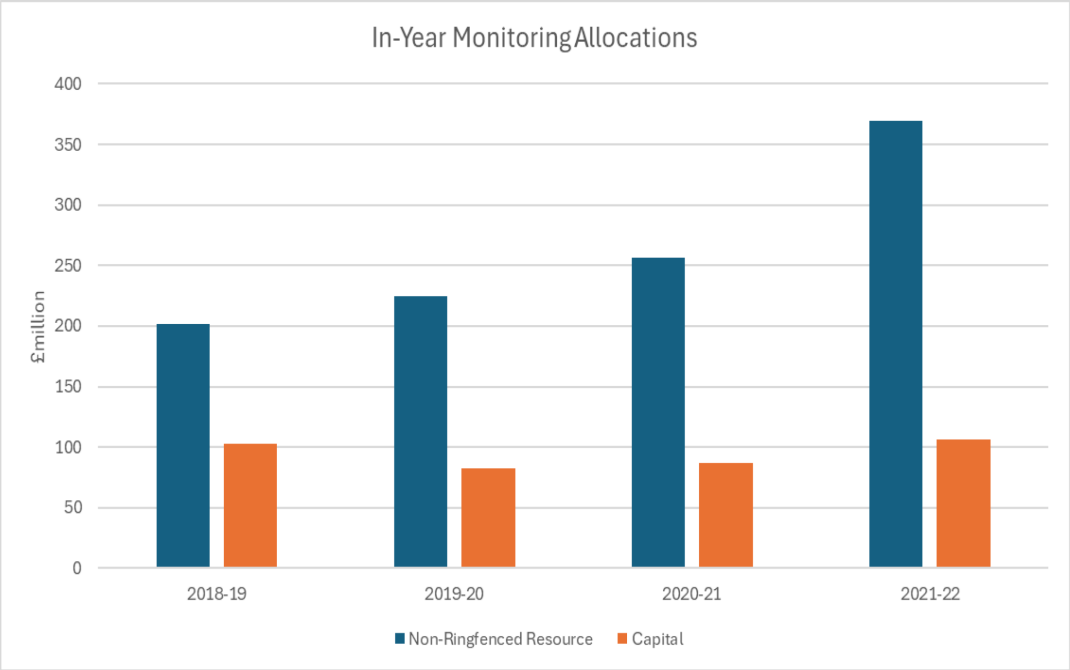
The timing, scope and number of monitoring rounds may vary depending on circumstances.

A more detailed process map of in-year monitoring is shown at is set out at https://www.finance-ni.gov.uk/publications/budget-sustainability-plan.

Alongside the budget setting processes referred to earlier, in-year monitoring is a substantial pillar of the wider management of public expenditure, contributing to the effective management of the block grant to avoid unnecessary underspends and mitigating the risk that funding will be lost to the Executive. The in-year process is therefore considered vital in both reallocating funding and providing additional resources to departments. A measure of this success is seen in the approximately £1.5 billion from 2018-19 to 2021-22 (*Chart below*) that has been allocated during in-

[11] https://www.finance-ni.gov.uk/publications/ministerial-statement-2023-24-provisional-outturn-and-2024-25-june-monitoring

year monitoring rounds. It should be noted that the absence of a sitting Assembly and Executive impacts the ability to allocate/reallocate resources to departments.



Alongside approving the allocation/reallocation of resources, it also provides the Executive with the opportunity to ensure these are considered in the context of the wider public expenditure environment and are fully aligned with their priorities, ensuring Executive Flagship and other vital programmes are given the priority they warrant. The agreement of a wider PfG provides the Executive with an improved focus on their priorities.

Transparency of In-Year Monitoring

The NIFC published Technical Paper 05/23 in October 2023 entitled "Improving transparency of In-Year Monitoring"[12]. The Council undertook a review of the statements provided by the Finance Minister on the outcomes of monitoring rounds and suggested improvements to these or the inclusion of additional information that could be provided with the statements or shortly afterwards. These recommendations included:

- Tables should cover financing as well as spending.
- Tables need to show and explain the changes since the previous monitoring round.
- Any changes or detail discussed in the statements should be fully set out in a table.
- Any items in tables that are not self-evident need to be explained.
- Information provided separately for the four different DEL control totals.[13]

[12] https://www.nifiscalcouncil.org/publications/technical-paper-0523-improving-transparency-year-monitoring

[13] Non-Ringfenced Resource DEL (RDEL), Ringfenced DEL, Conventional Capital DEL (CDEL), Financial Transactions DEL (FTC DEL)

Transparency in the management of public expenditure can help strengthen governance but it also has substantial potential to offer timely and detailed insight into how public money is spent and therefore help in engaging the wider public to gain an improved understanding of what can often be considered an abundance of opaque financial information.

DoF has now introduced four new core tables, to be provided after the conclusion of the respective in-year monitoring round and subsequent written or oral Ministerial Statement. The 2024-25 June Monitoring Round Ministerial Statement was provided on 1 July 2024[14] and the new tables are published[15] alongside the statement and replicated at Appendix C.

The tables published as part of the June Monitoring exercise (Appendix C) cover financing as well as spending, set out in detail the changes since the previous In-Year Monitoring Statement and are separated into the four different DEL control totals. The publication of these tables represents significant progress to the fulfilment of the Fiscal Council's recommendations above and further transparency work is planned for the next In-Year Monitoring Round. DoF will engage with the Fiscal Council on whether the current and planned work provides the appropriate transparency.

Further Improvements in In-Year Monitoring Processes

While the introduction of the Review of Financial Processes in 2022-2023 helped to align and provide a clearer line of sight between the boundaries of budgets, estimates, accounts and has helped to improve the transparency of financial statements, DoF recognises that further improvements can be made in how information is presented.

Alongside the existing tables produced by DoF as part of the in-year monitoring round statement covering reduced requirements, bids, allocations and any changes by spending area and the additional tables recommended by the NIFC and implemented for June, further recommendations were made on the inclusion of supplementary tables to provide more information on how changes to Block resourcing and departmental spending have been made. DoF intends to produce these supplementary tables for the October 2024 in-year monitoring round.

Key Commitment: DoF will routinely publish supplementary financial data tables for in year monitoring to promote transparency and accountability.

[14] https://www.finance-ni.gov.uk/publications/2024-25-year-monitoring-public-expenditure

[15] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/June%20Monitoring%202024-25%20-%20Financing%20and%20Spending%20Tables_0.pdf

Sustainability of Funding Executive Policies

The sustainability of government funding is a cornerstone of effective public administration, influencing the ability of the Executive to deliver essential services, promote economic stability, and implement its policies.

For all governments, without exception, funding public policy is a complex exercise in balancing various competing priorities, constrained by the limitations of available budgets. This process requires careful consideration of numerous factors to allocate resources in a way that maximises public benefit while addressing diverse and often conflicting needs, recognising that no one jurisdiction is the same as another.

Competing Priorities

The Executive must fund essential public services such as healthcare, justice and education. These services directly impact citizens' quality of life and well-being, making them a high priority. However, the demand for these services often exceeds available funding, necessitating difficult choices about which programmes to support, expand or reduce.

Investments in infrastructure, technology, and industry are crucial for long-term economic growth. Such projects can create jobs, enhance productivity, and stimulate economic activity. However, these investments often require substantial upfront costs, which can limit the immediate availability of funds for other priorities.

Addressing climate change and promoting sustainable development are increasingly critical priorities. Funding for environmental policies, renewable energy projects, and conservation efforts can be substantial, posing further challenges to budget allocation.

When considering the funding of Executive policies there are a number of key trade-offs that help to demonstrate the challenges that exist.

Short-Term vs. Long-Term Benefits: Policies that meet immediate needs or have immediate benefits may take precedence over much needed investments that will provide for needs or benefits in the medium to long term. Balancing short-term needs with long-term goals is a continuous challenge for policymakers.

Mandatory vs. Discretionary Spending: A significant portion of government budgets is tied up in mandatory[16] spending leaving limited room for discretionary spending. This further restricts the ability to fund new initiatives or respond to emerging needs.

The process of sustainably funding government policies is a perpetual balancing act, requiring careful consideration of competing priorities within the constraints of limited budgets. Policymakers must navigate complex trade-offs to allocate resources effectively, aiming to achieve a balance that promotes overall societal well-being, economic stability, and sustainable development. This challenge is further

[16] Mandatory spending is that which departments are legally obligated to do.

complicated by the dynamic nature of societal needs and economic conditions, necessitating continual reassessment and adjustment of funding strategies.

When it comes to funding Executive policies there are three key questions to be asked:

- Are we spending money on the right things?
- Can we become more efficient – doing the same thing for less?
- Can we increase the funding available through general measures - potentially a mix of asking those who have more to pay more and finding other sources of income?

In answering these three questions, the understandable expectation is that government should implement efficiencies and cut waste before asking taxpayers to contribute more, anticipating that better management could address funding shortfalls. However, the reality of the financial context necessitates that these efforts occur in parallel. While striving for greater efficiency is essential, the immediate and pressing demands on public services, coupled with long-term investment needs and existing financial obligations, mean that both improving efficiency and increasing revenue must be pursued simultaneously to ensure adequate funding and sustainable development.

Question One –Are we spending money on the right things?

Reviewing existing services is a critical step for ensuring fiscal responsibility and optimal allocation of resources. By systematically evaluating the efficiency and necessity of various public services, Executive Ministers can identify areas where expenditure exceeds the associated benefits. This scrutiny helps eliminate redundant, outdated, or underperforming programmes, thereby freeing up funding for more pressing needs.

Moreover, regular reviews of government services can promote transparency and accountability, building public trust in government operations. Involving stakeholders in these evaluations can also provide diverse perspectives, ensuring that decisions are well-informed and balanced. In a time of fiscal constraints, such strategic management is essential for sustaining essential services while fostering economic growth and stability.

Decisions on stopping or reducing services are matters for the Executive and individual Ministers as they analyse their portfolio and make judgements on appropriate funding.

Question Two – Can we become more efficient?

Enhancing the efficiency of government operations is a critical step toward sustainable funding. This involves streamlining processes, reducing waste, and leveraging technology to deliver public services more effectively. By focusing on efficiency, governments can achieve better outcomes with fewer resources, thereby stretching public funds further. Government efficiency in service delivery is paramount for maintaining public trust, ensuring optimal use of resources, and enhancing the overall quality of life for citizens. When governments operate efficiently, they can deliver services more promptly and cost-effectively, minimising waste and ensuring that taxpayer money is used judiciously. Efficient service delivery directly impacts citizens by providing timely and reliable access to essential services. This not only improves individual well-being but also fosters a sense of confidence and satisfaction with government institutions.

Moreover, an efficient government is better equipped to respond to dynamic challenges, such as economic fluctuations, technological advancements, and emerging or unforeseen issues. By streamlining processes and reducing bureaucracy, governments can become more agile and adaptable, allowing them to address issues proactively and maintain continuity in service provision. This agility is crucial for sustaining economic growth, social stability, and public health, all of which are foundational to a thriving society.

In recent years, the Executive has faced significant economic challenges, including financial crises, global recessions, and the economic impacts of the COVID-19 pandemic. In response, the Executive has already undertaken substantial measures to enhance efficiency in service delivery. These measures have included process streamlining and the adoption of digital services to reduce costs and improve operational effectiveness. As a result, much of the more straightforward efficiency gains have already been implemented, leaving fewer opportunities for dramatic improvements without impacting service quality.

Marginal Gains - Given this context, future efficiency plans will have a particular focus on achieving marginal gains. Incremental improvements can be found through continuous process optimisation, cross-departmental collaboration, and the refinement of existing systems. For example, departments could conduct regular audits to identify small yet impactful areas for cost savings or employ lean management techniques to eliminate waste and enhance productivity in specific departments. These marginal gains, though individually modest, can collectively result in significant overall improvements in efficiency and cost-effectiveness.

Digital Technology - To enhance efficiency in service delivery, there are several strategies to explore. One effective approach is the adoption of digital technologies. By digitising services, governments can simplify processes, reduce administrative burdens, and improve accessibility for citizens. For example, online portals for vehicle tests, applications, and registrations can significantly cut down on processing times and reduce the need for in-person visits. This not only saves time for citizens but also frees up government resources to focus on more complex tasks.

Alternative Finance - Alternative finance options offer viable options for improving efficiency. By collaborating with outside partners, governments can leverage external expertise, innovation, and funding which has the potential to benefit both the government and the public. However, it will be important to both acknowledge the benefits of public ownership/public investment and bear in mind the limitations of public expenditure rules on outside partners and the need to appropriately share risks and benefits.

Transformation - Fostering a culture of innovation and transformation within public sector organisations is essential for ongoing efficiency improvements. Departments should encourage innovation by seeking opportunities for creative solutions to public service delivery and providing training and resources to support new transformation initiatives. By promoting a mindset that values innovation, governments can continually refine their processes and adopt cutting-edge technologies and methodologies, ensuring sustained efficiency gains.

Artificial Intelligence - The most substantial opportunities for future efficiency improvements may lie in the adoption and integration of new and emerging technologies, particularly artificial intelligence (AI). AI has the potential to improve government operations by automating time-consuming routine tasks, enhancing decision-making processes, allowing Departments to develop new or faster approaches to the delivery of public services, and providing sophisticated data analytics.

Additionally, AI could play a crucial role in key sectors, for example, predictive maintenance for public infrastructure, optimising traffic management, and improving cybersecurity measures. By investing in AI and other advanced technologies, governments could potentially unlock new levels of efficiency that go beyond traditional methods. This would not only offer the potential for cost savings but also enhance the quality and scope of services provided to the public, ensuring that governments can meet the evolving needs of their citizens more effectively. To effectively utilise AI to support more effective delivery of public services, it will be important to fully engage and work in partnership with workers and Trade Unions thereby harnessing AI safely, lawfully and responsibly to meet public sector needs.

DoF has introduced guidance on the use of AI to provide a governance framework to the Departments who are already piloting AI applications in a range of areas, with a view to exploring how the delivery of certain services can be made more efficient, and to provide useful analytic data that can be applied in the formation of future public policies.

Measuring Progress – Implementing robust performance management and accountability frameworks is another key strategy. These frameworks involve setting clear goals, establishing performance metrics, and regularly monitoring outcomes. Government agencies can conduct performance reviews, audits, and public reporting to ensure transparency and accountability. This approach not only highlights areas needing improvement but also incentivises departments to continuously enhance their operations and service delivery.

Working in partnership - Exploration of how best to deliver services including working in partnership with local government and third sector organisations can enhance service delivery, promote social value and also help drive efficiencies.

In conclusion, efficient government service delivery is vital for building public trust, optimising resources, and improving societal well-being. Through the adoption of digital technologies, performance management frameworks, working with external partners and fostering a culture of transformation and innovation, the Executive could significantly enhance their efficiency and better serve their citizens. These strategies collectively contribute to a more effective, responsive, and trusted government.

While significant efficiency gains have already been achieved in response to recent economic challenges, future efficiency plans may largely focus on continual improvements, except in the realm of new and emerging technologies such as AI. By embracing these technologies, it is possible to achieve transformative gains in efficiency, allowing them to deliver better services at lower costs and adapt more swiftly to future challenges. This strategic focus will be essential for maintaining and enhancing the effectiveness and resilience of public services in an increasingly complex and fast-changing world.

Question Three - Can we increase the funding available through general measures?

The primary purposes of any government's revenue generation are to fund public services and infrastructure, support economic development, and maintain fiscal stability to meet budgetary requirements. For example, income tax is collected from residents, fees are charged for vehicle registrations, and grants are received from the EU for specific projects.

The vast majority of tax-raising measures are not within the Executive's remit. For example, income tax policy is decided by the UK Government and is collected directly by HMRC and indirectly distributed via the allocations set out in the Spending Review. The independent Fiscal Commission in its May 2022 Final Report[17] stated that the Executive raises less than £1 in every £20 of tax revenue raised locally. Other measures are within the control of the Executive but are constrained by the principle of cost recovery – the amount collected can only be used for a related service and citizens should only pay up to the amount required to cover the cost of the service. Some measures, principally Regional Rates, can be used to generate additional revenue that is not tied to specific services but can be used to fund any of the services the Executive deliver.

The independent Fiscal Commission made a number of recommendations on further fiscal devolution and indicated that, in its view, there are several taxes suitable for devolution.

The Finance Minister has now established a new team within DoF to take forward the important work to develop and agree a Final Fiscal Framework. The key components that will be considered for a final Fiscal Framework are principles of fiscal devolution, block grant adjustments, budgetary management tools, implementation arrangements and forecasting responsibilities. It would allow different policy choices to suit local needs, change behaviours, spur economic activity or to raise revenue for public services in a fairer and more progressive way.

Regional Rates - The primary lever for revenue generation available to the Executive is the Regional Rate. In any final decisions around revenue raising, it is clear that the

[17] FCNI Final Report - More fiscal devolution for Northern Ireland? | Fiscal Commission NI

Regional Rate will be a significant factor. Whilst most other revenue generation measures are linked to associated spend and therefore constrained by the principle of cost recovery, the Regional Rates serve as a strategic fiscal lever that the Executive can set to generate required additional income.

When looking at the strategic and long-term public expenditure context increasing income through the Regional Rates will form an important component of sustainable funding of public services. As part of the decision-making on Regional Rates it is important to recognise that the income generated by the Regional Rate can be increased in a number of ways and not solely through direct percentage uplifts. Moving forward the Executive will be monitoring rate support provision on an ongoing basis to ensure that this continues to reflect the Executive's strategic priorities.

Increasing the headline percentage rate is the most direct method. This involves raising the percentage of the property's assessed value that is taxed. However, this directly impacts household and business finances. Therefore, it is crucial to balance the rate increase with public service delivery or targeted relief measures for lower-income households and small businesses to ensure fairness.

Reviewing the appropriateness of currently available reliefs may also provide options for further rates income. Prior to the restoration of the Assembly and following the direction of the Secretary of State, the Department of Finance undertook a consultation on the removal of rates support measures for businesses and households. This consultation was limited in nature looking simply at whether support should be removed or retained. The Department of Finance has recently published a report on responses received to the consultation. The consultation sought views on four non-domestic rating support schemes including non-domestic vacant property relief, industrial derating, freight transport relief and the exemption from rates for student halls of residence. Views were also sought on the removal of three domestic rate allowances including the early payment discount, the maximum capital value cap and the landlords' allowance. The Department of Finance will be bringing forward short, medium and long-term rating policy proposals including a more strategic longer-term policy approach in the coming weeks.

Expanding the taxable base is another critical strategy. The Executive achieve this by encouraging new housing developments and business establishments. Policies that improve processing of planning applications, and reduce barriers, where appropriate, for new businesses, can significantly enhance the taxable property stock. Additionally, efforts to bring vacant properties back into use, such as through regeneration schemes or disincentivising long-term vacancies, can further enlarge the taxable base.

The Executive can also implement broader economic policies to foster growth, thereby increasing Regional Rates revenue indirectly. Investment in infrastructure, education, and skills development can attract businesses and boost employment. Supporting key industries, such as technology, tourism, and renewable energy, can diversify and strengthen the economy. By enhancing the overall economic environment, these policies can lead to additional property value in the valuation lists, consequently increasing the revenue from regional rates.

In summary, increasing regional rates requires a balanced approach of adjusting the headline rate, expanding the taxable base through development incentives and property regeneration, and implementing comprehensive economic policies to stimulate further taxbase growth. This multifaceted strategy can help ensure a sustainable and equitable increase in regional revenue. Sharp increases in the headline percentage may have a negative effect on the expansion of the taxable base and therefore be detrimental to the overall objective of increasing the funding available to the Executive in a sustainable way to deliver on key public services.

External Funding – The Executive should continue to explore and maximise external sources of funding such as:

- EU successor funds
- European Funding
- Shared Island
- Horizon

Further details are set out at https://www.finance-ni.gov.uk/publications/budget-sustainability-plan.

The Executive should also explore other sources of funding as and when they arise.

Enhanced Borrowing Powers - While borrowing can provide necessary capital for significant investments, it must be approached judiciously to avoid compromising fiscal stability. Enhanced borrowing powers, coupled with a robust borrowing strategy, could enable the Executive to finance critical infrastructure and development projects without jeopardising future fiscal health.

The IFF included confirmation that the RRI borrowing facility would increase by 10% from £200 million to £220 million in 2024-25 with the limit increasing annually in line with inflation. This provides the Executive with more scope to manage its Capital Budget, taking into account the wider Investment Strategy. As well as an annual limit there is a legislative restriction for a cumulative total of outstanding debt of up to £3 billion however there are other factors to consider when deciding on borrowing levels given the opportunity costs associated with the repayment of borrowing. A long-term borrowing strategy would allow the Executive to manage existing borrowing effectively, plan for future borrowing needs, and mitigate risks associated with fluctuating interest rates and economic conditions.

Alternative Financing Options - It will be important for the Executive to consider alternative financing as a means of delivering public services and constructing public assets. Whilst a number of these options may be precluded by the way in which public expenditure operates, it is imperative that all avenues are explored to maximise the benefits for citizens. These options include loans to, or equity investment in the private sector, more commonly known as Financial Transactions Capital. It may also include discussions with the Treasury around how financing models interact with public expenditure rules. For example, the scoring of Housing Executive borrowing.

Consideration of how and to what degree people pay for specific services is undoubtedly one of the key ways in which finances can become more sustainable. Executive Ministers can make policy choices about whether costs should be introduced for particular services, and the scope to increase costs for particular services up to the level of full cost recovery. However as set out in the consultation responses this is not straightforward and requires careful consideration of a multitude of factors of which the financial aspect is only one. All decisions should be subject to appropriate rural proofing, equality screening and Human Rights considerations. Further consideration is set out in Appendix E.

Key Commitment: The Executive agree to the regular, strategic consideration of income generation measures.

Conclusion - Policy Choices are Complex

Any choices that are made will always have associated financial implications and it is for the Executive to balance policy choice to maintain fiscal discipline. These decisions are not straightforward, and they are not exclusive to the Executive. However, the imbalance in having policy devolved but a lack of devolved fiscal levers must be acknowledged in terms of the limitations it places on the Executive's ability to support its policy ambitions.

Sustainable fiscal practices are essential not only for maintaining financial health but also for ensuring the continued delivery of vital public services and fostering long-term economic growth. This is only possible within a policy context of the Westminster government adequately funding public services. Through an exploration of efficiencies, revenue generation, self-financed expenditure, and borrowing powers, this section offers insight into the complex decisions required to build a resilient and adaptable fiscal framework for the future.

£113 million Revenue Generation

Revenue generation by Governments provides funding for the vital public services that citizens and businesses need. The primary source of this revenue generation is raised through taxes, and to a lesser extent through a range of non-tax sources such as fees. The Executive however, as a devolved government, currently has no substantive powers to vary taxes, other than rates on businesses and households. Along with income from rates and other revenue raising measures (such as vehicle test fees) the income generated directly by the Executive only provides a relatively small proportion of its total expenditure, amounting to around 8.2%[18]. The majority of revenue is generated more widely through various taxation measures and provided to the Executive via Block Grant funding. This can of course result in uncertainties around available funding that are outside of the Executive's control.

The local economy is also significantly different when compared with the rest of the UK and continues to face key structural challenges that have limited growth in the past – including our relatively higher economic inactivity, lower pay, lower productivity and competitiveness, higher levels of deprivation and weaker labour supply growth. These economic factors along with the limited tax varying powers, will of course have direct implications around the options available to the Executive in generating additional revenue.

Nevertheless, as part of the Financial Settlement between the UK Government and the Executive which accompanied the restoration of the Executive, a condition to raise an additional £113 million of revenue through locally generated income is tied to the write off of the £559 million overspend, despite the objections of the Executive to this conditionality given the overspend was incurred primarily as a result of underfunding. The £113 million was based on the then Secretary of State's high-level assessment of income equivalent to a 15% domestic rates increase. In recognition of the limited fiscal levers available to the Executive, the IFF set out that the £113 million of additional revenue must be raised from 2025-26, rather than from 2024-25.

The Department of Finance has worked with departments to identify and quantify additional revenue for the financial years 2024-25 and 2025-26, including increases in regional rates. These revenue options put forward by departments are not exhaustive, rather they represent the most realistic options for shorter term revenue generation. As the Budget for 2024-25 has been set, decisions on the associated revenue generation have been taken by Ministers and the position is generally clearly quantified. For 2025-26 the position is not as clearly known at this stage as Ministers have yet to take decisions on budgets, including revenue generation measures.

Policy Choice

The increase of any income stream requires a policy decision. That decision will be informed by the wider budgetary context alongside a set of factors specific to the relevant policy. Each choice has an impact. In cases where Executive Ministers are considering increasing revenue streams, they must also carefully balance economic, social, and administrative factors as they consider the need to increase income. It will

[18] Based on the final budget position for the 2023-24 financial year

also be important for Ministers to carefully manage the impact of additional costs borne by citizens with the impact of appropriately funded public services.

As set out above, no decisions have yet been taken on 2025-26 increases to income. The projections set out in this document do not represent decisions by Executive Ministers on the appropriate level of revenue generation for services in 2025-26. It will be for the relevant Executive Ministers to determine specific revenue generation policies in line with appropriate analysis and a broader understanding of the Budgetary position.

Income Related to Spend

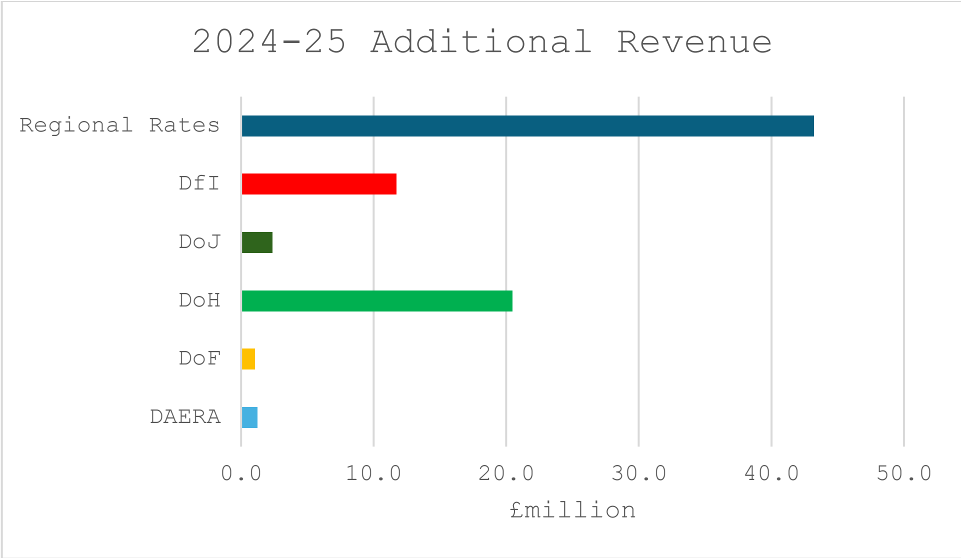
In considering the revenue raising options in this section, it is important to bear in mind the distinction between income linked to spend and wider revenue raising measures such as Regional Rates. Income related to spend tends to be restricted to a maximum charge equivalent to full cost recovery. For example, fees and charges for statutory services are typically constrained by law to recover no more than current costs. In such cases it is illegal to plan to run surpluses and any surplus income would normally need to be returned to fee payers and therefore not benefit the Executive’s Budget. Specific rules are set out in Chapter Six of MPMNI and in Chapters Four and Seven of the Consolidated Budget Guidance (links below).

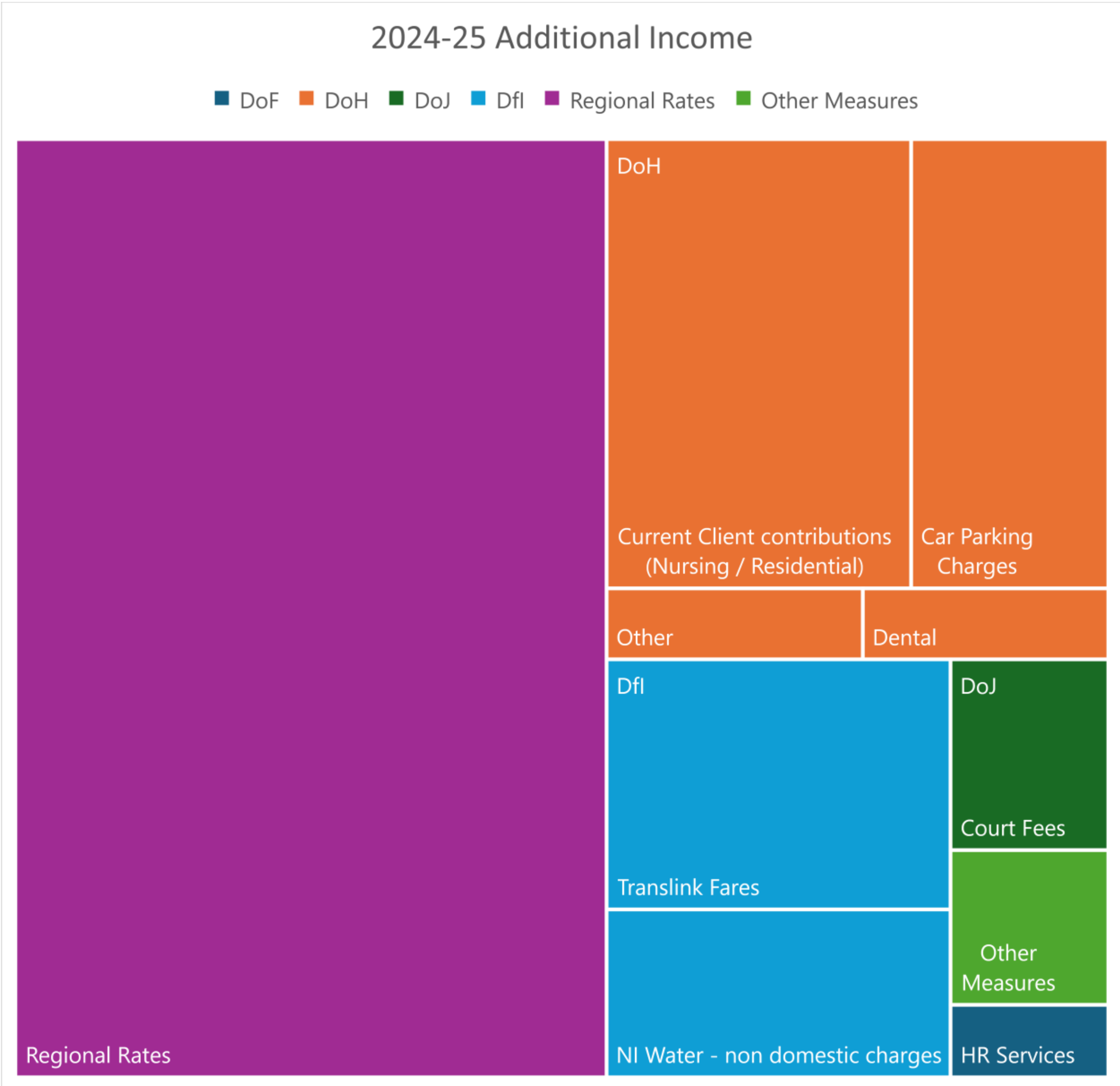
https://www.finance-ni.gov.uk/articles/managing-public-money-ni-mpmni
https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2024-to-2025

2024-25

Whilst much of the 2024-25 financial year still remains, decisions on income levels have been made and therefore the planned revenue generation has been assessed and included in departmental plans. In that respect the data provided for 2024-25 is considered stable.

Detailed information is available at Appendix D however the chart below sets out the projections for 2024-25 spend. The current estimation is that £80 million will be raised in additional revenue this financial year. This will be done through a blend of general measures (regional rate) and specific measures. This £80 million is new income and is in addition to over £1billion of income already projected to be raised in 2024-25.

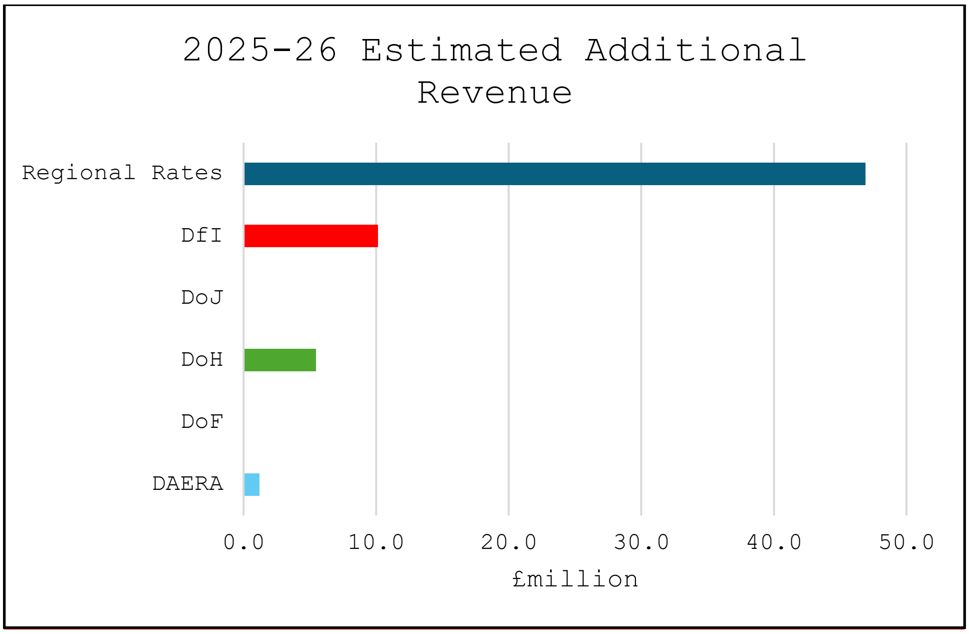

2024-25 Additional Revenue
Regional Rates
DfI
DoJ
DoH
DoF
DAERA
0.0
10.0
20.0
30.0
40.0
50.0
£million

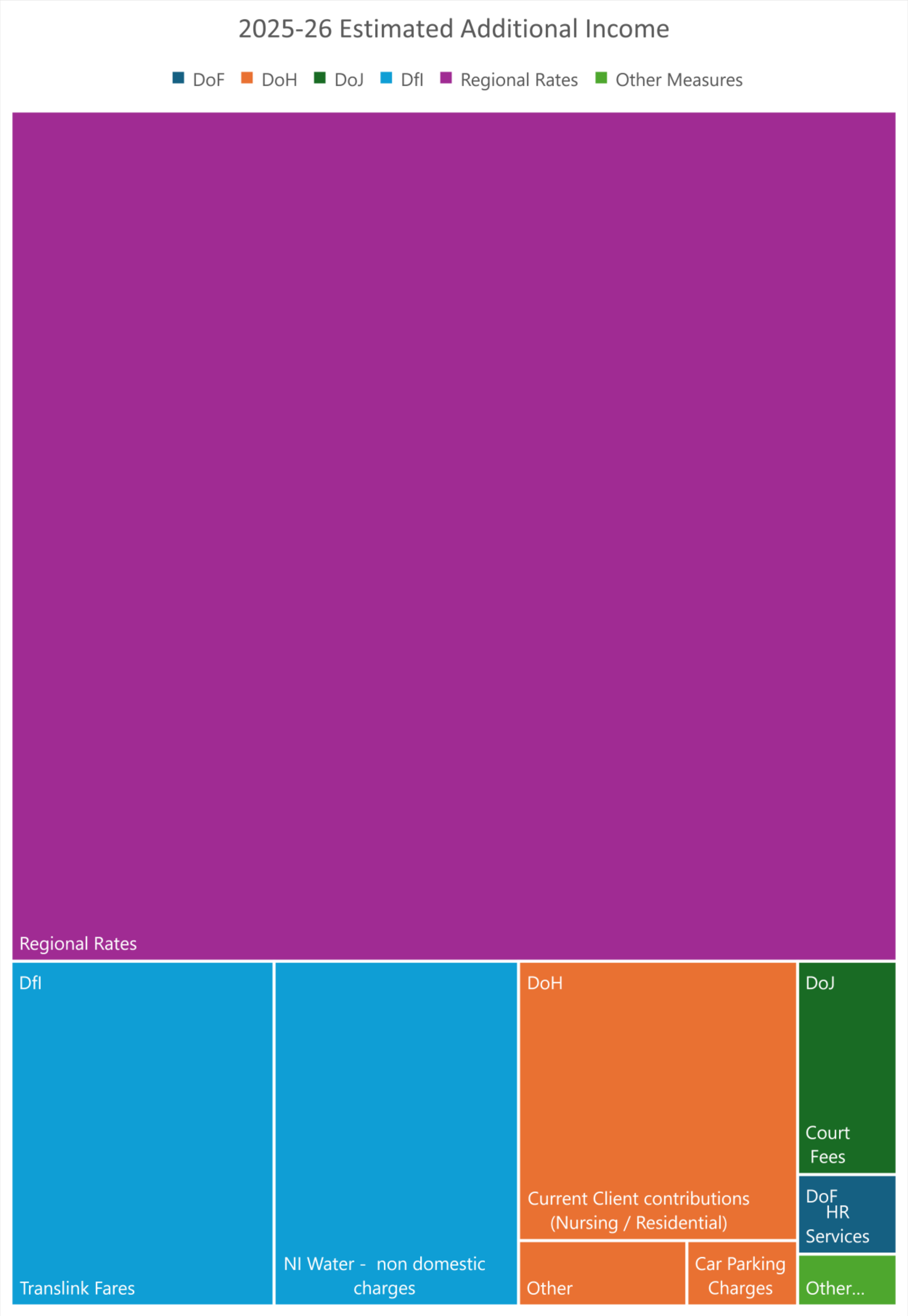

2024-25 Additional Income
DoF
DoH
DoJ
DfI
Regional Rates
Other Measures
DoH
Current Client contributions (Nursing / Residential)
Car Parking Charges
Other
Dental
DfI
Translink Fares
NI Water - non domestic charges
DoJ
Court Fees
Other Measures
HR Services
Regional Rates

2025-26

The position for 2025-26 is much more nuanced. At this stage in the 2024-25 financial year there is no certainty around the Spending Review outcome for 2025-26 (and therefore the funding envelope for the Executive). It is therefore unrealistic to expect Executive Ministers to have made final decisions on changes to income streams without being able to do so within a broader budgetary framework.

Given that context, departments have provided income projections based on best estimates or where no updated assessment was available, similar increases to the 2024-25 year (Appendix D). Recognising that no decisions have been made, when setting out projected revenue for 2025-26 the data for each measure has been analysed from no increase to a similar level of increase to that applied in the current financial year (2024-25) unless decisions have already been taken for 2025-26 or specific circumstances dictate a different range.





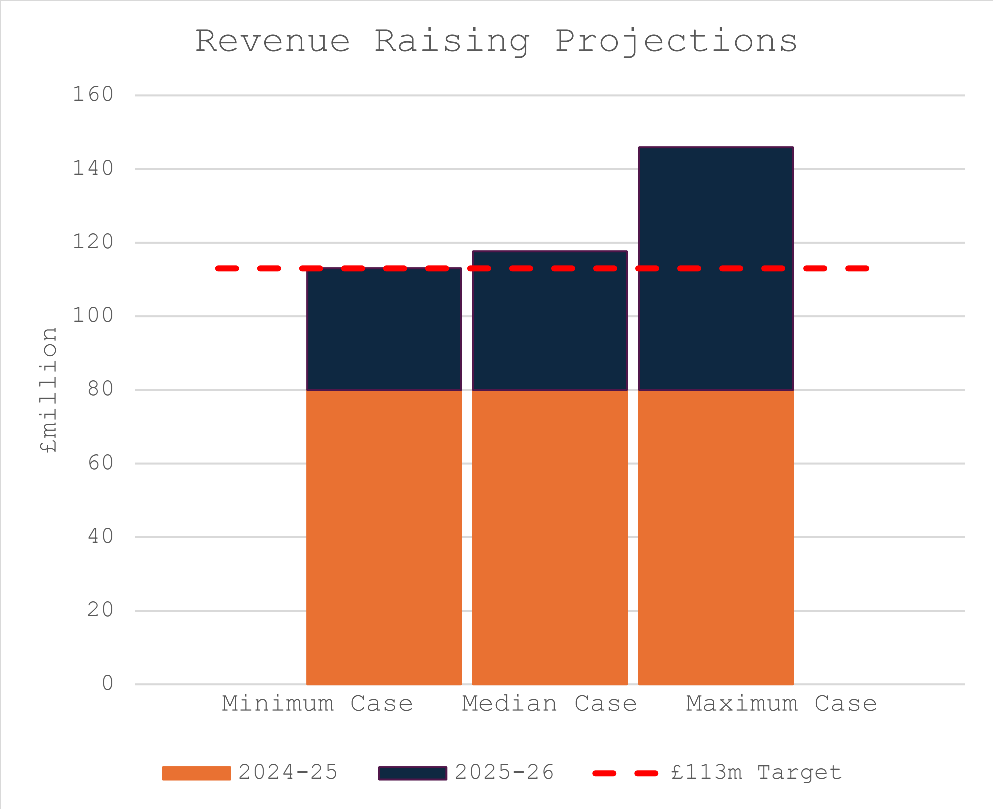
Achieving the £113 million Target

Given the uncertainty outlined above on decisions of the level of 2025-26 income generation, there are a number of possible outcomes varying in degrees of likelihood.

Minimum Case - When simply considering the target revenue, one possible outcome could conceivably be that all revenue raising measures are held with no increase in the 2025-26 financial year. This is an extremely unlikely scenario as it would require interventions by Ministers that would move some services away from a self-financing model and would mean other areas would have a reducing level of income to deliver the standard of service the public expect. However, if that is considered a possibility, then in order for the Executive to meet its agreed target of £113 million the onus would fall solely to the additional income generated by increases to the Regional Rate. Whilst most other revenue generation measures are linked to associated spend and therefore constrained by the principle of cost recovery, Rates are the one strategic fiscal lever that the Executive can set to generate required additional income. It is therefore the lever that can cover any potential deficit in the £113 million commitment. Latest projections would indicate that in that scenario, the Executive would need to increase the Regional Rate by approximately 2.5% to meet the £113 million target, which could be considered well within realistic parameters.

Median Case - Should an assumption be made that 60% of the potential proposals outlined by departments are applied in 2025-26 then with a similar 2.5% Rates increase the target would be exceeded by £12 million. This represents a reasonable median case for achieving the £113 million target.

Maximum Case - Finally, should the level of increases currently forecast by departments be applied in 2025-26 as well as a 4% Rates increase (similar to 2024-25) then, when considering the target revenue, the “maximum case” scenario would see income of £145.9 million be generated, £32.9 million above the target of £113 million.



It is clear from the data that there are multiple options for the Executive to raise the required £113 million of additional revenue and that there are reasonable options for doing so, even in a "minimum case" scenario.

Note that this assessment excludes revenue generated from Capital, for example the sale of assets (buildings, land etc). In 2023-24 Capital receipts amounted to £264.9 million.

It's not about the target

Whilst the focus of this section of the Plan is on the £113 million target, it is important to set out that the Executive's focus is on the delivery of long-term sustainable public services and that income generation is a key component in the achievement of that goal. In that respect, rather than focusing on the minimum income to achieve the £113 million target Ministers will make decisions on income generation measures that take account of the economic and social context and help support the public services that we all demand and expect.

Conclusion

Should there be no increase to revenue generation methods in 2025-26 current forecasts would suggest that the Executive can meet their £113 million commitment without resorting to significant and disproportionate increases to Regional Rate and the subsequent negative impact this may have on households and businesses. In order to maintain self-financed models of service delivery and recoup sufficient revenue to maintain the standards of public services that citizens expect it is more likely that appropriate and measured increases to revenue measures will be actioned in 2025-26 and that would contribute to the overall level of income generated exceeding the £113 million target.

Whilst no decisions on 2025-26 levels of income have yet been taken, in order for the Executive to take timely decisions to fulfil the £113 million commitment departments will be engaging with DoF on potential revenue raising decisions as part of the 2025-26 Budget process. This engagement, along with an assessment of the wider financial pressures will allow the Finance Minister to make an informed decision on the level of the Regional Rate.

Budget Management Tools

The Executive has a number of significant budgetary management tools which it deploys to manage its finances – these have been explored in the previous sections. This section examines the limited budget management tools that the Executive has in place with the Treasury that allow them to manage the specific fiscal needs and priorities of the region.

The flexible use of existing tools and the introduction of further measures would serve to empower the Executive to better address local challenges and opportunities. Understanding how these tools could be used flexibly is essential for providing the Executive with the widest range of measures to balance its budget while also fostering economic growth and development.

There are some additional flexibilities and budget management tools that the UK Government could deliver in order for the Executive to more effectively manage the powers currently at its disposal. In future, additional budget management tools will be required to facilitate the delivery of additional fiscal powers to the Executive.

EXISTING EXECUTIVE / TREASURY BUDGET MANAGEMENT TOOLS

1. Budget Exchange Scheme

The Budget Exchange Scheme is designed to provide greater flexibility in managing public finances. It allows the Executive to carry forward unspent resources from one financial year to the next, within agreed limits. The Executive can carry forward up to a certain percentage of their budget, currently 0.75% for Resource DEL and 1.5% for Capital DEL. The relevant percentages are set out in the Consolidated Budgeting Guidance.

Carryforward is automatic within limits however approval of the Treasury must be sought in other circumstances and Treasury reserves the right to withhold approval in exceptional circumstances

2. Reinvestment and Reform Initiative (RRI) Borrowing

The RRI allows the Executive to borrow funds for capital investment, aimed at improving infrastructure and promoting economic growth. There is a statutory limit on the amount that can be borrowed by the Executive, which is periodically reviewed. The current maximum debt limit of £3 billion is a cumulative total of the amount of outstanding debt as set out in The Northern Ireland (Loans) Act 1975 as amended by the Northern Ireland (Miscellaneous Provisions) Act 2006 with the annual limit as determined by Treasury currently set at £220 million, rising with inflation as measured by GDP. The borrowed funds are subject to interest rates agreed with the Treasury at the time of borrowing. Borrowing is primarily for infrastructure projects with long asset lives, such as roads or buildings and repayment terms are linked to economic lifetime of the underlying asset (typically over a 15-25 year period), reflecting the long-term nature of the infrastructure investments.

3. Accessing the Treasury Reserve

The Treasury Reserve Claim is a mechanism that allows the Executive to access additional funding from the Treasury in exceptional circumstances. Funds can be claimed in response to emergencies, unexpected events, or when facing significant financial pressures that cannot be met from existing budgets. The Executive must submit a formal request to the Treasury, justifying the need for additional funds. This is done through formal request from the Finance Minister to the Chief Secretary to the Treasury. The Treasury assesses the request based on the urgency and legitimacy of the need, as well as the availability of reserve funds. Approved funds are allocated to address the specific issues identified in the claim, such as disaster relief or unanticipated public service demands, and repayment is usually made in full the following financial year and is ineligible for carryforward.

These tools provide the Executive with mechanisms to manage public finances, ensuring some flexibility and responsiveness to changing financial circumstances.

FLEXIBLE USE OF EXISTING MECHANISMS

Whilst the above mechanisms provide scope to manage the Executive's Budget, there is the possibility that some flexibility in how these processes are utilised may allow the Executive more scope to manage its finances and provide longer term sustainability to its budgets. The following options would require discussion and agreement with the Treasury.

Budget Exchange Scheme. Current rules limit carryforward of funding from one year to the next to 0.75% of RDEL and 1.5% of CDEL. There may be scope for engagement with the Treasury on exceptions to this rule where the carryforward will be used for specific purposes (for example, transformation projects that are unaffordable in a single year, where Barnett consequentials are identified at a late stage in financial year, or if the Executive wishes to set aside funding for a specific future pressure). This would only be proposed where there is a clear rationale to do so.

RRI Borrowing. Currently RRI Borrowing repayments are a first call on the Regional Rate income. As Rates income scores in Resource DEL, this means that the repayment of borrowing is a cost to the Executive's Resource DEL. Current Consolidated Budgeting Guidance indicates that net lending scores against the Capital Budget. There is potential for a discussion with the Treasury on the flexible use of either the Rates income or the Capital Budget for RRI Borrowing repayment. This would give the Executive some additional flexibility on how best to manage its budget without changing the control totals set by the Treasury.

Reserve Claim. Current rules around the use of Reserve Claim are set out in The Statement of Funding Policy[19] and are clear that any claim on the Reserve should be

19 https://assets.publishing.service.gov.uk/media/63f3a4188fa8f561335b4efd/Statement_of_Funding_Policy_update_Feb_2023.pdf

a last resort. There is potential for engagement with the Treasury to seek a variation on this restriction and utilise the Reserve claim for planned transformation costs that deliver savings over two years but are unaffordable in one year. For example, if a staff exit scheme was needed, it may be too expensive for one year but would save money over two years compared to staff salary costs. In this case, a Reserve Claim, repaid the following year with the salary savings, would assist the Executive in managing cost pressures.

ADDITIONAL BUDGET MANAGEMENT TOOLS

The Executive would also benefit from additional budget management tools in order to more effectively manage public finances and public service delivery and these are explored below.

Fiscal Reserve - Setting aside the need for a fiscal reserve to accompany further fiscal devolution, there may be merit in seeking discussions on a standalone fiscal reserve in the interim that would have more flexibility than adjusting Budget Exchange for transformation purposes. This would allow greater control over end year spending; however, it would require explicit agreement from Treasury and may have repercussive implications.

Additional Borrowing Powers - Greater flexibility could be sought for borrowing powers, recognising that Capital investment is not uniform and can occur in peaks if a number of major Capital projects are realised in the same timeframe. Greater borrowing powers could be considered alongside a borrowing strategy but again, would require explicit agreement from the Treasury given their need to maintain fiscal rules at a macro level.

Ownership Models – There are significant benefits of public ownership and public investment, and discussions with Treasury on the Public Expenditure recording of ownership models of public services may provide the Executive with opportunity for greater flexibility in managing the financing of public services.

INTRODUCTION OF NEW BUDGET MANAGEMENT TOOLS

It is difficult at this point to forecast what budget management tools will be needed. However, from the work of the Fiscal Commission it is reasonable to infer that it could include a Fiscal Reserve and additional borrowing powers.

The Fiscal Commission recommended that the existing Budget Exchange mechanism is replaced by a Northern Ireland Reserve.

A Reserve would allow the Executive to pay into and draw down from reserves it has previously built up when revenues are higher than expected. This is similar to what is in place for Scotland and Wales and would provide flexibility to respond to the additional revenue risks the Executive's budget would face as a result of increased fiscal devolution.

The Fiscal Commission also recommended that if there is to be a 'cap' or limit on the amount that the Executive can save in the Reserve, it should be set to be at least in line with the cap in Wales (which is £350 million or 12.3% of devolved revenues in 2021-22), relative to the value of revenues devolved. The Commission also suggested that if there is a cap on the overall value of the Reserve, annual drawdown limits should not apply, and instead be a matter of discretion for the Executive.

The Fiscal Commission also recommended that the Executive should be afforded borrowing powers to cover negative forecast errors in full, and powers to borrow a modest amount to cover discretionary resource spending in order to offset temporary falls in revenues that are forecast in advance.

Conclusion

Whilst the number of Budget management tools at the Treasury/Executive level are small, there is potential for them to be used more flexibly in order to provide additional mechanisms for the Executive to manage its Budget. This will require further discussions with the Treasury who will need to consider the implications of such flexibility, especially how it might impact on other Devolved regions. Looking forward, any final Fiscal Framework will need to include appropriate budget management tools.

Key Commitment: The Executive will engage with the Treasury on flexible use of existing tools and longer-term solutions including those that will form part of any Fiscal Framework.

4. Future Workplan

The publication of this plan in itself will not make the Executive's finances more sustainable. While it meets the requirements of the financial package it is however only the first stage in a process that will set the Executive's finances on a more stable trajectory. The Executive's Programme for Government aim is to implement new approaches to planning, funding vital public services, and delivering stable and sustainable public finances and below are set out the next steps in that journey.

Development of Financial Sustainability Plans – One of the key ways in which this work will be taken forward will be through the development of comprehensive 5-year financial sustainability plans for each department, looking at what the department plans to deliver and how it can do so within budget including analysis of workforce management, demand forecasting, cost control, income generation, service effectiveness and operational efficiencies. This work has commenced with the Department of Finance who are currently developing their financial sustainability plan with the aim to have it completed before the end of the financial year. It is envisaged that it will develop into a rolling programme for each department.

Budget Improvement Plan - The Executive aims to develop and adopt a Budget Improvement Plan. This plan will focus on key strategic improvements to the Budget process and could include additional economic and fiscal analysis, an exploration of zero-based budgeting, equality responsive budgeting (such as gender-based budgeting) and a more strategic alignment of budget to the PfG, the Climate Action Plan and the Investment Strategy. This ambitious work is subject to resource availability.

Summary

This forward work plan outlines the approach to integrating sustainability into the Executive's processes, developing comprehensive longer term sustainability plans, and improving budget practices, with continuous performance tracking and reporting to ensure accountability and progress.

Key Commitment: The Executive agrees to a future workplan to help secure and maintain sustainable finances.

5. Conclusion

The Budget Sustainability Plan outlines measures to help ensure the long-term health and stability of the Executive’s finances. The plan emphasises the importance of balanced budgets, efficient resource allocation, enhanced transparency, economic resilience, and sustainable public service delivery.

The Executive faces particular challenges as a devolved power sharing administration and in achieving economies of scale due to our size and geography. By looking to address the immediate requirement to deliver a balanced budget for 2024-25 and setting the framework for ongoing fiscal discipline through in-year monitoring and post-Spending Review adjustments, the Executive is positioned to meet those future financial challenges. However, the path to sustainable finances is not straightforward and decisions will impact on the public services that the Executive deliver. There are a number of key fiscal limitations when considering working within a devolved context and these can impact the ability to achieve fiscal stability and deliver effective public services. With some six months of the current financial year already passed, and with any legislative change requiring time to deliver, achieving fiscal balance in 2024-25 will prove challenging.

The plan also details the strategic approach to raising additional revenue, particularly the £113 million target from 2025-26, and the use of budget management tools to maintain fiscal equilibrium. The commitment to fiscal responsibility, as set out in this plan, is one of the conditions set by the UK Government for the £559 million overspend write-off.

The Executive has agreed to a number of key actions that will help to support sustainable finances going forward. These are:

- **The implementation of multi-year budgets where possible.**
- **The routine publication of supplementary financial data tables for in year monitoring to promote transparency and accountability.**
- **The regular, strategic consideration of income generation measures.**
- **Engagement with the Treasury on flexible use of existing tools and longer-term solutions including those that will form part of any Fiscal Framework.**
- **Agreement to a future workplan to help secure and maintain sustainable finances.**

The publication of this plan is not the culmination of sustainability work, rather it is a stepping stone to the Executive’s larger ambition to secure and maintain sustainable budgets. The Executive aims to integrate financial sustainability into the core operations and decision-making processes of departments to ensure long-term fiscal, social, and economic health thereby reducing the risk of budgetary overspend in future years.

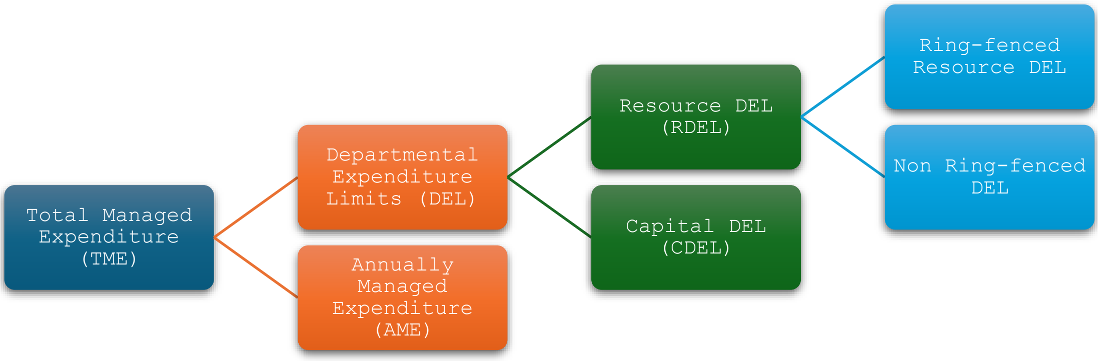
6. Appendices

- Appendix A –Total Managed Expenditure Component Parts
- Appendix B – Outturn and Forecast Outturn
- Appendix C – Supplementary In-Year Monitoring Tables
- Appendix D – Detailed Tables of £113m Revenue Raising Options
- Appendix E – Further Consideration of Income Generation Measures
- Appendix F - Consultations

Appendix A –Total Managed Expenditure Component Parts

Executive Spending plans are composed of several different component parts or “control totals” which are set by the UK Government as part of a Spending Review, which can cover a single or multi-year period.

The component parts of the control totals are outlined below**:**



Annually Managed Expenditure

Treasury determines which programmes are AME.
Programmes that are:

- Large, volatile and demand led.
- Not suitable for multi-year limits

Can include benefits, pensions and student loans etc.

Departmental Expenditure Limits (DEL)

- Spending that is generally within a department’s control
- Managed within annual limits.
- Annual DEL budgets are set at a UK Spending Reviews, which can cover a number of years.
- All spending is DEL unless Treasury has determined it should be AME.

Resource DEL (RDEL)

Resource DEL can be:

- **Ring-fenced Resource DEL** – non cash cost of depreciation and impairments; or
- **Non Ring-Fenced Resource DEL** reflects ongoing cost of providing services (e.g. salaries, rent, electricity).

Capital DEL (CDEL)

This covers spending by the public sector on creating, acquiring or improving assets such as:

- Building new hospitals
- Purchasing computer equipment
- Improvement work to schools
- New road schemes
- Includes capital grants to the private sector that can only be used for asset creation or improvement such as:
    - Housing renovation grants
    - Grants for disabled adaptations
    - Grants for sports stadium refurbishment

Appendix B - Outturn and Forecast Outturn

Outturn and Forecast Outturn (OFO) Returns

OFO returns are an important tool for the management of public expenditure. At the beginning of each financial year DoF will publish Outturn and Forecast Outturn Guidance[20] and request monthly returns from departments.

This information allows DoF to report the actual year to date outturn information and provide a full year forecast of the financial position to Treasury. The OFO returns also facilitate financial decision making at Executive level. The information is collected for all the component parts that make up the Executive's Block Grant control total as well as Annually Managed Expenditure. In previous years departments would have not been allowed to forecast overspends on any spending line.

For 2024-25 Departments are allowed to report forecast overspends against their agreed budget position on individual spending lines but to ensure that control totals are not exceeded, departments must offset this overcommitment and then show how their proposed actions will allow it to be managed down reducing to zero over the course of the year so they can demonstrate their ability to manage and live within the budget set. This allows DoF to monitor the position, challenge departments and advise the Executive of issues.

Departments are required to report forecast outturn as accurately as possible based on the information available, while living within the Executive agreed spending envelope. It is imperative that departments' total forecast outturn does therefore not exceed the agreed controls for each category.

This methodology does not give departments inherent permission to overspend, nor does including an overcommitment in anyway influence the allocation of additional funding through the in-year monitoring process. All in-year bids are considered in the full context of competing priorities and the overall funding available.

Full accountability is enshrined with the requirement that all OFO returns are signed off by the Permanent Secretary as Accounting Officer and the departmental Finance Director.

Forecast outturn information and the associated analysis is provided to the Finance Committee and the Fiscal Council and if it appears that overcommitments are not being managed downwards they will be brought to attention of the Executive. Departmental statutory Assembly Committees may also request OFO information as part of their scrutiny function of departmental spending.

OFO data quality checks.

[20] https://www.finance-ni.gov.uk/publications/2024-25-outturn-and-forecast-outturn-guidance

As mentioned previously, departments are required to provide DoF with the most accurate and up to date figures available of resources consumed year to date, with forecast outturn based on the most accurate forecast information using historical trend data, along with any pertinent new information in respect of resources to be used for the rest of the financial year.

DoF complete data quality checks on the monthly OFO returns to ensure that:

- All DEL (Resource and Capital) control totals have not been breached.
- Departments have provided robust and realistic explanations for any restatement to a previously reported outturn figure.
- Departments have provided robust and realistic explanations for any variances in DEL being reported against the current budget or in-year monitoring position.
- No unusual or concerning expenditure profiles are recorded.

Forecast v Actuals

The accuracy of forecast v actuals is also one of the main markers monitored by DoF and is a measure of departmental performance in their OFO forecasting accuracy. It is expected there should not be significant variances between the last forecasted month and the actual spend reported for that same month.

DoF seek robust and realistic explanations from departments for any material variances when they compare previously received forecasts in departmental returns against the actuals reported in a later return and if requested can be provided to the Finance Committee as required as part of their scrutiny function.

However, in the early stages of the year DoF understands it can be difficult for departments to accurately predict the pattern of spending because of unforeseen issues arising throughout the year.

DoF therefore expects departments to utilise historical trend analysis on spending from previous years to fully inform their forecasts in the early stages of the financial year, with adjustments made as the financial year progresses to reflect changing circumstances.
To avoid unnecessary underspends, DoF expect departmental OFO returns to accurately reflect their anticipated month on month accrued and forecasted expenditure for the full year. Year-end surges, caused by balancing figures loaded into the last month to ensure full spend against the budget/monitoring total, are not considered acceptable. DoF only accept this where a robust explanation is received outlining that it is an accurate representation of forecasted spend.

Appendix C – Supplementary In-Year Monitoring Tables

The following tables were published by the Department of Finance alongside the June Monitoring outcome.

Table 1. Financing and spending in 2024-25: Resource (Non-ringfenced)

£ million	2024-25 Budget Statement	June 2024 Monitoring Statement	Movement
FINANCING			
Resource (non-ringfenced)			
Block grant	14,548.3	14,966.9	418.5
Regional Rates (post debt repayment)	698.2	698.2	-
Total resource financing	**15,246.5**	**15,665.1**	**418.5**
pays for:			
SPENDING			
Resource (non-ringfenced)			
Departmental spending	15,168.2	15,611.6	443.4
Unallocated	25.6	0.7	-24.9
Of which:			
Earmarked funds	25.6	0.7	-24.9
Non-earmarked funds	-	-	-
Debt interest (RRI)	52.8	52.8	-
Total resource spending	**15,246.5**	**15,665.1**	**418.5**

Totals may not add due to roundings

Table 2. Financing and spending in 2024-25: Capital (conventional)

£ million	2024-25 Budget Statement	June 2024 Monitoring Statement	Movement
FINANCING			
Capital (conventional)			
Block Grant	1,778.9	1,907.7	128.8
Capital borrowing (RRI)	220.0	220.0	-
Irish Government funding for A5	88.5	88.5	-
Total capital financing	**2,087.4**	**2,216.2**	**128.8**
pays for:			
SPENDING			
Capital (conventional)			
Departmental spending	2,087.4	2,216.2	128.8
Unallocated	-	-	-
Of which:			
Earmarked funds	-	-	-
Non-earmarked funds	-	-	-
Total capital spending	**2,087.4**	**2,216.2**	**128.8**

Totals may not add due to roundings

Table 3. Financing and spending in 2024-25: Capital (FTC)

£ million	2024-25 Budget Statement	June 2024 Monitoring Statement	Movement
FINANCING			
Financial Transactions (FTC)			
Block Grant	62.2	62.8	0.6
Total FTC financing	**62.2**	**62.8**	**0.6**
pays for:			
SPENDING			
Financial Transactions (FTC)			
Departmental spending	40.9	41.3	0.4
Repayments	-	1.0	1.0
Unallocated	21.3	20.4	-0.9
Total FTC spending	**62.2**	**62.8**	**0.6**

Totals may not add due to roundings

Table 4. Financing and spending in 2024-25: Resource (ringfenced)

£ million	2024-25 Budget Statement	June 2024 Monitoring Statement	Movement
FINANCING			
Ringfenced Resource			
Block Grant	1,104.3	1,005.2	-99.1
Of which:			
Ringfenced RDEL (depreciation and impairment)	529.6	538.6	9.1
Student Loan Impairment DEL	574.8	466.6	-108.2
Total resource financing	**1,104.3**	**1,005.2**	**-99.1**
pays for:			
SPENDING			
Ringfenced Resource			
Departmental spending	1,103.0	995.6	-107.4
Unallocated	1.4	9.6	8.3
Of which:			
Ringfenced RDEL (depreciation and impairment)	-	6.2	6.2
Student Loan Impairment DEL	1.4	3.5	2.1
Total resource spending	**1,104.3**	**1,005.2**	**-99.1**

Totals may not add due to roundings

Appendix D – Detailed Tables of £113m Revenue Raising Options

Measure	2024-25 Add. Income £000s	2024-25 Full Year effect £000s	2025-26 Further additional Income £000s	% Increase	Implementation Date	Comments
AFBI Commercial, Diagnostic and Analytical Testing Income	160	160	70	2024-25: 5% 2025-26: 2%	01/04/2024	AFBI normally generates around £3.3m Resource DEL income from its commercial testing activities and price lists have been updated for 2024-25 to reflect an overall 5% increase. It is estimated that price lists will be updated for 2025-26 to incorporate a 2% increase in line with inflationary forecasts.
NIEA Regulatory Income	1080	1080	135	2024-25: 9.5% 2025-26: TBC	01/04/2024	The GDP Deflator had been the measure used to increase charges each year. Whilst the GDP deflator will continue to be used from 2024-25, NIEA reserves the right to apply any other mechanism as deemed appropriate to ensure the maintenance of full cost recovery.
Provision of HR Services to additional DfC staff working solely for DWP.	888	1,380	-		01/04/2024	The 25/26 amount charged will be based on NICS HR running costs which could go up or down. At this time, it would be unknown if this will result in an increase or decrease from £1.38m full year income estimate.
Ordnance Survey increase of fees in line with CPI for non-NIMA customers	143	143	71		01/04/2024	Prices were raised by 3.6% in line with CPI for 2024/25 and will rise by 2% for 2025/26
Recovery of Health Service Charges	200	200	205	2.30%	01/04/2024	Part II of the HPSS Act (NI) 2001 introduced a new and improved scheme for the recovery, from persons making compensation payments to road traffic accident casualties, of the costs incurred by hospitals in treating the casualties. The Recovery of Health Services Charges (NI) Order 2006 extended the scheme to include all cases where an injured person receives personal injury compensation and to embrace the costs

Measure	2024-25 Add. Income £000s	2024-25 Full Year effect £000s	2025-26 Further additional Income £000s	% Increase	Implementation Date	Comments
						of ambulance services. Funds recovered from compensators go directly back to the Trust that administered the treatment for investing in patient care.
Car Parking Charges	6,000	6,000			12/05/2024	The Hospital Parking Charges Act (NI) 2022 prohibited the imposition of charges for parking vehicles in hospital car parks and became operative on 12th May 2024. The NI Assembly have passed a Bill to defer the removal of charges for 2 years. Maintaining Car Park charges will save £6m of revenue which otherwise would have been lost. This is after factoring £1m loss of income from providing free parking permits to staff.
Increasing Car Parking Charges	900	1,350			01/08/2024	Increase car parking charges to move towards full cost recovery, including the additional costs of operating the new system to control traffic.
Current Client contributions (Nursing / Residential)	10,652	10,750	4,753	5.92%	01/04/24 - 15/04/24	Income from existing client charging in nursing and residential care homes. Income in this area is derived from the (means tested) financial assessments of clients contributing toward the cost of their care. These financial assessments increase annually in line with uplifts to benefits such as State retirement pension and an estimate of the impact of these benefit increases to income from clients has been performed.
Canteen / food takings	411	411	94	4.43%	01/04/24 - 01/06/24	Income from charging visitors and patients for food and refreshments at various hospital and community sites
Non-HSC / Private Patient income and GB / RoI health authority recharges (for outside NI residents)	216	216	103	3.43%	01/04/2024	Income from Non-HSC bodies and Private Patient income including GB / RoI health authority recharges (for outside NI residents)

Measure	2024-25 Add. Income £000s	2024-25 Full Year effect £000s	2025-26 Further additional Income £000s	% Increase	Implementation Date	Comments
Trust owned premises recharges for service charge to GPs and other eternal -e.g. pharmacists (NB. excluding Rent and Rates)	100	100	108	3%	01/04/2024	Income from Trust owned premises recharges for service charge to GPs and other external contractors - e.g. pharmacists (NB. excluding Rent and Rates which is covered by HSC)
Non-HSC income- e.g. Labs income, staff charges, leases, shop and premises rentals	332	332	174	3.74%	01/04/2024	Income from charging individuals and bodies outside HSC for the use of HSC premises, leases or services e.g. Labs income, staff charges, leases, shop sales, vending machines, and premises rentals
Other HSC Income- HSE Contract Income (Radiotherapy, Oral Surgery, PPCI etc)	160	160		3.93%	01/04/2024	Health Service Executive (ROI) Contract Income (Radiotherapy, Oral Surgery, Primary Percutaneous Coronary Intervention (PPCI) etc at the Western Health and Social Care Trust.
Dental	1,360	1,360		6.47%	01/04/2024	Applying the 6.47% uplift to the patient charge revenue anticipated. Note this is dependent on engagement with BDA in relation to corresponding changes in the statement of dental renumeration which would be a precursor to this change.
Exporting Energy Back to the Grid	105	105			01/04/2024	Income from sale of energy back to NI Grid
Electrical Vehicle Charging	20	20			01/04/2024	Income from charging of electric vehicles
Increase of Court Fees in line with inflation	2,342	3,663	nil	9%	01/10/2024	Authority to charge fees is contained in Article 116 (1) of the Judicature (Northern Ireland) Act 1978. This legislation permits the Department of Justice, after consultation with the Lady Chief Justice and with concurrence of DoF, to fix fees, by Order. The proposal was approved by the DoJ Permanent Secretary with DoF concurrence in October 2023 (under the Northern Ireland (Executive Formation etc Act 2022)). An

Measure	2024-25 Add. Income £000s	2024-25 Full Year effect £000s	2025-26 Further additional Income £000s	% Increase	Implementation Date	Comments
						important part of the current fees policy is the provision of help to pay court fees by NICTS, to individuals who cannot afford to pay them. This provision of assistance will continue to operate. Fees can be waived or partly remitted for those who meet set criteria or can demonstrate they would suffer financial hardship in paying court fees.
Translink Fare Increase	6,700	7,500	4,849	2024-25 Average 9% 2025-26 3%	June 2024 April 2025	The fares increase for 2024/25 was an EF decision of 6% for bus and 10% for rail. This was due to be implemented in March 2024 but was delayed to June 2024. Translink Corporate Plan 2024/25 assumes a 3% increase from April 2025. This is subject to Ministerial decision.
NI Water - non domestic customers	4,500	4,500	5,244	2024-25 5.3% 2025-26 4.6%	April 2024 April 2025	Non domestic tariff increases for 2025-26 are proposed by NI Water in advance of the next financial year and agreed by the Utility Regulator. This process has not yet happened and therefore these figures are not yet agreed. They are based on forecast plans through PC 21 and Mid Term Review.
Ferry Fees	520	520	45	2024-25 33% 2025-26 2%	January 2024 April 2025	Depending on the outcome of the fare review recommendation during 2024-25 an increase may be possible in 2025-26. Increases in 2025-26 will be subject to Ministerial decision.
Total	**36,789**	**39,950**	**15,851**			
Regional Rates	43,191	43,191	46,894	4% Domestic 4% Non-Domestic		2025-26 is based on the 2024-25 increase and is not indicative – no decisions have been taken on Regional Rates levels for 2025-26.
Grand Total	**79,980**	**83,141**	**62,745**			

Appendix E – Further Consideration of Income Generation

A subset of revenue generation, self-financed expenditure involves funding government services through mechanisms that generate their own revenue, such as user fees, or service charges.

The key differences between revenue generation and self-financed expenditure lie in their sources of funds, purposes, and financial autonomy. Revenue generation involves raising funds which are pooled into a general fund for various uses, offering greater flexibility. In contrast, self-financed expenditure involves spending directly tied to specific revenue streams for designated purposes, providing less flexibility but ensuring sustainable financing for particular projects or services.

This approach can reduce reliance on the block grant for particular services, ensuring that specific projects or services are financially sustainable over the long term. These types of measures do not serve to increase the cost of public services for everyone, but rather are targeted on the service user in a “User Pays” model.

When delivering these services departments have continued to strive towards achieving full cost recovery i.e. the amount being charged should cover the full cost it takes to deliver the service, though in reality achieving it is not always straightforward with multiple factors influencing the approach required.

It is crucial to carefully consider the services, acknowledging that in some cases the service is there to meet the needs of those who are disadvantaged or vulnerable and therefore increasing costs may further disadvantage the service user.

Departments may also wish to consider an “above cost recovery” model for those services that provide complementary benefits as result of the service received, in essence, an “added value” proposition. For example, governments charge more for passports than the cost of processing and printing, due to the complementary benefits of overseas consular services.

However, as per MPMNI[21], the Office of National Statistics (ONS) normally classifies charges higher than the cost of provision, or not clearly related to a service to the charge payer, as taxes.
As taxation is generally not a devolved matter, any proposal to introduce an “above cost recovery” model would require the explicit approval from the Chief Secretary to the Treasury (CST). It should also be noted that a move to such an “above cost recovery” model could not be introduced quickly as changes to the primary legislation underpinning these charges may be required to implement any increases.

[21] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/MPMNI%20-%20Chapter%206%20-%202023%20Review%20-%20Oct%202023%20-%20Updated%2006-08-24.pdf

Appendix F – Consultations

In September 2023 the then Secretary of State directed departments to launch public consultations on measures to support budget sustainability and raise additional revenue. These measures included:

- Introduction of domestic water and associated charges - Department for Infrastructure
- Retention of Hospital Car Parking charges - Department of Health
- Review of non-domestic rating support schemes, including non-domestic vacant property relief, industrial derating, freight transport relief, and the exemption for student halls of residence - Department of Finance
- Review of domestic rating allowances, including the early payment discount, the maximum capital value cap and the landlords' allowance - Department of Finance
- Increase in Private Streets Inspection Fees - Department for Infrastructure
- Reducing compensation rate on bovine TB programme - Department for Agriculture, Environment and Rural Affairs

Information on these consultations can be found here:

- Introduction of domestic water and associated charges https://www.infrastructure-ni.gov.uk/consultations/water-and-sewerage-charges-options-revenue-raising
- Retention of Hospital Car Parking charges https://www.health-ni.gov.uk/consultations/consultation-re-introduction-hospital-parking-charges-measure-support-budget-sustainability-by
- Review of non-domestic rating support schemes – https://www.finance-ni.gov.uk/rating-revenue-raising-consultation
- Review of domestic rating allowances https://www.finance-ni.gov.uk/rating-revenue-raising-consultation
- Increase in Private Streets Inspection Fees https://www.infrastructure-ni.gov.uk/consultations/increase-private-streets-inspection-fees
- Reducing compensation rate on bovine TB programme https://www.daera-ni.gov.uk/consultations/reducing-rate-compensation-cattle-removed-under-bovine-btb-programme#:~:text=This%20consultation%20seeks%20views%20on,the%20animal's%20market%20value%20a

Department of Finance

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