House of Commons

Northern Ireland Affairs Committee

The funding and delivery of public services in Northern Ireland

Third Report of Session 2023–24

Report, together with formal minutes relating to the report

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Northern Ireland Affairs Committee

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The funding and delivery of public services in Northern Ireland are under enormous pressure, with reduced budgets, unreformed systems and, until recently, an absence of Ministers all contributing to the current crisis. In health, the equivalent of 26.3% of the population is on a waiting list. In education, spending per pupil is consistently lower than in England and SEN provision is patchy. In the justice system, there is a large backlog of court cases and the recent freeze on PSNI recruitment has affected its ability to meet demand.

The lack of a functioning government in Northern Ireland for five out of the past seven years has undermined decision making and progress on the overdue transformation agenda for public services, which is critical to putting Northern Ireland's finances on a more sustainable footing. A multi-year budget has also not been agreed since 2011. The Northern Ireland Executive must therefore set out its plans for public service transformation in an upcoming Programme for Government and establish the proposed new Public Sector Transformation Board without delay.

Alongside the return of the Executive in February 2024, the Government announced a £3.3 billion financial settlement for Northern Ireland. While we note that additional funding for public sector stabilisation and pay will help address pressures in the immediate term, we invite the Government to set out its response to concerns that Northern Ireland will still experience "an abrupt cliff-edge" in funding from 2026/27. And, although we welcome the Government's acknowledgement that Northern Ireland requires higher public spending per head, through the introduction of a needs-based element to the Barnett formula, we recommend that its precise calculation be reviewed as part of upcoming Fiscal Framework negotiations between Whitehall and the Executive. These negotiations, which should commence in the first half of 2024, must also include reference to further fiscal devolution to Northern Ireland.

Options for additional revenue raising have also gained renewed attention with the Government making the write-off of recent departmental overspends conditional on the Executive raising £113 million through locally generated income. As part of its efforts to improve public services and bring its finances onto a more sustainable footing, the Northern Ireland Executive should consider utilising a range of revenue raising options.

This report has been informed by evidence gathered since March 2023, taking in the Executive's absence and more recent budgetary announcements. It serves as an overview of the situation facing Northern Ireland's public services. In turn, it aims to inform upcoming decisions, to be taken by the Government and the restored Executive and Assembly, on future public service funding and delivery in Northern Ireland.

Introduction

1. The Northern Ireland Executive collapsed in February 2022 following the resignation of the then First Minister Paul Givan MLA in response to Democratic Unionist Party concerns about the operation of the Northern Ireland Protocol. Departmental ministers remained in place in 'caretaker' roles until October of that year, when senior civil servants in Northern Ireland took over responsibility for the running of government on a day-to-day basis, including the delivery of public services. In February 2024 that the Executive was re-formed following the DUP's decision to go back into power-sharing.

2. This two-year absence of Northern Ireland's political institutions coincided with rising inflation and increasing pay pressures set against a background of continued underfunding as referenced in paragraph 64.[1] The lack of an Executive and Assembly had significant implications for budgetary management over the period. In the absence of an Executive and Assembly, it was not possible to implement any new legislation or agree budgets. At the outset of the 2022/23 financial year Departments did not have budgetary settlements with which to plan and manage their spending. In-Year Monitoring Rounds, which provide a formal mechanism for reviewing forecast spending and enable the reallocation of funding between Departments could not be utilised either.[2] The Secretary of State for Northern Ireland intervened to set budget allocations for Departments in 2022/23 and 2023/24 from Westminster. Despite this, Departments overspent by £297 million in 2022/23 and are on track to overspend by around £400 million in 2023/24.[3]

3. Our inquiry was launched in March 2023 in response to this difficult financial situation facing Northern Ireland's public services, and at a time when it was without its devolved political institutions. As a committee, we felt it important to step into the scrutiny gap created by the absence of the Assembly and draw attention to the significant challenges Northern Ireland's public services were facing. As we set out later on in paragraph 59, we were also told, however, that the impact of the absence of the institutions should not be exaggerated.

4. When the Secretary of State outlined the 2022/23 Budget allocations in November 2022, he committed to exploring different ways of raising revenue in Northern Ireland, an issue which has gained renewed attention recently as a result of the return of the Executive. Given this, we also decided to examine the effectiveness of the Barnett formula in meeting Northern Ireland's needs; Northern Ireland's transformation agenda; and alternative options for funding services.

5. During our inquiry we received over 30 pieces of written evidence. We also held five public oral evidence sessions, hearing from a range of stakeholders, including fiscal experts, public service representatives, and the head of the Northern Ireland Civil Service. We are grateful to everyone who contributed to our work.

1 FPC0028, Northern Ireland Fiscal Council.
2 FPC0023, Pivotal; FPC0028, Northern Ireland Fiscal Council.
3 Oral evidence from the Department of Finance to the Committee for Finance, Northern Ireland Assembly, 14 February 2024

6. Since we concluded our evidence gathering, a new Northern Ireland Executive has been formed and the Assembly re-convened with the nomination of Michelle O'Neill MLA and Emma Little-Pengelly MLA as First Minister and deputy First Minister in February 2024.

7. The UK Government has also announced a £3.3 billion funding settlement for Northern Ireland and its public services to accompany the return of the Executive. Despite this package of support, significant challenges facing Northern Ireland's public finances remain. The Secretary of State told us "trade-offs" will be required by the Northern Ireland Executive when it comes to public spending.[4]

8. What follows in this report sets out the state of play in terms of the funding of public services in Northern Ireland as of the end of 2023, containing a summary of evidence and conclusions which are important to report to the House - and which have been updated where possible by more recent developments, announcements and oral evidence from the Secretary of State in February 2024. Acknowledging that the situation in Northern Ireland is changing quickly in some respects, the snapshot this report presents is nonetheless a valuable one which we hope will help to inform upcoming budgetary decisions to be taken by the returned Northern Ireland Executive and Assembly, and the Executive's plans for public service transformation as part of its Programme for Government.

4 Oral evidence taken on 20 February 2024, HC (2023–24) 44, Q557 [Chris Heaton-Harris MP]

1 The challenges facing public services

The 2023/24 Northern Ireland Budget

9. Budgetary issues that existed in the 2022/23 financial year - UK Government funding for Northern Ireland dropping below assessed need, absent Ministers, a delayed budget, and a lack of Assembly scrutiny - continued to create challenges in 2023/24.[5] The Secretary of State for Northern Ireland, who set the budget in those years, announced that in-year Barnett consequentials for 2023/24 would be used towards repayment of a £297 million overspend by Departments in the previous year.[6] When setting the 2023/24 Budget, the Secretary of State said it would "provide some protection to front line public services in Northern Ireland from having to take the most severe reductions". He added, however, that difficult decisions remained "in order to live within the funding available".[7] Resource spending by Northern Ireland Departments was due to fall by 0.9% in cash terms and 3.3% in real terms when compared to the final 2022/23 Budget position. This meant that Northern Ireland Departments would experience a tighter squeeze on spending than that faced by Whitehall, where the equivalent Resource Departmental Expenditure Limits (DEL) were set to rise by 1.8% in cash terms and fall by 0.7% in real terms.[8]

10. During the course of our inquiry, we heard that the funding and delivery of public services was "extremely challenging", "precarious" and "at breaking point".[9] We received evidence from organisations working in health, education, infrastructure, criminal justice, and in the voluntary, community and social enterprise and business sectors, all struggling with similar issues. As well as dealing with reduced funding from recent budgets, public services and other organisations have had to grapple with high inflation, increased fuel and utility costs and upward pressure on pay.[10] Translink told us it has had to use its financial reserves to keep Northern Ireland's public transport services running.[11] Many organisations offering early intervention and prevention services were also facing funding cuts.

UK Government funding for the new Executive

11. As part of the recent settlement agreed alongside the return of the Northern Ireland Executive, the UK Government has committed to providing additional funding for Northern Ireland to help address this crisis in public services. The settlement covers:

- A new needs-based factor in the Barnett formula for Northern Ireland, to be set at 24% from 2024/25. This factor applies only to subsequent changes to public spending from cumulative Barnett consequentials rather than a baselined formula itself, and has an estimated value of £785 million over five years;
- £584 million towards public sector pay awards for 2023/24;

5 FPC0028, Northern Ireland Fiscal Council.
6 Barnett consequentials are changes to a devolved administration's assigned budget as a consequence of changes in spending in England.
7 Written statement from the Secretary of State for Northern Ireland (27 April 2023) NI Finances 2023–24.
8 Northern Ireland Fiscal Council (May 2023) The NIO's 2023–24 Budget for Northern Ireland: initial summary.
9 Q54; FPC0008, Commissioner Designate for Victims of Crime in Northern Ireland; Q203.
10 FPC0028, Northern Ireland Fiscal Council; FPC0023, Pivotal; FPC0010, Police Service of Northern Ireland.
11 FPC0013, Translink.

- The "pausing" of budget overspend repayments from 2022/23 and 2023/24 of "up to £559 million", which would then be written off subject to the Executive publishing and implementing a plan to deliver sustainable public finances and services. The Executive must deliver a balanced budget for 2024–25 at the outset of the financial year by raising a minimum of £113 million through locally generated income;[12]
- £34 million in 2024/25 to tackle hospital waiting lists;
- "over £1 billion for stabilisation" over two years: £520 million in 2024/25 and £520 million in 2025/26 in line with the Executive's new Programme for Government;
- Up to £708 million over five years made up of £623 million of re-allocated UK Government funding and £85 million of new funding. £235 million of this "will be ringfenced for the sole purpose of transformation" subject to the establishment of a Public Services Transformation Board;[13]
- The creation of an "enhanced investment zone" in Northern Ireland worth approximately £150 million;
- Increase in Northern Ireland's capital borrowing limit over the next five years: an initial 10% uplift followed by annual increases by inflation;
- Publication of a "comprehensive and costed long-term strategic infrastructure plan" by the Executive.[14]

12. The Secretary of State described the package as "fair and generous", which "provides a number of solutions" to the issues raised in talks including funding for stabilisation and public sector pay.[15] We explore the scale of funding challenges facing Northern Ireland's health, education and justice sectors in more detail below, and the potential effectiveness of the financial settlement for Northern Ireland later in the report.

Health

13. The Department of Health went from accounting for 41% to 51% of Resource DEL between 2011 and 2022.[16] In recent years, the health and social care system in Northern Ireland has been widely seen as financially unsustainable.[17] The Health Minister Robin Swann MLA said in February 2024 the Department could be facing a deficit of up to £1

12 The Northern Ireland Finance Minister Dr Caoimhe Archibald MLA told the Assembly's Finance Committee on 13 March that she had secured agreement from the Chief Secretary to the Treasury that this income can now be generated over twenty-four months rather than twelve as originally set out.

This formulation of revenue raising from the Government is different to that presented to Northern Ireland parties on 19 December 2023.

13 This can be further broken down: UK Government Funding Streams Summary (Financial Settlement Annex) (publishing.service.gov.uk)

14 Summary: Financial Settlement between the UK Government and the Northern Ireland Executive, UK Government, 13 February 2024

15 Oral evidence taken on 20 February 2024, HC (2023–24) 44, Q557 [Chris Heaton-Harris MP]

16 FPC0002, Nevin Economic Research Institute; FPC0012, British Medical Association.

17 FPC0024, Royal College of Nursing.

billion.[18] The British Medical Association Northern Ireland told us that health services were operating in crisis mode, which was "the worst of all worlds", with high costs and poor patient outcomes.[19]

14. In 2016 the Bengoa Report concluded that there was an "unassailable case for change" in Northern Ireland's health and social care services, with cultural and operational changes in healthcare and the way people use services required. Amongst other recommendations, the report urged moving from a reactive healthcare model focused on curing illnesses to a proactive model with an emphasis on care and prevention. At the time, it warned that without investment, the NHS would require a 6% real terms increase in expenditure every year simply to stand still. The 2023/24 budget allocation for health effectively represented a 'flat cash' budget.[20] That report is now over seven years old, and due to political instability and pressures caused by the covid-19 pandemic in the period since, transformation in the health service has still not been implemented.

15. We also heard that mental health support is at risk. Between 2015 and 2021 Northern Ireland had the highest suicide rate in the UK, but in 2015/16 only 5.5% of the overall health budget was spent on mental health services - the lowest allocation amongst UK regions.[21] In 2021, the Northern Ireland Executive launched a ten-year Mental Health Strategy. The estimated cost of its implementation was £1.2 billion. However, in July 2022, the Department of Health announced that it was "not possible to fund this level of implementation from within the Department of Health's existing resources".[22] David Badington, Chief Executive of the charity Action Mental Health told us that in the first year of funding the strategy did not secure even a third of the monies required.[23]

16. Waiting lists and care backlogs in Northern Ireland also exist on an "extraordinary scale", witnesses told us.[24] Hospital waiting lists are the longest in the UK.[25] A Northern Ireland Audit Office report published in October 2023 reported that between March 2014 and March 2023 health and social care waiting lists grew by 216% for initial outpatient appointments, 147% for inpatient treatment and 151% for diagnostic tests. The equivalent of 26.3% of the Northern Ireland population are on waiting lists compared to 12.4% in England and 24% in Wales.[26]

17. As part of the financial package for the restored Executive, the UK Government agreed to provide £34 million in 2024/25 to start to tackle hospital health waiting lists in Northern Ireland. Giving evidence in February 2024, the Secretary of State said this funding would help to deal with those who have been waiting for longest in the immediate term, notwithstanding the need for longer term strategic decision making in health.[27]

18 Health Minister Robin Swann confirms Westminster bid as he reveals potential £1bn health deficit, UTV, 8 February 2024
19 FPC0012, British Medical Association Northern Ireland.
20 FPC0002, Nevin Economic Research Institute; Northern Ireland Fiscal Council (May 2023) The NIO's 2023–24 Budget for Northern Ireland: initial summary.
21 FPC0018, Action Mental Health.
22 Mental Health Strategy 2021–2031 Delivery Plan 2022/23, Department of Health, Northern Ireland Executive, July 2022
23 Q202.
24 FPC0012, British Medical Association.
25 Belfast Telegraph (20 January 2023) Health leaders seek meeting with Heaton-Harris over 'alarming' pressures.
26 Tackling Waiting Lists, Northern Ireland Audit Office report, published October 2023
27 Oral evidence taken on 20 February 2024, HC (2023–24) 44, Q583 [Chris Heaton-Harris MP]

18. Many organisations also highlighted NHS staffing issues in Northern Ireland, with vacancies across different areas and a continuing reliance on agency and locum staff at significant financial cost.[28] As of December 2023 there were almost 6,000 empty posts.[29] In 2021/22, health and social care services spent approximately £320 million on agency staff; in 2012/13, the figure stood at £69 million.[30] Workforce shortages and increasing demand have put existing staff and services under greater pressure, with implications for workload, wellbeing and retention.[31] Direct competition for staff from the well-resourced Sláintecare has a direct impact on workforce planning. No other region of the UK faces this challenge.

19. We were told that there is an urgent need for adequate workforce planning which takes future patient demand into account, and that any workforce recruitment and retention strategy will need to be fully funded.[32] The second Action Plan of the HSC Workforce Strategy 2026 ('Delivering for our People'), published in 2022, acknowledges this need for funding. The Royal College of Surgeons of England in Northern Ireland also emphasised the need to project future patient demand so that a workforce could be put in place to meet it. To this end, the organisation recommended introducing a statutory duty on government to publish assessments of health and social care workforce projections and requirements. The organisation told us, "If we don't know what the future patient demand looks like, then how can we plan for a workforce that meets those needs[?]".[33]

20. Pay disputes have been a recent problem across the public sector including in health, with the Department unable to make pay offers for staff in the absence of an Executive. Thousands of healthcare and other public sector workers undertook strike action in January 2024 - one of the largest in a generation - in the absence of pay awards being delivered. The UK Government agreed to provide £584 million to address public sector pay claims for 2023/24. Now the Executive has returned, pay negotiations with ministers are underway.[34] The Executive said £688 million would be used for addressing awards, although questions remain as to its ability to fund future years' settlements.

21. **We are concerned about staff recruitment and retention in the health service, with thousands of empty posts and a reliance on costly agency staff. The equivalent of 26.3% of the Northern Ireland population are on waiting lists, with some going on to develop further health complications while they wait. While the Government's announcement of £584 million towards the settling of pay claims for 2023/24 across the public sector - including in health - is welcome, questions remain as to the ability of the Northern Ireland Executive to fund future years' settlements beyond this funding.** ***We therefore invite both the Government and Northern Ireland Executive in response to this report to***

28 FPC0005, Royal College of Surgeons of England in Northern Ireland; FPC0012, British Medical Association; FPC0015, Royal College of GPs in Northern Ireland; FPC0024, Royal College of Nursing; FPC0030, Royal College of Surgeons of England in Northern Ireland, Royal College of Nursing and British Medical Association.

29 Department of Health (21 February 2024) Northern Ireland Health and Social Care Active Recruitment Statistics - Vacancies at 30 December 2023

30 FPC0030, Royal College of Surgeons of England in Northern Ireland, Royal College of Nursing and British Medical Association.

31 FPC0015, Royal College of GPs in Northern Ireland; FPC0024, Royal College of Nursing.

32 Q96; FPC0015, Royal College of GPs in Northern Ireland; FPC0030, Royal College of Surgeons of England in Northern Ireland, Royal College of Nursing and British Medical Association.

33 FPC0005, Royal College of Surgeons of England in Northern Ireland

34 Health Minister prioritises pay talks, Department of Health, 4 February 2024

set out their assessment of this future funding. We also recommend the introduction of a statutory duty on the Department of Health to publish an assessment of its health and social care workforce projections.

Education

22. We heard in evidence that the education sector in Northern Ireland also needs to confront considerable challenges, including a growing school age population, increasing numbers of children and young people with Special Educational Needs (SEN), a crumbling school estate and low workforce morale.[35] During our inquiry both the Education Authority and the Controlled Schools' Support Council called the pressures facing education "unprecedented", and the National Association of Headteachers Northern Ireland (NAHT NI) said that education funding was "in crisis".[36]

23. There are approximately 1,200 schools in Northern Ireland, with around 60,000 staff employed in education delivery.[37] The Education Authority, the Controlled Schools' Support Council and NAHT NI all emphasised that the funding challenges facing education have followed a decade of under-investment and cumulative reductions in education funding.[38] Analysis from the Institute for Fiscal Studies showed that since 2009/10, school spending per pupil across the UK had consistently been highest in Scotland and lowest in Northern Ireland.[39] More and more schools have been falling into financial deficit.[40] School leaders said they were at the point of desperation and had already taken steps to make cost savings, such as reducing staff teams, or trying to raise funds in other ways, for example, from parents or through fundraising activities.[41] The 2023/24 Budget allocation for education stood at approximately £2.5 billion, representing a reduction of around £70 million or 2.7% on the previous year.[42] This reduction in the Northern Ireland schools budget contrasted with planned rises in England.[43] Even before the 2023/24 Budget announcement, the Department of Education had said it would no longer be able to provide funding to key programmes supporting vulnerable children and young people.[44] Such support included holiday hunger payments and mental health support in schools, as well as the Engage Programme which provided funding for additional teaching support for children from disadvantaged backgrounds.[45]

24. In the last ten years the Northern Ireland school population has increased by 7.5%, while the number of pupils with Special Educational Needs (SEN) has grown by 60%,[46]

35 FPC0009, Education Authority; FPC0017, Northern Ireland Commissioner for Children and Young People; Q116.
36 FPC0009, Education Authority; FPC0019, Controlled Schools' Support Council; FPC0011, National Association of Headteachers Northern Ireland.
37 FPC0009, Education Authority.
38 FPC0009, Education Authority; FPC0019, Controlled Schools' Support Council; FPC0011, National Association of Headteachers Northern Ireland.
39 FPC0009, Education Authority.
40 FPC0019, Controlled Schools' Support Council.
41 FPC0009, Education Authority; FPC0011, National Association of Headteachers Northern Ireland; Q121.
42 BBC News (17 June 2023) NI education: What do radical cuts mean for schools?; Northern Ireland Fiscal Council (May 2023) The NIO's 2023–24 Budget for Northern Ireland: initial summary.
43 Northern Ireland Fiscal Council (May 2023) The NIO's 2023–24 Budget for Northern Ireland: initial summary; BBC News (31 March 2023) Northern Ireland school budgets to be cut - Department of Education.
44 Q121; BBC News (27 April 2023) NI budget: It could have been worse but it's still painful.
45 FPC0023, Pivotal; FPC0014, Barnardo's Northern Ireland.
46 FPC0009, Education Authority; FPC0017, Northern Ireland Commissioner for Children and Young People; FPC0019, Controlled Schools' Support Council.

a trend that is expected to continue.[47] The Education Authority has a statutory duty to make provision for children with SEN, and almost 50% of its block grant of around £850 million goes towards the cost of SEN provision, including SEN transport.[48] We heard that children's needs are not being adequately met.[49] The SEN sector is short of capacity, so children with complex needs may be allocated places in mainstream settings that do not have the required support and staffing in place.[50] As far back as 2019 our predecessor committee warned that the system did not have the resources required to meet demand for support for children with special educational needs.

25. **After years of under-investment, the education sector has been struggling to fulfil its statutory duties. Spending per pupil has been consistently lower in Northern Ireland than in England. We are particularly concerned about the future of provision for children and young people with Special Educational Needs (SEN), with the number of pupils with SEN growing by 60% over the last ten years and this trend only likely to continue. SEN provision makes up a significant amount of EA spending.** ***We recommend, as did our predecessor committee in 2019, that the Northern Ireland Executive take proper account of the increasing numbers of children with SEN in Northern Ireland when allocating budgetary funding to the Department of Education.***

Justice and Policing

26. During our inquiry we heard that the criminal justice system had been "the poor relation" in terms of the allocation of funding across Departments.[51] Analysis by the Northern Ireland Fiscal Council showed that the real terms spending increase to the Department of Justice budget from 2019/20 to 2022/23 was 23.9% smaller than for its equivalent Whitehall department.[52] The backlog of criminal court proceedings has been particularly pressing for the Department. In its recent report the Criminal Justice Inspection Northern Ireland (CJI) noted that "cases were taking too long on an end-to-end basis with the overall time taken increasing from 2017 to 2022."[53] The number of days by which 90% of all cases were completed stood at 511 in 2017; this had risen to 746 by 2022.[54] Such delays can have a devastating impact on victims and also significant implications for defendants.[55]

27. The Police Service of Northern Ireland's 2023/24 budget allocation represented a 1.7% reduction on the previous year; and it warned last year that budgetary pressures would result in a further reduction of police officer numbers. By March 2024, the PSNI expected officer numbers to be at "6,358 at a maximum",[56] much less than the 7,500 promised in the 2020 New Decade, New Approach agreement. In describing the impact of the fall in police numbers, the PSNI stated that: "In short, less police means less policing".[57] Attendance

47 FPC0019, Controlled Schools' Support Council.
48 FPC0009, Education Authority.
49 FPC0017, Northern Ireland Commissioner for Children and Young People.
50 Q116; FPC0011, National Association of Headteachers Northern Ireland; FPC0017, Northern Ireland Commissioner for Children and Young People.
51 FPC0008, Commissioner Designate for Victims of Crime in Northern Ireland.
52 Northern Ireland Fiscal Council (March 2023) The NIO's 2022–23 Budget for Northern Ireland: an assessment.
53 Criminal Justice Inspection Northern Ireland (June 2023) An inspection of file quality, disclosure and case progression and trial recovery from the Covid-19 pandemic.
54 See reference above.
55 Q167.
56 Q316, One-off oral evidence session on PSNI data breaches, 13 December 2023
57 FPC0010, Police Service of Northern Ireland.

times would be affected, with non-emergency calls taking longer to be responded to, and the pace of investigations also inevitably slowing. The PSNI's neighbourhood function would also be impacted.[58]

At the same time, financial pressures coincided with increased demands on the Service.[59] The PSNI pointed to more complex crime, direct attacks on officers and threats against their families, and an upsurge in terrorist activity.[60] In our report published in February 2024 on *The effect of paramilitarism and organised crime on society in Northern Ireland*, we recommended the PSNI receive enough funding to increase its headcount to at least 7,500 officers.[61] In recent weeks the Chief Constable Jon Boutcher has told the Policing Board that recruitment to the force would resume again after an 18 month freeze.[62] Moreover, we note the outcome of the rapid independent review of PSNI demand and capacity commissioned by the Chief Constable in February 2024, which found that:

- Between 2010 and 2023, there was a 22% real terms reduction in police officers in Northern Ireland;
- If PSNI resourcing kept pace with England, Scotland and Wales during this period, it would presently have over 8,000 officers;
- There is a need for 1,594–2,487 additional officers and 404–495 additional staff.

28. The PSNI also highlighted that it operates under a different financial framework from policing in England and Wales.[63] The PSNI is seen as a Non-Departmental Public Body and is directly funded by the Executive, and, as such, has no access to a policing precept and does not have the ability to carry forward or borrow. The Northern Ireland Policing Board also highlighted to us that the PSNI cannot carry forward any strategic reserves.[64] This restricts the actions the PSNI can take to manage its finances.

29. **Cuts in police officer numbers due to recent budgetary pressures will impact on the PSNI's visibility and ability to respond to increased demand. Officer numbers have dropped some way below the 7,500 committed to under the New Decade, New Approach agreement in 2020. More complex crimes, threats to staff and the raised threat level all need to be addressed, too.** ***Given the severe funding situation which the PSNI faces, we urge a rethink by the Treasury, Northern Ireland Office and new Northern Ireland Executive of the PSNI's financial framework. This would ensure that the PSNI has a greater variety of options in dealing with any financial difficulty in future, which is critical given the importance of the Police Service's role in Northern Ireland's post-conflict society.***

58 FPC0010, Police Service of Northern Ireland.
59 Q152; FPC0010, Police Service of Northern Ireland; FPC0031, Northern Ireland Policing Board.
60 FPC0010, Police Service of Northern Ireland.
61 Northern Ireland Affairs Committee, Second Report of Session 2023–24, The effect of paramilitary activity and organised crime on society in Northern Ireland, 1 February 2024
62 PSNI recruitment is to resume in April after 18-month hiatus, Belfast Telegraph, 2 February 2024
63 FPC0010, Police Service of Northern Ireland.
64 FPC0031, Northern Ireland Policing Board.

The voluntary, community and social enterprise sector

30. The voluntary, community and social enterprise (VCSE) sector plays an important role in Northern Ireland. The Northern Ireland Council for Voluntary Action (NICVA) told us that "the value of the sector to their communities and to public services is immense and cannot be measure[d] in one single way."[65]

31. The sector also supports the delivery of public services. Chief Officers 3rd Sector (CO3), a membership-based organisation for VCSE sector leaders, told us that the services its members provide often support Northern Ireland departments in fulfilling their statutory obligations, adding that VCSE organisations develop and deliver services which take the pressure off those departments.[66] Barnardo's explained that the vast majority of its services are funded by statutory agencies.[67] It delivers work commissioned by a range of Departments and agencies such as the Public Health Agency, Health and Social Care Trusts and the Education Authority. NICVA contended that VCSE sector services should be considered "essential public services" and therefore prioritised in budgetary decisions.[68] The organisation added that people delivering public services in the VCSE sector with support from public funds should benefit from working conditions equal to those delivering statutory public services. This, they said, could make a significant difference in retaining adequate staffing levels and the specialist skills and expertise of such staff.[69] The sector has been, however, working in a difficult environment. According to NICVA, VCSE sector funding is often short-term and last-minute.

32. We draw attention in this section of the report to issues specifically with the operation and delivery of the UK Shared Prosperity Fund (UKSPF), which has also added to recent uncertainty experienced by the VCSE sector and its staff. The UKSPF was launched in April 2022 as a replacement for the European Union 'Structural Funds', including the European Social Fund (now ESF+), which the UK could access when it was a member of the European Union.[70] There were concerns that there could be gaps in funding, with some EU structural funding due to end in 2023 and the UKSPF not due to be fully funding until 2024/25.[71] We were told that the ending of European Social Funding had placed "incredible pressure" on charities delivering services around employability and economic inactivity.[72]

33. The Department for Levelling Up, Housing and Communities (DLUHC) committed to announcing the results of the UKSPF Economic Inactivity competition by 31 March 2023, with ESF provision ceasing on that date.[73] Applicants were informed of the decisions that had been made at 10:40am that day.[74] CO3 stated that, by then, most organisations had already issued redundancy notices and had made arrangements for redundancy payments - which cannot be recovered - to be made. Many smaller projects failed to gain UKSPF

65 FPC0022, NICVA
66 FPC0003, Chief Officers 3rd Sector.
67 FPC0014, Barnardo's.
68 FPC0022, NICVA.
69 FPC0022, NICVA.
70 Northern Ireland Affairs Committee, First Report of Session 2022–23, Investment in Northern Ireland, HC 85
71 House of Commons Library (26 April 2022) The UK Shared Prosperity Fund.
72 FPC0003, Chief Officers 3rd Sector.
73 Correspondence from the Permanent Secretaries of the Department of Finance and the Department for the Economy to the Chair of the Levelling Up, Housing and Communities Committee on Funding for Levelling Up - Northern Ireland (24 March 2023).
74 FPC0003, Chief Officers 3rd Sector.

funding and so could no longer operate. For those who were successful, the new funding ceases in April 2025, creating further uncertainty and contributing to the reduction of the capacity of the charity sector in Northern Ireland.[75] Even prior to the announcement in March 2023, the Permanent Secretaries for the Departments of Finance and for the Economy wrote to the Chair of the Levelling Up, Housing and Communities Committee to say that the uncertainty around the allocation of these funds had "already had serious consequences for the bodies that previously relied on the ESF to fund their operations."[76] The Government has recently stated that decisions regarding the future of UKSPF "are a matter for the next Spending Review", which is likely to take place in late 2024 or early 2025.[77]

34. There were also challenges with UKSPF's delivery in Northern Ireland. In an April 2023 letter to the Chair of the Levelling Up, Housing and Communities Committee, then Levelling Up Minister Dehenna Davison MP stated that the Department was unable to work formally with Ministers or Northern Ireland civil servants on UKSPF planning due to the absence of an Executive.[78] Formal participation in the development of the Investment Plan and in the UKSPF Partnership Group for Northern Ireland was subject to ministerial agreement which was not given before the Executive collapsed. The Minister said that existing structures in Northern Ireland were not used to deliver the UKSPF Economic Inactivity competition because the UKSPF was designed to be delivered by the UK Government, and so required decision making and accountability to rest with DLUHC Ministers and its Accounting Officer.

35. **The voluntary, community and social enterprise sector has struggled in the recent funding environment, and this is likely to have piled further pressure onto stretched public services.** ***When making future budgetary decisions the Northern Ireland Executive must take account of the significant contribution that the sector offers and provides often to the most vulnerable.***

36. **The delivery and timing of the UK Shared Prosperity Fund (UKSPF) caused considerable distress and uncertainty in the sector, particularly the decision to communicate the outcome of applications on the day European Social Funding ceased. The Government has announced that decisions on the future funding of UKSPF from April 2025 are a matter for the next Spending Review. However, the voluntary, community and social enterprise sector in Northern Ireland requires more immediate clarification to ensure that it can effectively plan for the viability and continuity of the services it offers from April 2025 onwards.** ***Before the end of the first quarter of the 2024/25 financial year, we recommend that the Government publish information regarding the scope of future UKSPF allocations for public bodies and third sector organisations.***

75 FPC0003, Chief Officers 3rd Sector.

76 Correspondence from the Permanent Secretaries of the Department of Finance and the Department for the Economy to the Chair of the Levelling Up, Housing and Communities Committee on Funding for Levelling Up - Northern Ireland (24 March 2023).

77 PQ 10683 25 January 2024

78 Correspondence from the then Levelling Up Minister to the Chair of the Levelling Up, Housing and Communities Committee on the Northern Ireland UKSPF Investment Plan (21 April 2023).

Stabilisation fund

37. As part of the new funding settlement for Northern Ireland, the UK Government agreed to make available to the Executive an additional £520 million in both 2024/25 and 2025/26 "to spend on immediate priorities and pressures in line with its new Programme for Government" recognising "the impact the lack of functioning devolved government has had on public services and the subsequent funding pressures this has created".[79] The Northern Ireland Fiscal Council said that whilst this would help address immediate budgetary pressures, the two year nature of this stabilisation package will result in "an abrupt cliff-edge" drop in funding in 2026/27 unlikely to be offset by increased Barnett consequentials even with the new uplift.[80]

38. **Northern Ireland's public services, especially in the health, education and justice sectors, are in a poor state after years of political instability, lack of funding and of reform. The additional £520 million per year promised by the Government in 2024/25 and 2025/26 will help to address pressures in the immediate term, as well as public sector pay offers for 2023/24. However, the Northern Ireland Fiscal Council has warned of "an abrupt 'cliff-edge' drop in funding" from 2026/27.** ***Given this concern, we invite the Government to set out its assessment of the implications for public services of the expected drop in funding from 2026/27 and the rationale for its decision on the two-year stabilisation funding in response to this report.***

79 Summary: Financial Settlement between the UK Government and the Northern Ireland Executive, UK Government, 13 February 2024

80 Northern Ireland's public finances and the UK Government's financial support package for the restored Executive, Northern Ireland Fiscal Council, 14 February 2024

2 Funding, reform and absent institutions

Multi-year funding

39. Having described in the previous chapter some of the serious problems facing Northern Ireland's public services, we turn in this chapter to some of the longer-term solutions to be considered by the restored Assembly and Executive.

40. Northern Ireland was without a functioning devolved government for five years between 2017 and 2024. One consequence of this has been that Northern Ireland departments and the organisations funded by them have had a sequence of short-term, one-year budgets.[81] The 2023/24 Budget was the ninth successive single-year budget for Northern Ireland.[82] A draft three-year 2022–2025 Budget was not able to progress after the Executive collapsed in February 2022. The last multi-year budget was from 2011–15, and since when there has also been no agreed Programme for Government.[83] Pivotal Public Policy Forum emphasised the "need for a co-ordinated, strategic, long-term approach to spending right across public services", which was not possible with the reliance on single-year budgets from Westminster in the Executive's absence. The Northern Ireland Fiscal Council also argued that setting a Budget in advance of the financial year could help place Northern Ireland's finances on a more sustainable footing.[84] It added:

> However tight the financial position, the longer departments have to plan, the wider the range of potential options they can deploy to address budget pressures.[85]

Pivotal described the last minute, short-term nature of the 2022/23 Budget - set by the Secretary of State for Northern Ireland - as detrimental for strategic decision-making. As a result, departments and the organisations funded by them were focused on survival.[86] As the Royal College of Nursing told us, short-term funding leads to short-term thinking, crisis management and sticking plaster solutions, as well as a "penny-wise and pounds foolish approach to public expenditure".[87] The PSNI said that the lack of multi-year settlements results in short-term decision-making, as well as an inability to plan effectively for service delivery.[88]

41. Organisations from across health, education, criminal justice, infrastructure and the voluntary and community sectors emphasised the harm caused by single-year budgets and the potential benefits of multi-year settlements.[89] For example, health representatives argued that multi-year budgets would go a long way toward effective workforce planning

81 FPC0023, Pivotal.
82 FPC0029, Governing Bodies Association NI.
83 FPC0023, Pivotal.
84 FPC0028, Northern Ireland Fiscal Council.
85 FPC0028, Northern Ireland Fiscal Council.
86 FPC0023, Pivotal.
87 FPC0024, Royal College of Nursing.
88 FPC0010, Police Service of Northern Ireland.
89 Q110; Q111; Q202; FPC0010, Police Service of Northern Ireland; FPC0013, Translink; FPC0014, Barnardo's; FPC0022, NICVA; FPC0024, Royal College of Nursing; FPC0029, Governing Bodies Association NI; FPC0030, Royal College of Surgeons of England in Northern Ireland, Royal College of Nursing and British Medical Association.

and scaling up projects that have been proven to make a difference.[90] The Northern Ireland Council for Voluntary Action highlighted that short-term public budgeting has a particularly negative impact on voluntary and community sector organisations that receive public funding through grants and contracts to deliver services.[91] This results in ongoing uncertainty for organisations and their staff, affecting recruitment and retention. The Northern Ireland Director for Barnardo's, Michele Janes, emphasised the need for future budgets to be multi-year to enable the funding and delivery of public services to move onto longer-term commissioning cycles, vital for the stability and sustainability of service provision but also of the voluntary, community and social enterprise sector itself.[92]

42. There are, however, barriers to multi-year settlements which an Executive has no control over. For example, while an Executive can make assumptions about the block grant based on Government Spending Reviews, it can only ever be that - an assumption. Furthermore, Spending Reviews can be overtaken by the budgets that follow them, and changes in the political direction the Government is taking can also require changes.

43. The Nevin Economic Research Institute (NERI) highlighted how the Executive does not receive a cash transfer from the Government.[93] It instead receives what is essentially a credit facility, which means that the budgetary allocation for a certain year must be used within that year. If it is not possible for a department to fully utilise its spending allocation in one financial year, the Department of Finance has to identify whether another department might be able to spend that allocation in the available window (although it can carry forward up to a pre-set limit unspent DEL under the Budget Exchange mechanism with the Treasury). NERI asserted that the process works against long-term or strategic spending decisions. It asked:

> Why should departments not be able to carry over surpluses or draw down on the next year's allocation if they can show that such a course of action is sustainable over the medium-term?[94]

44. Taking the voluntary sector as a case study, we heard from the Commissioner Designate for Victims of Crime that, rather than having budgets roll on, organisations sometimes have to manage with one-year budget offerings confirmed only months into the new financial year.[95] Considerable time and resource needs to be dedicated to retendering for services due to short-term funding cycles. It also results in uncertainty, and the consequent lack of stability and job security affects the strength of the workforce.[96]

45. As part of the recent financial package agreed with the UK Government, the Northern Ireland Executive is to publish a plan by August 2024 "to deliver sustainable public finances and services". Executive ministers have said this will focus on:

- A Productivity Plan;
- Long-term (budget) Planning;

90 Q111; FPC0030, Royal College of Surgeons of England in Northern Ireland, Royal College of Nursing and British Medical Association.
91 FPC0022, NICVA.
92 Q204.
93 FPC0002, Nevin Economic Research Institute.
94 FPC0002, Nevin Economic Research Institute.
95 FPC0008, Commissioner Designate for Victims of Crime in Northern Ireland.
96 Q203; FPC0014, Barnardo's; FPC0023, Pivotal.

- Additional Funding (Revenue Raising and other sources); and
- A Capital Plan.[97]

The write-off of up to £559 million in Departmental overspends by the Government will also be conditional on the publication and implementation of this plan (as well as additional revenue raising). The new Executive is currently preparing a one-year budget for the 2024/25 financial year.

46. **Single-year budgets and a lack of an agreed Programme for Government have not allowed for long-term thinking and planning for public services and spending in Northern Ireland over recent years. *We urge the Executive to commit to returning to multi-year budgetary settlements following the next UK Spending Review as part of its sustainability plan.* Even under multi-year budgets, however, Northern Ireland departments are unable to take forward surpluses. *This matter should be included as part of the upcoming Fiscal Framework discussions between the Government and Northern Ireland Executive.***

47. **We are pleased to see reference to the publication and implementation of a fiscal sustainability plan as part of the settlement between the Government and Executive, which will include detail on long-term budget planning. It is noted that there is a strong view that the Government's conditionality for writing-off Executive 'debt' is unacceptable and that these debts exist primarily due to the underfunding of public services. *The Government should, in response to this report, clarify how it intends to evaluate and monitor the implementation of this plan given their view of the conditionality of the £559 million departmental overspend write-off.***

The transformation agenda

48. While multi-year budgets were seen as important by many during our inquiry, contributors also consistently emphasised that such funding must go hand in hand with long-overdue reform across Northern Ireland's public services.[98] The reform of public services - the transformation agenda - is seen as crucial to securing the sustainability of the public finances and is a key agenda now facing the new Executive. The Head of the Northern Ireland Civil Service, Jayne Brady, told us that some sectors, especially health, education and justice, would remain unsustainable unless transformation was addressed.[99]

49. The 2016 Bengoa Report predicted the unplanned collapse of health services if Northern Ireland did not make changes to the ways in which services are delivered and the system organised; the British Medical Association NI, the Royal College of Nursing and the Royal College of Surgeons of England in Northern Ireland told us that this was exactly what had come to pass.[100] Professor Mark Taylor, Northern Ireland Director at the Royal College of Surgeons, told us that the focus on prevention in health had also not been achieved and progress had stalled in other areas that were the focus of recommendations in Bengoa, such as the roll-out of the Multi-Disciplinary Team model.[101] The Royal College

97 Executive to discuss financial stability with Prime Minister, press release, Executive Office, 5 February 2024
98 Q16; FPC0023, Pivotal.
99 Q16.
100 FPC0030, Royal College of Surgeons of England in Northern Ireland, Royal College of Nursing and British Medical Association.
101 Q105.

of GPs in Northern Ireland also referred to the importance of the GP Elective Care Reform Service in tackling waiting times, recommending its wider and properly funded roll-out across Northern Ireland.[102]

50. Organisations referred to a political failure to take the decisions that would have progressed the transformation agenda and resulted in the more efficient use of public funding, with BMA NI pointing to “undue hesitancy” in implementing transformation in health.[103] Our predecessor committee stated back in 2019 that this transformation was “needed urgently if services are to keep pace with the increasingly complex and evolving needs of an aging population”.[104] Professor Taylor highlighted the importance of the reconfiguration or rationalisation of services, saying that some services might need to be withdrawn to improve efficiency, but that such decisions were difficult for politicians to take.[105] He went on to say:

> We have to radically improve efficiency and productivity, and not sit back and accept that theatres and clinic are under-utilised and so on.[106]

51. Transformation of the health service was listed as an immediate priority for the Executive as part of the 2020 New Decade, New Approach agreement.[107] The absence of an Executive between February 2022 and February 2024 undermined efforts to drive this transformation forward. Following Assembly elections in May 2022, the Royal College fraternity in Northern Ireland issued a joint statement urging political leaders to come together and form an Executive immediately.[108] The statement said that the lack of political stability was negatively affecting the ability to make progress on “key transformation projects” such as initiatives to tackle waiting lists and improve capacity in general practice. Jayne Brady told us that transformation would require “stable institutions, long-term decision-making and long-term budgeting”.[109] She added that senior civil servants had been working with the parties entitled to form an Executive to ensure a transformation plan would be ready for a restored Executive.[110]

52. Jayne Brady also acknowledged that any level of transformational change would need a funding envelope to deliver it.[111] She emphasised her view that Northern Ireland needs to look more entrepreneurially at how it bids for transformation funding, specifically referring to funding interventions such as the Shared Island funding and UKSPF, as well as non-devolved areas, for example, development and investment in R&D. She said Northern Ireland needed to put forward better investment cases, and ask itself:

102 FPC0015, Royal College of GPs in Northern Ireland.
103 FPC0012, British Medical Association; FPC0023, Pivotal.
104 Northern Ireland Affairs Committee, First Report of Session 2019, Health funding in Northern Ireland, HC 300
105 Q105.
106 Q110.
107 New Decade, New Approach, Northern Ireland Office, January 2020
108 Royal College of Nursing, British Medical Association Northern Ireland, Royal College of Surgeons of England, Royal College of Emergency Medicine and Royal College of GPs (12 May 2022) Healthcare leaders say failure to form a Government will put patients at risk.
109 Q18.
110 Qq18 and 20.
111 Q23.

> what is our proposition for investment? Where can Northern Ireland support those overall UK agendas? […] How can we make a proposition that adds value to UK Government and attracts those other non-devolved sums of money?[112]

53. In its recent financial settlement with the Northern Ireland Executive, the Government has said it will:

> increase the NI Executive's spending power by up to £708 million over five years (£623 million of existing UK Government funding reallocated and £85 million of new funding). £235 million of this funding is ring-fenced for the sole purpose of transformation and its release is subject to the establishment of a Public Service Transformation Board.[113]

The Government said the Board:

> will serve as the advisory body to the Executive on long-term transformation of Northern Ireland's public services, can support strategic decision-making on maximising the impact of this, and other locally generated funding. This Board must also comprise Northern Ireland Civil Service and UK Government experts and may also comprise independent domestic and international experts.[114]

Questioned recently on the ring-fenced funding and requirement for a Public Services Transformation Board, the Secretary of State explained that in the past "the UK Government has previously given money for transformation to the Northern Ireland Executive which has then been spent on other things". He added:

> We really do want to work with the restored Executive to support them where we can to make the necessary decisions to drive forward the transformation of public services. That is why we want this public service transformation body to be set up to enable and support the Executive to make those strategic decisions and maximise the impact of this package and any other, locally generated funding.[115]

54. Information on which existing funding streams will be re-allocated has been published by the Government.[116]

55. **The transformation agenda is critical to getting Northern Ireland's finances onto a sustainable footing and cannot be delayed any further. The underfunding of local public services by the Treasury and the lack of an Executive for five out of the last seven years has undermined progress and difficult political decisions which should have been made were avoided even when the institutions were in place, further prolonging reform. This Chapter of our report has highlighted the scale of transformation required for Northern Ireland's public services, particularly in health and on the**

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112 Q32.

113 Summary: Financial Settlement between the UK Government and the Northern Ireland Executive, UK Government, 13 February 2024

114 Summary: Financial Settlement between the UK Government and the Northern Ireland Executive, UK Government, 13 February 2024

115 Oral evidence taken on 20 February 2024, HC (2023–24) 44, Q581 [Chris Heaton-Harris MP]

116 UK Government Funding Streams Summary (Financial Settlement Annex)

implementation of the 2016 Bengoa Report. Transformation should be mainstreamed across all aspects of Government. ***The Northern Ireland Executive must set out its plans for public service transformation in an agreed Programme for Government and establish the Public Services Transformation Board without delay to unlock additional ring-fenced funding. This plan should include the articulation of a clear understanding of what transformation entails, with aims, objectives, estimated costings and savings, and performance metrics.***

56. **Northern Ireland would benefit from being more entrepreneurial in how it bids for funding for public service reform - for example, by linking its bids into wider Government agendas and aims including cross-Departmental working, partnership with the business community and third sector.** ***We recommend that the Treasury work with the Northern Ireland Civil Service and the Northern Ireland Office to provide guidance on how such investment cases can be built.***

Absent political institutions

57. We repeatedly heard that Northern Ireland was at a disadvantage in tackling recent funding challenges and the associated impact on public services in the absence of a functioning Executive and Assembly.[117] Jayne Brady, Head of the Northern Ireland Civil Service, told us that, to deal with the challenges it faced, Northern Ireland needed sustainable devolved institutions in place.[118] We heard from health representatives that when the Executive was up and running, particularly during the pandemic, this allowed important decisions to be taken. The then Health Minister not only responded to the pandemic, but initiated, for example, the Cancer Strategy, the Elective Care Framework and the Review of General Surgery. Dolores McCormick, from the Royal College of Nursing, told us that a number of those initiatives were halted after the collapse.[119] The children's charity Barnardo's said that in the absence of an Executive strategic decision making and policy development stagnated.[120]

58. We were repeatedly told that the core reforms required across public services could not be satisfactorily taken forward without an Executive in place.[121] When taking into account the previous collapse between 2017 and early 2020, along with the pandemic, around six years that could have been used to further the transformation agenda have been lost.[122] The Commissioner Designate for Victims of Crime emphasised that the lack of political institutions delayed the introduction of new legislation, undermined the effective scrutiny of decision-making and reduced the time remaining in the current mandate to deliver much needed changes.[123]

117 FPC0004, Police Federation for Northern Ireland; FPC0008, Commissioner Designate for Victims of Crime in Northern Ireland; FPC0012, British Medical Association; FPC0014, Barnardo's; FPC0015, Royal College of GPs in Northern Ireland; FPC0017, Northern Ireland Commissioner for Children and Young People; FPC0029, Governing Bodies Association NI.

118 Q5

119 Q85 and 112.

120 FPC0014, Barnardo's.

121 FPC0015, Royal College of GPs in Northern Ireland; FPC0020, The Law Society of Northern Ireland and The Bar of Northern Ireland.

122 FPC0030, Royal College of Surgeons of England in Northern Ireland, Royal College of Nursing and British Medical Association.

123 FPC0008, Commissioner Designate for Victims of Crime in Northern Ireland.

59. We were also told, however, that the impact of the absence of the institutions should not be exaggerated.[124] Sir Robert Chote, Chair of the Northern Ireland Fiscal Council, acknowledged that any Executive would anyway have been operating in a difficult environment given rising inflation and increasing pay pressures over the past few years.[125] Indeed, even when the Executive is up and running, the Department of Finance does not have the same level of authority as the Treasury to limit departmental spending.[126] The Nevin Economic Research Institute (NERI) stated how spending decisions in Northern Ireland are largely influenced by the total resources available to the region, with that decision ultimately taken in Westminster.[127] The outcome of the Northern Ireland Budget is in large part determined by broader departmental allocations in Whitehall.

60. The point was also made that, although the lack of political structures had exacerbated the issues facing Northern Ireland's public services, for example in health, there has been a longer-term failure to tackle systemic issues impacting the sustainability of such services.[128] Pivotal Public Policy Forum argued that many of the 2022/23 budgetary challenges could be traced back to earlier years, with past Executives avoiding difficult decisions, particularly those that could have resulted in greater efficiency in the use of public funding and led to much needed public sector reform.[129]

Decisions faced by Northern Ireland's civil servants in the absence of an Executive

61. Without Ministers in place between October 2022 and February 2024, senior civil servants had responsibility for the operation of government, including the delivery of public services.[130] Yet they were constrained in what they could do and the decisions they could take; they could run government only in line with the policy directions previously set by Ministers when they were still in their roles. They could not design new policies or take political decisions, and this inhibited significantly their ability to respond proactively to new challenges and developments.

62. Civil servants were in a similar position between 2017 and 2020 when the Executive and the Assembly were inactive for three years.[131] The then Head of the Northern Ireland Civil Service David Sterling warned at the time of "slow decay and stagnation".[132]

63. Although the Secretary of State for Northern Ireland was responsible for setting the budget in the absence of the Executive, it still fell to Northern Ireland's civil servants to work out spending within each Department.[133] These decisions went beyond the civil service's usual remit; the circumstances also meant that decisions were being taken without democratic accountability.[134] Under the Northern Ireland (Executive Formation etc) Act 2022, the Secretary of State published guidance on decision making for Northern

124 FPC0002, Nevin Economic Research Institute.
125 Q215.
126 Q215; FPC0028, Northern Ireland Fiscal Council.
127 FPC0002, Nevin Economic Research Institute.
128 FPC0012, British Medical Association
129 FPC0023, Pivotal.
130 Institute for Government (14 November 2022) Northern Ireland: Functioning of government without ministers.
131 Institute for Government (14 November 2022) Northern Ireland: Functioning of government without ministers.
132 BBC (13 February 2019) David Sterling: No ministers could become 'new normal'.
133 Pivotal (February 2023) Who is governing Northern Ireland?
134 FPC0023, Pivotal.

Ireland Departments in the absence of an Executive.[135] This guidance set out decision-making principles, including: sticking to spending limits; taking action if necessary to avoid detrimental consequences; continuing to pursue the policy direction previously set by Ministers, and; maintaining the effective, efficient and sustainable delivery of public services.[136] However, within some areas of the budget, the Head of the Northern Ireland Civil Service was clear that decisions could not be made by civil servants.[137]

64. **Many of the structural, resource and funding issues facing Northern Ireland have been a long time in the making, but the lack of ministerial direction and accountability in recent times has not helped the plight of public services in Northern Ireland. Core reforms required across public services have not been taken forward and the absence of the Executive between February 2022 and February 2024 delayed the introduction of new legislation and undermined the effective scrutiny of decision-making. However, by far the greatest threat remains chronic underfunding, below need, of NI public services by the Treasury. This includes the operation of the current fiscal floor proposed by the Government, which by design, fails to provide a recurring uplift to the block grant commensurate to the level NI was funded below need between April 2022 and the present day.**

135 Northern Ireland Office (December 2022) Guidance on decision-making for Northern Ireland Departments until an Executive is formed or for the six-month period beginning with the day on which the Northern Ireland (Executive Formation etc) Act 2022 is passed (6 December).

136 Pivotal (February 2023) Who is governing Northern Ireland?

137 Q2.

3 The block grant and the Barnett Formula

Background to devolved funding

65. Alongside evidence on the importance of elected representatives being in place, multi-year budgets and public service reform, we also received submissions assessing the effectiveness of the formula for the funding that Northern Ireland has received since the late 1970s. In the 1950s, Northern Ireland budgets were allocated based on local needs; then during the 1960s these systems lapsed, and annual allocations agreed for English departments became the basis for discussions between the territorial departments. The principle evolved that Secretaries of State (and the Northern Ireland Government, pre-direct rule) would distribute resources and in practice block grant arrangements were in place.[138]

66. In 1979 the Barnett formula was introduced to avoid annual negotiations on changes to this block grant. The formula determines annual changes in the block grant, the largest element of the administrations' funding that comes directly from the Government; it does not set the total allocation for each administration anew each time it is applied. It is an administrative as opposed to a statutory arrangement, and, under devolution, the devolved administrations spend the block grant as they wish in areas of devolved responsibilities within the overall totals.

67. Changes in the block grant due to the Barnett formula are often referred to as Barnett consequentials. These arise from changes in UK Government departments' spending. When budgets for comparable services in England change,[139] the Barnett formula aims to give each devolved administration broadly the same pounds-per-person change in funding.[140] For instance, if the funding for education in England increases by the equivalent of £100 per person, the devolved administrations' block grants will increase by £100 per person. The formula does this by considering:

- the change in money given to UK Government departments to run services in England (or England and Wales or Great Britain);
- the extent to which the UK departments' services are provided by the devolved government (what is known as the comparability percentage); and
- the relative population of the devolved nation.[141]

The Northern Ireland Executive does not have to spend a Whitehall department's funding increase on its nearest equivalent department.

138 House of Lords Select Committee on the Barnett Formula (22 March 2009) Memorandum by Professor Colin Thain: Responses to suggested questions for academic witnesses in Northern Ireland prior to the evidence session on 27 March 2009.
139 Or England and Wales, or Great Britain, depending on the population served by the UK government department.
140 House of Commons Library (11 July 2022) The Barnett Formula and Fiscal Devolution.
141 House of Commons Library (11 July 2022) The Barnett Formula and Fiscal Devolution.

The 'Barnett squeeze'

68. Public spending per head is higher in Northern Ireland, Scotland and Wales than in England, because:

- populations are sparser, making the cost of providing the same level of public services higher;
- the size of the public sector differs between UK nations; and
- in some areas, there are higher levels of need for public services, for example, due to socioeconomic conditions such as population age and deprivation.[142]

69. Northern Ireland spends more per head than the UK average across almost all expenditure areas.[143] As noted above, however, the Barnett formula operates by matching the sums of money that go into the block grant in pounds per head and not in percentage terms, which is an issue when public spending per head is higher in the devolved nations, and Northern Ireland's baseline funding per head is higher than England's.[144] The Northern Ireland Fiscal Council gives this example:

> Imagine that spending per head is £100 in England and spending / Block Grant funding per head is £200 in NI, a premium of 100 per cent. If the UK Government were to increase spending per head in England by £10 to £110, under the Barnett formula it would also increase the NI Block Grant by £10 per head, to £210. This means that spending rises by 10 per cent in England but only 5 per cent in NI and that the NI spending premium over England falls from 100 to 91 per cent.[145]

70. The higher the initial spending premium, the greater the difference between the percentage increase in England and in the devolved administrations.[146] This has been termed the 'Barnett squeeze'. Submissions, including from the Northern Ireland Fiscal Council, Pivotal Public Policy Forum and the Nevin Economic Research Institute, have pointed to this phenomenon in Northern Ireland.[147] It creates particular difficulties with pay awards, with the Executive having to decide whether or not to issue an award equivalent to that in England, even though granting it would mean reducing spend elsewhere or raising more revenue in alternative ways. Periods of high inflation also make this situation more challenging. The 'squeeze' has previously been offset by 'non-Barnett additions', such as funding attached to political agreements.

Introduction of a "needs-based" factor

71. In May 2023, the Northern Ireland Fiscal Council published a report exploring relative need for public spending in Northern Ireland.[148] It presented an updated estimate

142 House of Commons Library (8 September 2023) The Barnett formula and fiscal devolution; FPC0028, Northern Ireland Fiscal Council.
143 The Independent Fiscal Commission NI (May 2022) More fiscal devolution for Northern Ireland? Executive Summary.
144 FPC0023, Pivotal.
145 FPC0028, Northern Ireland Fiscal Council.
146 FPC0028, Northern Ireland Fiscal Council.
147 FPC0002, Nevin Economic Research Institute; FPC0023, Pivotal; FPC0028, Northern Ireland Fiscal Council.
148 Northern Ireland Fiscal Council (23 April 2023) Press release: NI Fiscal Council to publish updated estimate of the relative need for public spending in NI.

of the relative need for public spending in Northern Ireland based on the approach set out in the 2010 Holtham Commission for Wales. The Fiscal Council used recent Northern Ireland data and widened it to reflect the devolution of responsibility for policing and justice to Northern Ireland.[149] Its analysis indicated that public spending in Northern Ireland needed to be around 24% higher than in England to deliver the same standard of public service.[150] Defining and calculating "need" can be difficult and subjective, however - for example, in the weight given to and type of indicators used. The Secretary of State previously said in September 2023 that the Northern Ireland Executive receives "around 20% more per head than equivalent UK Government spending in other parts of the UK".[151]

72. As part of the financial settlement to the new Executive, the Government has agreed to introduce a new needs-based factor into the Barnett formula from 2024/25, to be set at 24%. This factor will apply to future Barnett consequentials as a result of changes to public spending. It said this change is projected to generate £785 million over the next five years. However, Executive ministers disputed the application of the new needs-based formula without baselining in a letter to the Prime Minister, stating that it would mean "public services will be consistently funded below need, under a 'fiscal ceiling'", while the figure did not represent "a fair estimate of need".[152] Meanwhile, the Northern Ireland Fiscal Council said the 24% needs-based factor "will help lift the Block Grant funding premium towards the 124 estimate of relative need–but not take it there immediately and guarantee to keep it at that level".[153] Others estimate that the needs-based formula for Northern Ireland should be set around a 127 estimate of relative need.

73. In addition to changes to the Barnett formula, the Government has also agreed to open wider discussions with the new Executive on a Fiscal Framework for Northern Ireland. Executive ministers have said this discussion should focus on:

- An assessment of need and a funding floor;
- The provision of a Fiscal Reserve;
- Increased Borrowing Powers; and
- The scale and scope of Fiscal Devolution.[154]

74. Professor Gerald Holtham and Paul Johnson, Director of the Institute for Fiscal Studies and former Chair of the Independent Fiscal Commission for Northern Ireland, told us in an evidence session in October 2023 that notwithstanding the effect of the operation of the formula, the general squeeze on spending across the UK in recent years had had more of an impact on Northern Ireland's funding than elsewhere.[155] Mr Johnson told us:

149 Northern Ireland Fiscal Council (May 2023) Updated estimate of the relative need for public spending in Northern Ireland.
150 Northern Ireland Fiscal Council (May 2023) Updated estimate of the relative need for public spending in Northern Ireland.
151 Secretary of State writes to Northern Ireland Civil Service on sustainable public finances, Northern Ireland Office, 20 September 2023
152 The Executive Office, Executive to discuss financial stability with Prime Minister, 5 February 2024
153 Northern Ireland's public finances and the UK Government's financial support package for the restored Executive, Northern Ireland Fiscal Council, 15 February 2024
154 The Executive Office, Executive to discuss financial stability with Prime Minister, 5 February 2024
155 Qq247–248.

> What is being experienced is a long period in which spending on local government, education and so on across England has not gone up very much. That is clearly having a direct effect on the funding of the devolved Administrations. It is not clear to me that it is the fact that Barnett has got worse. It is more that the squeeze on funding more generally has been significant.[156]

Professor Holtham added:

> There is a very important point here, which is that the thing that is going to be most influential or most evident in your public finances is the growth in public expenditure in the UK as a whole. That is going to be much more important than whether you are getting £110 or £111, or whatever it is […] It is the size of the cake, not the share, that is dominant.[157]

75. The Nevin Economic Research Institute told us that it was wrong to assume that the reason Northern Ireland's public services were not sustainable under recent UK budgets is that departments have been overspending or failing to make efficiencies. Instead it is because the funding allocated to Northern Ireland is not responsive to the needs of local public services.[158] Executive ministers, in a recent letter to the Prime Minister on Government funding said it was their "strong view" that recent budgetary overspends were "primarily due to the underfunding of public services".[159] The Secretary of State stated in November 2022 that the Executive had "long failed to demonstrate prudent fiscal management".[160]

76. **Decisions by UK Governments to reduce overall UK public spending have a significant impact on the funding Northern Ireland receives through the block grant, which makes up the vast majority of its expenditure. With tighter budgets in England, annual allocations to Northern Ireland under the Barnett formula have been squeezed.**

77. **We endorse calls for a review of the fiscal framework for Northern Ireland and welcome the willingness of the Government to open negotiations with the Executive in this regard. However it is deeply regrettable, because of the failure to baseline the new needs-based Barnett factor as if it had been in place at the point public spending in Northern Ireland fell below assessed need–April 2022–that the new formula will operate as a fiscal ceiling, rather than as a floor, slowly lifting Northern Ireland's funding to a point below which it should never have been permitted to fall in the first place.** ***A review of the exact calculation and assessment of the needs-based factor should be included as part of the terms of reference for the upcoming Fiscal Framework negotiations between the Government and Northern Ireland Executive.***

156 Q247.
157 Q248.
158 FPC0002, Nevin Economic Research Institute
159 The Executive Office, Executive to discuss financial stability with Prime Minister, 5 February 2024
160 Northern Ireland Finances 2022/2023, Written statement by Chris Heaton-Harris MP, 24 November 2022, HCWS385

4 Alternative ways of raising revenue in Northern Ireland

78. The Northern Ireland Executive has historically been more generous than the rest of the UK in terms of the fees and charges it levies on people for public services.[161] This has been the case across various sectors, resulting in lower student fees, welfare reform mitigations, and the greater availability of free prescriptions and concessionary travel. As a result, these funding streams provide less revenue to Northern Ireland than their equivalents elsewhere in the UK. Regional rates on domestic and non-domestic properties account for much of the revenue raised by the Executive at present.[162] In the past, the Executive has decided to maintain the regional rate at a lower level to save households and businesses money. Northern Ireland households do not have to pay for water in the same way as in other areas of the UK. In 2021/22, Northern Ireland households paid an average of £1,036 a year in rates, compared with households in England who paid £1,836 on average in council tax and water charges.[163] These policy choices have generally been referred to as 'super-parity' measures and together they represented approximately £600 million to £700 million of potential revenue forgone in 2020/21.[164] Regarding other so-called 'super-parity' measures, the Independent Fiscal Commission for Northern Ireland has estimated what these cost the Executive; outlined in Table 1. Going by the lower estimates, the measures included were estimated to cost over £124 million in 2020/21:

Table 1: The cost to the Executive of some 'super-parity' measures

'Super-parity' measure	Cost to the Executive
Existing welfare mitigations	£42.8 million
Lower university tuition fees	£14.2 to £90.5 million
Prescription charges	£20 million
Domiciliary care charges	£17.8 million to £32.5 million
Concessionary fares	£29.2 million

Source: The Independent Fiscal Commission for Northern Ireland (May 2022) More fiscal devolution for Northern Ireland? Executive Summary.

79. In September 2023 in the continued absence of an Executive, the Secretary of State for Northern Ireland directed Northern Ireland departments to launch public consultations on introducing revenue-raising measures under the Northern Ireland (Interim Arrangements) Act 2023.[165] He was clear that it would be for a returning Executive to use the consultation responses to "make the necessary decisions". He outlined the eight different areas he had instructed Departments to consult on:

- the introduction of domestic water and associated charges;
- increasing university tuition fees and the associated repayment period to the same level as England;

161 FPC0023, Pivotal.
162 FPC0023, Pivotal.
163 Northern Ireland Fiscal Council (September 2022) Sustainability Report 2022.
164 FPC0023, Pivotal.
165 Belfast Telegraph (20 September 2023) Water charges and higher tuition fees on cards as Heaton-Harris orders consultations on revenue-raising measures.

- the introduction of prescription charges;
- the introduction of domiciliary care charges;
- the retention of hospital car parking charges;
- the review of rate relief schemes;
- the introduction of private street fees; and
- reducing the compensation rate on the bovine TB programme.

Many of these public consultations by the Departments have recently concluded, although the responses are not yet published.

80. Witnesses to our inquiry cited revenue raising as one option among many to plug the gaps in Northern Ireland's finances.[166] The Northern Ireland Fiscal Council argued that, considering the financial challenges currently threatening to overwhelm Northern Ireland, "the question should at least be posed: do different financial circumstances require different policies?".[167] The body said some of the decisions not to charge fees or to raise them at a lower rate were taken in the 2010s when the funding going to Northern Ireland was considerably higher relative to England's funding. The Governing Bodies Association told us:

> Ultimately more money is required to sustain public services and political decisions are now required to determine how this should happen.[168]

81. However, the Nevin Economic Research Institute (NERI) argued it was important not to overstate or understate the impact of the Executive's approach to 'super-parity' measures, with the cost of these policy divergences amounting to approximately 4% of the Northern Ireland Budget.[169] The Northern Ireland Public Service Alliance also cautioned against the current framing of the discussion around 'super-parity', which it said assumes that comparisons to English funding models are valid; that any changes replacing 'super-parity' measures would be successful; and that such changes would address current financial difficulties.[170]

82. As part of the conditions in the Government's financial settlement with the new Executive, attached to the potential write-off of up £559 million in departmental overspends, the Executive must "deliver a balanced budget for 2024–25 at the outset of the financial year by raising a minimum of £113 million through locally generated income".[171] The Secretary of State said there were "a number of levers available to generate income", with the £113 million figure "the minimum" amount needed to be raised to put the Executive in a sustainable financial position moving forward.[172] While Executive ministers have confirmed that the upcoming sustainability plan will include focus on "additional funding" including revenue raising, the Minister of Finance, Dr Caoimhe

166 See for example FPC0023, Pivotal.
167 FPC0028, Northern Ireland Fiscal Council.
168 FPC0029, Governing Bodies Association NI.
169 FPC0002, Nevin Economic Research Institute.
170 FPC0033, Northern Ireland Public Service Alliance
171 Summary: Financial Settlement between the UK Government and the Northern Ireland Executive, UK Government, 13 February 2024
172 Oral evidence taken on 20 February 2024, HC (2023–24) 44, Q558 [Chris Heaton-Harris MP]

Archibald MLA, said that the requirement to raise £113 million within twelve months was "not consistent with a strategic Sustainability Plan" and would "only serve to cause more harm to hard pressed families, households and businesses".[173] The Minister has since confirmed that the Treasury have agreed that this revenue raising will be spread over twenty four months rather than twelve.[174]

Rates and water charges

83. Pivotal Public Policy Forum suggested that the domestic rates system in particular could be used to raise higher levels of revenue, albeit in a way that cushioned lower-income households from the impact.[175] The Northern Ireland Fiscal Council agreed that Northern Ireland could look to raise regional rates in an attempt to steer the region onto a path of greater fiscal sustainability.[176] However, it also cautioned that any increase in regional rates would have to be substantial if it was going to make a difference, estimating that an increase of 10% would only bring in an additional £70 million to £75 million. Sir Robert Chote, The Fiscal Council's Chair, noted that households would be in different positions when it came to weathering increases in their contributions:

> We are in the middle of a difficult period for household incomes because of the inflationary squeeze at the moment. There is never an ideal time to think about these things, but this is a time when household budgets are clearly under pressure.[177]

He observed that the Secretary of State had chosen not to raise rates significantly in 2023/24, "no doubt partly with an eye on the state of household finances".[178] The Executive has nonetheless recently decided to increase regional rates by 4% in 2024/25, "recognising the pressure on households and businesses".[179]

84. To make more of a difference to the amount of money available to an Executive, the Northern Ireland Fiscal Council suggested one option would be to bring in explicit water charges, together with a rise in the regional rate.[180] Analysis from the Fiscal Council shows that, if an Executive were to introduce a water charge and increase regional rates to a level roughly equivalent to water charges and council tax in England, this could bring in £615 million. However, there is evidence that such a step would be politically difficult to take: First Minister Michelle O'Neill MLA ruled out introducing water charges in an interview with the BBC in February 2024.[181] Introducing such charges, particularly for water, will anyway not provide an immediate solution for the current pressures Northern Ireland is facing.

85. **We note that there have been calls that any consideration given by the Northern Ireland Executive to revenue raising should only take place once UK Government funding at levels equal to or above assessed need has been restored. The Northern**

173 Letter from the Minister of Finance to the Chief Secretary to the Treasury, 13 February 2024
174
175 FPC0023, Pivotal.
176 FPC0028, Northern Ireland Fiscal Council.
177 Q225.
178 Q225.
179 Executive agrees Regional Rate, Department of Finance, Northern Ireland Executive, 29 February 2024
180 FPC0028, Northern Ireland Fiscal Council.
181 Water charges: Michelle O'Neill rules out introducing new fees, BBC News, 12 February 2024.

Ireland Executive should take the needs of lower income households into account when considering a range of revenue raising options to protect and improve public services and provide more sustainable public finances.

Further fiscal devolution

86. The Northern Ireland Executive has control over most of Northern Ireland's spending on public services - amounting to almost £9 in every £10 of 'identifiable' public spending, including spending on social security.[182] Other than by means of regional rates, it has no substantive powers over taxes, however, and raises less than £1 in every £20 of the region's fiscal revenue. In this regard, the Executive differs from the Scottish and Welsh Governments, which do have some - albeit limited - tax powers, Scotland having the most established and devolved fiscal arrangements of the devolved administrations.[183]

87. The Independent Fiscal Commission for Northern Ireland, launched in 2021, was tasked with reviewing the case for increasing the fiscal powers available to the Northern Ireland Assembly. In its report of May 2022, the Commission explored the devolution of further fiscal powers to Northern Ireland. It outlined a number of arguments in favour of additional fiscal devolution, and said that tax devolution should be seen as a potential tool for strengthening the economy and not just a way of raising additional revenue for public services.[184] It said the devolution of such fiscal powers could enhance electoral accountability and financial responsibility, and open up the possibility of increased revenue. Further tax powers could also complement policies in other areas where responsibilities are devolved. For example, the Executive oversees education and skills but has no control over the apprenticeship levy. In addition, Northern Ireland's geography means that taxes set with the UK as a whole in mind may not always be suitable for Northern Ireland, which could be competing with the Republic of Ireland for investment.

88. The potential for greater reward is accompanied, however, by risk.[185] If certain taxes are devolved, the Northern Ireland Budget will then be shaped, partly, by the level of revenue those taxes raise in Northern Ireland, which could lead to a more unpredictable Budget. The Executive's political capacity to take on further devolution was also called into question.[186] Some of those whom the Commission spoke to saw Northern Ireland's political instability as a strong argument against additional devolution; others thought that it could help strengthen capacity and shore up stability.

89. In past political agreements the Government has committed to looking at the devolution of further fiscal powers. However, the Treasury has expressed concerns about the readiness of the Executive to assume such powers. The Commission noted that, in September 2021, the then Chief Secretary to the Treasury wrote to the then Northern Ireland Finance Minister, saying:

182 The Independent Fiscal Commission NI (May 2022) More fiscal devolution for Northern Ireland? Executive Summary
183 Independent Fiscal Commission for Northern Ireland, Welcome to the Independent Fiscal Commission for Northern Ireland [last accessed 1 November 2023]
184 Independent Fiscal Commission for Northern Ireland (May 2022) More fiscal devolution for Northern Ireland? Final Report.
185 Independent Fiscal Commission for Northern Ireland (May 2022) More fiscal devolution for Northern Ireland? Final Report.
186 Independent Fiscal Commission for Northern Ireland (May 2022) More fiscal devolution for Northern Ireland? Final Report.

> The Executive has not yet been able to demonstrate that its finances are on a sustainable footing for the long term - this is an agreed condition of proceeding with devolving the rate of corporation tax to the Assembly. In my view, before we start looking at the merits of increasing the fiscal powers available to the Assembly, the Executive needs both to devise a strategy for securing its fiscal sustainability and to execute it.[187]

90. In terms of the tax powers themselves, the Commission stated that elements of income tax would be the most appropriate to devolve of the three taxes that raise the most revenue in Northern Ireland (alongside VAT and National Insurance Contributions).[188] The Commission said there was also a strong case for devolving the apprenticeship levy, as it complements the Executive's responsibilities around education and skills. However, it added, the levy should be devolved only if income tax is devolved. This is because the cost of devolving the levy alone would be considerable.

91. The devolution of corporation tax to Northern Ireland was legislated for in the Corporation Tax (Northern Ireland) Act 2015. The focus on corporation tax specifically came about as a result of concerns around the challenges of competing with the Republic of Ireland, which has a 12.5% rate (the UK corporation tax rate rose to 25% from 1 April 2023).[189] However, this power to set a Northern Ireland rate has yet to be commenced as the Executive is still to agree with the Government that its finances are on a sustainable footing. In its recent January 2024 Command Paper *Safeguarding the Union*, the Government again committed to taking forward the implementation of corporation tax devolution in Northern Ireland through a new Joint Exchequer Committee.[190] However, Dr Lisa Wilson of NERI told us that the Republic of Ireland's low rate is not the only reason for the success of its economy: it was one policy lever used alongside others - for example, investment in education.[191]

92. The Commission recommended that the Executive work with the Government to agree a clear and open process for the introduction of new taxes in Northern Ireland. Any additional powers should be taken on gradually, it added, alongside a new fiscal framework and an agreed reduction to the block grant. NERI cautioned that it would be risky to implement further fiscal devolution with the aim of meeting the current challenges in public funding.[192] The Institute also argued that "devolution of any tax will not act as a panacea to the economy".[193] Executive ministers have recently cited the "scale and scope of Fiscal Devolution" as one of the topics which upcoming discussions with the Government on a Fiscal Framework for Northern Ireland should cover.[194]

93. **We welcome the work of the Independent Fiscal Commission for Northern Ireland on further fiscal devolution. The devolution of such powers will not address the difficult situation in which public services currently find themselves but could help strengthen the economy and increase the fiscal accountability of the Executive. Income**

187 Independent Fiscal Commission for Northern Ireland (May 2022) More fiscal devolution for Northern Ireland? Final Report.
188 Independent Fiscal Commission for Northern Ireland (May 2022) More fiscal devolution for Northern Ireland? Final Report.
189 BBC News (15 March 2023) What is corporation tax and who pays it?
190 Northern Ireland Office, Safeguarding the Union, CP 1021, January 2024, Page 74
191 Q227.
192 FPC0002, Nevin Economic Research Institute.
193 FPC0002, Nevin Economic Research Institute.
194 Executive to discuss financial stability with Prime Minister, press release, Executive Office, 5 February 2024

tax devolution has precedents in Scotland; devolution of the apprenticeship levy could complement the responsibility Stormont has for education and skills; and taking up corporation tax powers would acknowledge Northern Ireland's unique geographic and economic position within the Union. However, further fiscal devolution comes with potential risk too. There is a need for a much greater level of stability before we should consider significant additional changes to the fiscal powers in Northern Ireland. We do not believe that income tax should be devolved to Northern Ireland at the moment. Separately, we would question whether the administrative capacity is in place to manage what is an extremely complex and fundamental element of the taxation system. ***Upcoming Fiscal Framework negotiations between the Government and Northern Ireland Executive should include reference to further fiscal devolution. We recommend these negotiations start in the first half of 2024.***

Conclusions and recommendations

The challenges facing public services

1. We are concerned about staff recruitment and retention in the health service, with thousands of empty posts and a reliance on costly agency staff. The equivalent of 26.3% of the Northern Ireland population are on waiting lists, with some going on to develop further health complications while they wait. While the Government's announcement of £584 million towards the settling of pay claims for 2023/24 across the public sector - including in health - is welcome, questions remain as to the ability of the Northern Ireland Executive to fund future years' settlements beyond this funding. *We therefore invite both the Government and Northern Ireland Executive in response to this report to set out their assessment of this future funding. We also recommend the introduction of a statutory duty on the Department of Health to publish an assessment of its health and social care workforce projections.* (Paragraph 21)

2. After years of under-investment, the education sector has been struggling to fulfil its statutory duties. Spending per pupil has been consistently lower in Northern Ireland than in England. We are particularly concerned about the future of provision for children and young people with Special Educational Needs (SEN), with the number of pupils with SEN growing by 60% over the last ten years and this trend only likely to continue. SEN provision makes up a significant amount of EA spending. *We recommend, as did our predecessor committee in 2019, that the Northern Ireland Executive take proper account of the increasing numbers of children with SEN in Northern Ireland when allocating budgetary funding to the Department of Education.* (Paragraph 25)

3. Cuts in police officer numbers due to recent budgetary pressures will impact on the PSNI's visibility and ability to respond to increased demand. Officer numbers have dropped some way below the 7,500 committed to under the New Decade, New Approach agreement in 2020. More complex crimes, threats to staff and the raised threat level all need to be addressed, too. *Given the severe funding situation which the PSNI faces, we urge a rethink by the Treasury, Northern Ireland Office and new Northern Ireland Executive of the PSNI's financial framework. This would ensure that the PSNI has a greater variety of options in dealing with any financial difficulty in future, which is critical given the importance of the Police Service's role in Northern Ireland's post-conflict society.* (Paragraph 29)

4. The voluntary, community and social enterprise sector has struggled in the recent funding environment, and this is likely to have piled further pressure onto stretched public services. *When making future budgetary decisions the Northern Ireland Executive must take account of the significant contribution that the sector offers and provides often to the most vulnerable.* (Paragraph 35)

5. The delivery and timing of the UK Shared Prosperity Fund (UKSPF) caused considerable distress and uncertainty in the sector, particularly the decision to communicate the outcome of applications on the day European Social Funding ceased. The Government has announced that decisions on the future funding of UKSPF from April 2025 are a matter for the next Spending Review. However, the

voluntary, community and social enterprise sector in Northern Ireland requires more immediate clarification to ensure that it can effectively plan for the viability and continuity of the services it offers from April 2025 onwards. *Before the end of the first quarter of the 2024/25 financial year, we recommend that the Government publish information regarding the scope of future UKSPF allocations for public bodies and third sector organisations.* (Paragraph 36)

6. Northern Ireland's public services, especially in the health, education and justice sectors, are in a poor state after years of political instability, lack of funding and of reform. The additional £520 million per year promised by the Government in 2024/25 and 2025/26 will help to address pressures in the immediate term, as well as public sector pay offers for 2023/24. However, the Northern Ireland Fiscal Council has warned of "an abrupt 'cliff-edge' drop in funding" from 2026/27. *Given this concern, we invite the Government to set out its assessment of the implications for public services of the expected drop in funding from 2026/27 and the rationale for its decision on the two-year stabilisation funding in response to this report.* (Paragraph 38)

Funding, reform and absent institutions

7. Single-year budgets and a lack of an agreed Programme for Government have not allowed for long-term thinking and planning for public services and spending in Northern Ireland over recent years. We urge the Executive to commit to returning to multi-year budgetary settlements following the next UK Spending Review as part of its sustainability plan. Even under multi-year budgets, however, Northern Ireland departments are unable to take forward surpluses. *We urge the Executive to commit to returning to multi-year budgetary settlements following the next UK Spending Review as part of its sustainability plan. Even under multi-year budgets, however, Northern Ireland departments are unable to take forward surpluses. This matter should be included as part of the upcoming Fiscal Framework discussions between the Government and Northern Ireland Executive.* (Paragraph 46)

8. We are pleased to see reference to the publication and implementation of a fiscal sustainability plan as part of the settlement between the Government and Executive, which will include detail on long-term budget planning. It is noted that there is a strong view that the Government's conditionality for writing-off Executive 'debt' is unacceptable and that these debts exist primarily due to the underfunding of public services. *The Government should, in response to this report, clarify how it intends to evaluate and monitor the implementation of this plan given their view of the conditionality of the £559 million departmental overspend write-off.* (Paragraph 47)

9. The transformation agenda is critical to getting Northern Ireland's finances onto a sustainable footing and cannot be delayed any further. The underfunding of local public services by the Treasury and the lack of an Executive for five out of the last seven years has undermined progress and difficult political decisions which should have been made were avoided even when the institutions were in place, further prolonging reform. This Chapter of our report has highlighted the scale of transformation required for Northern Ireland's public services, particularly in health and on the implementation of the 2016 Bengoa Report. Transformation should be mainstreamed across all aspects of Government. The Northern Ireland Executive

must set out its plans for public service transformation in an agreed Programme for Government and establish the Public Services Transformation Board without delay to unlock additional ring-fenced funding. *The Northern Ireland Executive must set out its plans for public service transformation in an agreed Programme for Government and establish the Public Services Transformation Board without delay to unlock additional ring-fenced funding. This plan should include the articulation of a clear understanding of what transformation entails, with aims, objectives, estimated costings and savings, and performance metrics.* (Paragraph 55)

10. Northern Ireland would benefit from being more entrepreneurial in how it bids for funding for public service reform - for example, by linking its bids into wider Government agendas and aims including cross-Departmental working, partnership with the business community and third sector. *We recommend that the Treasury work with the Northern Ireland Civil Service and the Northern Ireland Office to provide guidance on how such investment cases can be built.* (Paragraph 56)

11. Many of the structural, resource and funding issues facing Northern Ireland have been a long time in the making, but the lack of ministerial direction and accountability in recent times has not helped the plight of public services in Northern Ireland. Core reforms required across public services have not been taken forward and the absence of the Executive between February 2022 and February 2024 delayed the introduction of new legislation and undermined the effective scrutiny of decision-making. However, by far the greatest threat remains chronic underfunding, below need, of NI public services by the Treasury. This includes the operation of the current fiscal floor proposed by the Government, which by design, fails to provide a recurring uplift to the block grant commensurate to the level NI was funded below need between April 2022 and the present day. (Paragraph 64)

The block grant and the Barnett Formula

12. Decisions by UK Governments to reduce overall UK public spending have a significant impact on the funding Northern Ireland receives through the block grant, which makes up the vast majority of its expenditure. With tighter budgets in England, annual allocations to Northern Ireland under the Barnett formula have been squeezed. (Paragraph 76)

13. We endorse calls for a review of the fiscal framework for Northern Ireland and welcome the willingness of the Government to open negotiations with the Executive in this regard. However it is deeply regrettable, because of the failure to baseline the new needs-based Barnett factor as if it had been in place at the point public spending in Northern Ireland fell below assessed need–April 2022–that the new formula will operate as a fiscal ceiling, rather than as a floor, slowly lifting Northern Ireland's funding to a point below which it should never have been permitted to fall in the first place. *A review of the exact calculation and assessment of the needs-based factor should be included as part of the terms of reference for the upcoming Fiscal Framework negotiations between the Government and Northern Ireland Executive.* (Paragraph 77)

Alternative ways of raising revenue in Northern Ireland

14. We note that there have been calls that any consideration given by the Northern Ireland Executive to revenue raising should only take place once UK Government funding at levels equal to or above assessed need has been restored. The Northern Ireland Executive should take the needs of lower income households into account when considering a range of revenue raising options to protect and improve public services and provide more sustainable public finances. (Paragraph 85)

15. We welcome the work of the Independent Fiscal Commission for Northern Ireland on further fiscal devolution. The devolution of such powers will not address the difficult situation in which public services currently find themselves but could help strengthen the economy and increase the fiscal accountability of the Executive. Income tax devolution has precedents in Scotland; devolution of the apprenticeship levy could complement the responsibility Stormont has for education and skills; and taking up corporation tax powers would acknowledge Northern Ireland's unique geographic and economic position within the Union. However, further fiscal devolution comes with potential risk too. We welcome the work of the Independent Fiscal Commission for Northern Ireland on further fiscal devolution. The devolution of such powers will not address the difficult situation in which public services currently find themselves but could help strengthen the economy and increase the fiscal accountability of the Executive. Income tax devolution has precedents in Scotland; devolution of the apprenticeship levy could complement the responsibility Stormont has for education and skills; and taking up corporation tax powers would acknowledge Northern Ireland's unique geographic and economic position within the Union. However, further fiscal devolution comes with potential risk too. There is a need for a much greater level of stability before we should consider significant additional changes to the fiscal powers in Northern Ireland. We do not believe that income tax should be devolved to Northern Ireland at the moment. Separately, we would question whether the administrative capacity is in place to manage what is an extremely complex and fundamental element of the taxation system. *Upcoming Fiscal Framework negotiations between the Government and Northern Ireland Executive should include reference to further fiscal devolution. We recommend these negotiations start in the first half of 2024.* (Paragraph 93)

Formal minutes

Wednesday 20 March

Members present

Sir Robert Buckland, in the Chair

Stephen Farry

Sir Robert Goodwill

Claire Hanna

Carla Lockhart

Jim Shannon

Bob Stewart

Draft Report (*The funding and delivery of public services in Northern Ireland*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 93 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available (Standing Order No. 134).

Adjournment

Adjourned till Wednesday 17 April at 9am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 03 May 2023

Jayne Brady, Head of the Northern Ireland Civil Service, Northern Ireland Civil Service; **Neil Gibson**, Permanent Secretary, Northern Ireland Department of Finance; **Joanne McBurney**, Public Spending Director, Northern Ireland Department of Finance Q1–78

Wednesday 24 May 2023

Dr Tom Black, Northern Ireland Council Chair, British Medical Association (BMA); **Dolores McCormick**, Associate Director, Employment Relations and Member Services, Royal College of Nursing; **Professor Mark Taylor**, Northern Ireland Director, Royal College of Surgeons Q79–113

Mark Baker, Chief Executive, Controlled Schools' Support Council; **Sara Long**, Chief Executive, Education Authority; **Liam McGuckin**, President, National Association of Headteachers (Northern Ireland) Q114–151

Wednesday 21 June 2023

Pamela McCreedy, Chief Operating Officer, The Police Service of Northern Ireland; **Mark McNaughten**, Assistant Chief Officer for Corporate Services, The Police Service of Northern Ireland; **Geraldine Hanna, Victims of Crime Commissioner Designate for Northern Ireland** Q152–174

Dorinnia Carville, Comptroller and Auditor General, Northern Ireland Audit Office; **Rodney Allen**, Chief Operating Officer, Northern Ireland Audit Office; **Margaret Kelly, NI Public Services Ombudsman**; **Sean Martin, NI Public Services Deputy Ombudsman** Q175–201

Tuesday 04 July 2023

David Babington, Chief Executive, Action Mental Health; **Michele Janes**, Director for Northern Ireland, Barnardo's Northern Ireland; **Celine McStravick**, Chief Executive, Northern Ireland Council for Voluntary Action (NICVA) Q202–213

Sir Robert Chote, Chair, Northern Ireland Fiscal Council; **Dr Lisa Wilson**, Senior Economist, Nevin Economic Research Institute Q214–228

Wednesday 08 November 2023

Paul Johnson CBE, Former Chair, Independent Fiscal Commission for Northern Ireland; **Professor Gerald Holtham**, Former Chair, Independent Commission on Funding and Finance for Wales Q229–265

Paul Kavanagh, Committee Member, SEN Reform NI; **Emma Morgan**, Committee Member, SEN Reform NI Q266–299

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

FPC numbers are generated by the evidence processing system and so may not be complete.

1 Action Mental Health (FPC0018)

2 Bar of Northern Ireland; and Law Society Northern Ireland (FPC0020)

3 Barnardo's Northern Ireland (FPC0014)

4 British Heart Foundation Northern Ireland (FPC0025)

5 British Medical Association Northern Ireland (FPC0012)

6 CO3 - Chief Officers Third Sector (FPC0003)

7 Carnegie UK (FPC0016)

8 Controlled Schools' Support Council (FPC0019)

9 Education Authority (FPC0009)

10 Enterprise Northern Ireland (FPC0007)

11 Hanna, Geraldine (Commissioner Designate for Victims of Crime Northern Ireland, Commission for Victims of Crime Northern Ireland) (FPC0008)

12 NERI (FPC0002)

13 NICVA (FPC0022)

14 Northern Ireland Commissioner for Children and Young People (FPC0017)

15 Northern Ireland Fiscal Council (FPC0032)

16 Northern Ireland Fiscal Council (FPC0028)

17 Northern Ireland Policing Board (FPC0031)

18 Northern Ireland Public Service Alliance (NIPSA) (FPC0033)

19 Pivotal (FPC0023)

20 Police Federation for Northern Ireland (FPC0004)

21 Police Service of Northern Ireland (FPC0010)

22 RCPCH (FPC0021)

23 Royal College of GPs in Northern Ireland (FPC0015)

24 Royal College of Nursing, Northern Ireland (FPC0024)

25 Royal College of Surgeons of England (FPC0005)

26 Royal College of Surgeons of England in Northern Ireland; British Medical Association (Northern Ireland); and Royal College of Nursing, Northern Ireland (FPC0030)

27 SEN Reform NI (FPC0034)

28 The Governing Bodies Association NI (GBA) (FPC0029)

29 The National Association of Head Teachers (NAHT) Northern Ireland (FPC0011)

30 The Northern Ireland Council for Integrated Education (NICIE) (FPC0027)

31 Translink (FPC0013)

32 Ulster Rugby (FPC0026)

33 Unite The Union (FPC0035)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2023–24

Number	Title	Reference
1st	The effectiveness of the institutions of the Belfast/Good Friday Agreement	HC 45
2nd	The effect of paramilitary activity and organised crime on society in Northern Ireland	HC 43
1st Special	The effectiveness of the institutions of the Belfast Good Friday Agreement: Government Response to the Committee's First Report of Session	Hc 588

Session 2022–23

Number	Title	Reference
1st	Investment in Northern Ireland	HC 85
1st Special	Investment in Northern Ireland: Government Response to the Committee's First Report of Session	HC 1109

Session 2021–22

Number	Title	Reference
1st	Citizenship and passport processes relating to Northern Ireland	HC 158
2nd	The experiences of minority ethnic and migrant people in Northern Ireland	HC 159
1st Special	Cross-border co-operation on policing, security and criminal justice after Brexit Government Response to the Committee's Fourth Report of Session 2019–21	HC 508
2nd Special	Citizenship and passport processes relating to Northern Ireland: Government Response to the Committee's First Report of Session 2021–22	HC 787

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1st	Unfettered Access: Customs Arrangements in Northern Ireland after Brexit	HC 161
2nd	New Decade, New Approach Agreement	HC 160

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3rd	Addressing the Legacy of Northern Ireland's Past: the Government's New Proposals (Interim Report)	HC 329
4th	Cross-border co-operation on policing, security and criminal justice after Brexit	HC 766