NI’s funding and spending

David Phillips
NI Executive Funding in 2023-24

Resource block grant

Capital block grant

Regional rates

Capital borrowing, political deal resource and capital

Block grants mostly determined by application of Barnett Formula: same cash per person change in funding as in England
How much should NI receive?

- I don’t know – and nobody does for sure!
- A number of factors would suggest lower funding needs per person:
  - NI’s smaller 65+ population share
  - NI’s lower labour and property costs
- But outweighed by a range of other factors:
  - Higher levels of poor health and disability
  - Higher levels of worklessness (but not poverty!)
  - Higher share of population living in rural areas
  - Legacy of conflict and ongoing societal divisions
- Based on Holtham methodology, NI Fiscal Council estimate that NI Executive requires 24% more person than England
  - I think this is more likely to be over- rather than under-estimate
Historic funding trends

% change in UK government equivalent spending
Block Grant premium
Block Grant premium (constant population)

Source: HM Treasury PESA, NIFC calculations
Long-term funding projections

Source: HM Treasury PESA 2021, Northern Ireland Fiscal Council calculations

Latest NIFC need estimate

£400m increase in revenues
Govt spending in NI in 2021-22

Water explains 30% of difference with England
Agriculture & rural affairs a further 40%

Source: PESA (2023).
Note: Excludes core regional and devolved governance costs.
‘Super parity’

- NI provides more generous benefits and services, estimated to cost around £600 million as of 2021(ish)
  - Free water: £345 million
  - Lower HE tuition fees: £90 million
  - Enhanced benefits: £61 million
  - Free domiciliary care & free prescriptions: £38-53 million
  - More generous bus passes: £29 million
- Lower residential property taxes
  - Average bill £400-500 lower than in England and Wales
- Different package of business rates reliefs probably costs a bit more
  - More support for industry, logistics, charities and churches
  - Less support for small business
Fiscal devolution

- NI Fiscal Commission recommended devolving income tax, SDLT, landfill tax, APD and apprenticeship levy to NI
  - To provide NI Exec with stronger financial incentives and greater financial and economic accountability
  - To provide additional fiscal flexibilities
- Income tax is the only one suitable for significant revenue-raising
  - 1p on each tax rate would raise about £175 million, with over ¾ of this coming from the basic rate
- Scotland and Wales illustrate new fiscal risks involved & importance of ‘fiscal framework’
  - Scotland, slower growth in tax base offset most of tax rises
  - Wales, tax base grown slightly slower overall, but composition-adjusted has grown faster, so Welsh Govt has gained
Summary

- NI has in recent years been relatively well funded but this is set to change in future as Barnett squeeze bites
- Reform/replacement of Barnett is needed to properly address this
- NI Exec has scope to re-prioritise and raise not insubstantial sums
  - Water charges and domestic rates
  - HE tuition fees
- Fiscal devolution, especially income tax devolution, would provide further flexibility to determine tax and spend levels