House of Commons

Northern Ireland Affairs Committee

The Funding and Delivery of Public Services in Northern Ireland: Government Response

First Special Report of Session 2024–25

HC 413

Northern Ireland Affairs Committee

The Northern Ireland Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Northern Ireland Office; administration and expenditure of the Crown Solicitor's Office (but excluding individual cases and advice given by the Crown Solicitor); and other matters within the responsibilities of the Secretary of State for Northern Ireland (but excluding the expenditure, administration and policy of the Office of the Director of Public Prosecutions, Northern Ireland and the drafting of legislation by the Office of the Legislative Counsel) and its associated public bodies.

Current membership

Tonia Antoniazzi (Labour; Gower) (Chair)

Dan Aldridge (Labour; Weston-super-Mare)

Chris Bloore (Labour; Redditch)

Sorcha Eastwood (Alliance; Lagan Valley)

Claire Hanna (Social Democratic & Labour; Belfast South and Mid Down)

Leigh Ingham (Labour; Stafford)

Adam Jogee (Labour; Newcastle-under-Lyme)

Alicia Kearns (Conservative; Rutland and Stamford)

Jerome Mayhew (Conservative; Broadland and Fakenham)

Katrina Murray (Labour; Cumbernauld and Kirkintilloch)

Dr Al Pinkerton (Liberal Democrat; Surrey Heath)

Rt Hon Gavin Robinson (Democratic Unionist; Belfast East)

David Smith (Labour; North Northumberland)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the internet via www.parliament.uk.

Publication

This Special Report was Ordered by the House of Commons, on 13 November 2024, to be printed. It was published on 14 November 2024 by authority of the House of Commons.

Committee reports are published on the Committee's website at www.parliament.uk/niacom and in print by Order of the House.

Contacts

All correspondence should be addressed to the Clerk of the Northern Ireland Affairs Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 3672; the Committee's email address is northircom@parliament.uk. You can follow the Committee on X (formerly Twitter) using @CommonsNIAC.

First Special Report

Our predecessor Northern Ireland Affairs Committee published its Third Report of Session 2023–24, The funding and delivery of public services in Northern Ireland (HC 46), on 26 March 2024. A letter from Secretary of State for Northern Ireland and the Government response were received on 12 November 2024 and are appended below.

Appendix 1: Letter from the Secretary of State for Northern Ireland, dated 12 November 2024

Dear Tonia,

I am grateful for the work of the Northern Ireland Affairs Committee in producing its report on "The Funding and Delivery of Public Services in Northern Ireland". We recognise the challenges facing public services in Northern Ireland and stand ready to support the Executive to deliver high-quality and sustainable public services. I apologise for the delay in responding to the Committee.

Devolved government and political stability in Northern Ireland are essential to deliver long-lasting improvements to public services for the people of Northern Ireland. We believe the previous Government's financial package of over £3.3 billion, in addition to the record £18.2 billion for the Northern Ireland Executive in 2025/26, including £1.5 billion in Barnett consequentials. This will enable the Executive to stabilise public services, better manage public finances, increase opportunities for improved infrastructure and investment, pave the way for long promised and much needed transformation of public services, and crucially, enable the delivery of a pay award to public sector workers.

However, funding is only one part of the answer to transformation and better public services. The Government wants to support the Executive in making long-term and strategic decisions to maximise the impact of its funding. In addition to the work already undertaken by the interim Public Sector Transformation Board, we expect the Executive to move quickly to establish a full Public Sector Transformation Board. We hope that this will provide a structure to facilitate capacity building and collaboration between the Executive and independent experts, and allow the Executive access to skills and expertise within Whitehall to support them in this work in a way that respects the devolution settlement. The Government looks forward to working with Northern Ireland Ministers as part of their plans to deliver on the commitments to public service transformation and reform in the Executive's Programme for Government.

Please find attached the Government's response to the recommendations made in the Committee's report. I would be grateful if you could share this letter with members of the Northern Ireland Affairs Committee and I look forward to appearing before the committee later this month.

Yours sincerely,

THE RT HON HILARY BENN MP

SECRETARY OF STATE FOR NORTHERN IRELAND

Appendix 2: Government Response

Introduction

1. The Government (UKG) welcomes the Committee's report into the funding and delivery of public services in Northern Ireland. This report was published after a challenging period during which the lack of an Executive had a significant impact on the delivery of public services in Northern Ireland. This Government is committed to working with the Executive and the Assembly to improve public services and generate economic growth.

2. The rest of this response is split into consideration of the Committee's recommendations on the challenges facing public services; on the Northern Ireland institutions; on the block grant and Barnett formula; and on revenue raising.

Recommendations on challenges facing public services in Northern Ireland

Recommendation 1 *(Paragraph 21)*

3. "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."

UK Government response:

4. The previous Government provided a £3.3 billion financial package to the Executive to stabilise public finances and support public services. In addition to this, Main Estimates for 2024–25 confirmed an additional £185 million of funding for the Executive through the Barnett formula. The Chancellor, in her Autumn Budget, also confirmed that Northern Ireland would receive a record £18.2 billion in funding for 2025/26 – the largest settlement in real terms in the history of devolution. This includes a

£1.5 billion top-up through Barnett in 2025–6, with £1.2 billion for day-to-day spending and £270 million for capital investment. This means that the Executive is projected to be funded above its relative level of need of 124% for the current and next financial year, as agreed between the Treasury and the Executive in the Interim Fiscal Framework.

5. As part of the financial restoration package, the UK Government provided £846m in 2023–24 for general pressures, including pay. It is for the Executive to decide on the level of pay awards and to balance these costs against other priorities. The Executive has agreed an approach to public sector pay deals and it is now for the Northern Ireland Executive and relevant departments to manage their annual budgets, and related public sector pay pressures.

6. The previous UK Government agreed an interim Fiscal Framework with the Northern Ireland Executive. This Government is committed to progressing this work to deliver a full fiscal framework to ensure the long-term sustainability and health of Northern Ireland's public finances. The Chief Secretary to the Treasury and Minister of Finance have agreed that discussions on the next phase of the fiscal framework can begin. I look forward to seeing the progress on this over the months.

7. Our priority has always been to support sustainable public finances and services in Northern Ireland. More time is needed to ensure that any further agreement on the long-term fiscal framework for Northern Ireland is robust and will serve the purpose of supporting the fiscal sustainability of Northern Ireland's public finances.

8. However, funding alone will not address the challenges facing public services. There is now an onus on the Executive to deliver the much needed and long promised transformation to Northern Ireland's public services, and put public finances on a sustainable footing.

9. In relation to the recommendation to place a statutory duty on the Department of Health to publish an assessment of its health and social care workforce projections, staffing is a devolved matter for which the Department of Health is responsible.

Recommendation 2 *(Paragraph 25)*

10. "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."

UK Government response:

11. Special Educational Needs (SEN) is a devolved matter for the Northern Ireland Executive. However, the UKG is keen to share its experiences and best practice to support the Executive to improve outcomes for all people living in Northern Ireland, including those with special education needs.

Recommendation 3 *(Paragraph 29)*

12. "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."

UK Government response:

13. The UK Government fully supports the excellent work that the Police Service of Northern Ireland (PSNI) undertakes to keep people in Northern Ireland safe, often in exceptionally challenging circumstances. The Government recognises the difficult financial position the PSNI faces. However, policing is a devolved matter in Northern Ireland and it is for the Northern Ireland Justice Minister to determine the allocation of funding to the PSNI from the Department of Justice's budget. The prioritisation of police resourcing is the responsibility of the Department of Justice, working with the wider Executive.

14. However, as noted above, the previous UK Government has provided the NI Executive with a financial package of £3.3 billion to help stabilise and transform public services, as well as address public sector pay. Furthermore the Executive is being provided with a £18.2bn settlement for 2025/26. The Government trusts the Executive will give consideration to how this funding can be used to support the work of the PSNI. The Executive will also be able to raise their concerns regarding PSNI funding with HM Treasury as part of Spending Review discussions.

15. In addition to this, since 2011, recognising the unique security situation in Northern Ireland, the UK Government has made additional funding contributions to the PSNI. From 2015–16 to 2024–25 the UK Government has provided over £288m to the PSNI through Additional Security Funding (ASF) to enable the PSNI to tackle the threat posed by Northern Ireland related terrorism (NIRT). In her Autumn Budget, the Chancellor confirmed that the Government has increased funding to £37.8 million for the Police Service of Northern Ireland's Additional Security Fund and confirmed £8 million for the Executive Programme on Paramilitarism and Organised Crime to ensure that people and communities are kept safe from violence and harm. This Government will continue to work closely with the PSNI and other partners to ensure adequate resourcing to tackle the SUBSTANTIAL threat from NIRT.

Recommendation 4 *(Paragraph 35)*

16. "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."

UK Government response:

17. The Government recognises and values the significant contribution of the voluntary, community and social enterprise sector to public service provision across all communities in Northern Ireland. This is however a devolved matter for the Northern Ireland Executive. As always, the UK Government stands ready to support the Executive to improve outcomes for people living in Northern Ireland including the most vulnerable.

Recommendation 5 *(Paragraph 36)*

18. "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."

UK Government response:

19. The UK Shared Prosperity Fund (UKSPF), for which the previous government made no plans beyond March 2025, will be extended for 2025–26 at a reduced level of £900 million. By continuing delivery for another year, this Government is providing certainty to places and demonstrating our commitment to a reset in our relationship with local government.

20. In Northern Ireland, MHLCG and the NIO will work collaboratively with delivery partners and the Northern Ireland Executive, to ensure that the extended UKSPF programme is investing in local needs and growth priorities. Local leaders will retain the freedom to invest in local priorities and deliver projects that will drive growth, support those at risk of being left behind and boost community cohesion in every area of the UK.

21. Despite the fiscal inheritance the Government faces, we have ensured that local growth funding continues in all parts of the UK. Regional allocations will be confirmed as soon as possible, but all areas should plan on the basis of a reduced allocation. Nation-level and local allocations will be published on gov.uk in due course.

Recommendation 6 *(Paragraph 38)*

22. "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."

UK Government response:

23. No budgets for the Devolved Governments, or UK Government departments, have been set for 2026–27 onwards and so any expected drop-off is based on projections. The Interim Fiscal Framework confirms that the Executive can continue to plan on the assumption that they will be funded at or above their 124% level of relative need in future financial years. This is seen through the record settlement of £18.2bn provided to the Executive for 2025/26.

24. The previous Government's financial package will support the stability of Northern Ireland's public finances and pave the way for fiscal discipline, greater revenue raising to support the effective delivery of public services, and appropriate governance to help the incoming Executive to deliver stability for the medium term and to create the conditions for long-term sustainability. These are necessary and reasonable safeguards to ensure that the mistakes of the past are not repeated and to secure the health of Northern Ireland's public finances in the long term.

25. Within this package we have provided the Northern Ireland Executive with £708 million to support public services over five years from 2024–25 to 2028–29. This is comprised of £85 million new funding and removing the ring-fence on £623 million of existing Northern Ireland funding streams. The previous UK Government agreed an interim Fiscal Framework with the Northern Ireland Executive and this Government is committed to taking forward this work to ensure the long-term sustainability and health of Northern Ireland's public finances.

26. However, the Executive will need to make difficult decisions around transformation and revenue raising to ensure that it has enough income to deliver effective public services.

Recommendations on funding, reform and absent institutions

Recommendation 7 *(Paragraph 46)*

27. "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."

UK Government response:

28. The Chancellor of the Exchequer has confirmed a clear process for the Autumn. The Office for Budget Responsibility delivered a full economic and fiscal forecast, alongside the Budget on 30 October. As part of the first phase of the Budget, the Government has confirmed NIE's funding for 2025/26 at £18.2bn. The Chancellor will set out a multi-year Spending Review in Spring 2025 and set budgets to at least 2027–28. We will also commit to running multi-year spending reviews every two years going forward, which should give greater certainty for budget-planning. As per the New Decade New Approach commitment, we would expect the NIE to also return to multi-year budgets following the conclusion of Phase 2 of the Spending Review.

29. The Northern Ireland Executive is able to access the Budget Exchange system which is a mechanism that allows them to carry forward an underspend from one year to the next, within previously agreed limits and with the consent of HM Treasury Ministers. Further information on these arrangements is in Chapter 12 of the Statement of Funding Policy.

30. The previous UK Government agreed an interim Fiscal Framework with the Northern Ireland Executive to ensure the long-term sustainability and health of Northern Ireland's public finances. This Government has committed to taking these discussions forward and the Chief Secretary to the Treasury and the Minister of Finance have agreed the next phase of these discussions can begin. I am confident that HM Treasury and the Northern Ireland Department of Finance will consider arange of options to ensure Northern Ireland has the correct tools to ensure financial sustainability and effective public service delivery.

Recommendation 8 *(Paragraph 47)*

31. "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."

UK Government response:

32. The Northern Ireland Executive incurred debts of £559 million over 2022–23 and 2023–24 from reserve claims provided by the previous UK Government when there was no Executive in place. The default is that these reserve claims, which the previous UK Government provided to prevent a breach of control totals, are repayable. Debt repayment terms for the Devolved Administrations are set out in section 8.7 of the Statement of Funding Policy

33. The 2024 Northern Ireland Executive Restoration financial package paused the repayment of these same £559 million debts subject to the publication and implementation of a Budget Sustainability Plan, including delivering a balanced 2024–25 budget and the NIE raising an additional £113m revenue from 2025/26.

34. I greatly welcomed the Executive's publication of the Sustainability Plan and believe this is an important step towards ensuring sustainability finances for Northern Ireland.

35. If the Executive is able to balance its budget for 2024/25 and raise an additional £113m from 2025/26 then the Chief Secretary to the Treasury will write to the Minister of Finance confirming the debts accrued do not need to be repaid.

Recommendation 9 *(Paragraph 55)* & Recommendation 10 *(Paragraph 56)*

36. "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."

37. "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."

UK Government response:

38. The Government recognises there are very real pressures facing public services in Northern Ireland and it is clear that there is an urgent need for transformation. As a result, the Government is providing £235 million of ring-fenced financial support to the Executive to support the NI Executive in transforming public services.

39. The establishment of a Public Sector Transformation Board will provide an opportunity for innovative collaboration on the biggest challenges facing public services in Northern Ireland, and the Government is confident that the Executive will make the necessary decisions and work towards the improvement of public service outcomes. This Government respects the Good Friday Agreement, and understands that it is for the Northern Ireland Executive and Assembly to make decisions on public services for the people of Northern Ireland. We will work collaboratively to support them to achieve this while respecting the devolved settlement.

40. Funding is only one part of the answer to transformation and the Executive will need to make some difficult choices in order to live within their budget to support the cost of public service delivery and improve outcomes for citizens. Since the publication of this report in May, the Executive has now published its Programme for Government and has established an Interim Public Sector Transformation Board. The Government looks forward to working collaboratively with NI Ministers to improve public services outcomes in Northern Ireland.

Recommendations on the block grant and Barnett Formula

Recommendation 11 *(Paragraph 77)*

41. "A review of the exact calculation and assessment of the needs-based factor should be included as part of the terms of reference for future Fiscal Framework negotiations between the Government and Northern Ireland Executive."

UK Government response:

42. The previous Government agreed an interim Fiscal Framework with the Northern Ireland Executive to ensure the long-term sustainability and health of Northern Ireland's public finances. We have committed to taking forward these discussions towards a full framework. The Chief Secretary to the Treasury and the Minister of Finance have agreed that the next phase of discussions can begin. I am confident that HM Treasury and the Department

of Finance will consider a range of options to ensure Northern Ireland has the correct tools to ensure financial sustainability and effective public service delivery.

43. We acknowledge that Northern Ireland faces unique challenges. The independent Northern Ireland Fiscal Council has calculated that the relative need in Northern Ireland is 24% more per head than the rest of the UK for equivalent spending. This includes the higher costs of, amongst others, delivering policing and justice in NI. We recognise that higher relative need requires higher relative funding for the Northern Ireland Executive, and the UK Government has delivered that. We have also made a structural change to Executive funding by adding a 24% needs-based factor to the Barnett formula to ensure the Executive gets the level of funding it needs.

44. Additionally, and in line with the interim fiscal framework, this Government is committed to considering a review of the relative need if multiple independent and credible sources provide evidence that relative need is different to 124%.

Recommendations on alternative ways of raising revenue in Northern Ireland

Recommendation 12 *(Paragraph 93)*

45. "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."

46. In the Safeguarding the Union Command Paper, the previous UK Government committed to a rapid, focused process, on the implementation of corporation tax devolution through a new Joint Exchequer Committee.

47. The Joint Exchequer Committee will take forward urgent work on this process. However, the devolution of fiscal powers alone will not solve the financial challenges facing Northern Ireland. The Executive needs to make difficult decisions around revenue-raising and public service transformation to put Northern Ireland's finances on a sustainable footing.

48. The previous UK Government agreed an interim Fiscal Framework with the Northern Ireland Executive to ensure the long-term sustainability and health of Northern Ireland's public finances. The Chief Secretary to the Treasury and the Minister of Finance have agreed that the next phase of these discussions can begin. I am confident that HM Treasury and Department of Finance will consider a range of options to ensure Northern Ireland has the correct tools to ensure financial sustainability and effective public service delivery.