Public services in Northern Ireland will be unsustainable without change – the Executive's multi-year budget is an opportunity that cannot be missed

Public finances are overstretched despite the fact public services fall far short of what the public needs. Without a proper reconfiguration of how, where and when services are delivered, the local public sector cannot properly serve local people. A step change is required, starting with the upcoming multi-year budget. Executive ministers from different parties must work together, show unity and embrace joint ownership of plans for budgeting and transformation, according to think tank Pivotal.

Recent years have seen Northern Ireland face a combination of inadequate public services and annual budgetary crises. This situation is unsustainable, but the chance to agree a multi-year budget offers the opportunity to begin addressing these core problems. The Executive must take appropriate action, however difficult the necessary choices may be.

Services have deteriorated over the past decade, including with long waiting lists in healthcare and for Special Education Needs, delays in the justice system and the environmental crisis in Lough Neagh. Yet local spending has failed to stay within budgets, instead relying upon extra allocations from London to resolve in-year financial crises.

Analysis of funding provided to the Executive by the UK Government shows allocations have consistently stayed at or above the level of relative need suggested by the NI Fiscal Council. The failure to deliver adequate services with this 'fair' level of overall funding shows that services are not working as they should be. Services must transform, to avoid becoming increasingly unsustainable and risking collapse.

A new report from Pivotal examines NI's public finances over the next three years, ahead of the Executive agreeing a multi-year budget. Published today **Monday, 8 December,** ***Northern Ireland's multi-year budget - challenges and opportunities*** explores the funding available and offers analysis and ideas about how to get the public finances and public services into a more stable and sustainable position. Pivotal is an independent think tank that aims to contribute to improved policy making in Northern Ireland. This paper is offered to inform and enhance political and public debate about the budgetary challenges ahead.

Following this year's Westminster Spending Review and the Chancellor's recent Budget, Stormont's financial allocations for the next few years are now taking shape – and will present huge challenges. Despite efforts from departments to reduce spending in the current fiscal year, a projected overspend of £400-500m looks likely, down from almost £800m as projected in October. Spending totals will barely increase next year, which is an unprecedented situation given increasing pay and others costs, all amidst continually rising demand for services.

These budgets will be extremely difficult to manage. The onus will be on all departments to see how funding can be used more efficiently to get the very best outcomes for the public. Fundamental questions must be asked about how, when and where services are delivered. Otherwise, cuts to services will be unavoidable.

Pivotal's analysis suggests that real consideration has to be given to policies such as public sector pay parity with England and our relatively low domestic rates. Households in Northern Ireland pay an average of around £1,000 per year less than their equivalents in England and Wales, due to lower rates and the absence of water charges.

Departments' overall spending has increased by 5-6% annually over the last eight years. If spending increases at this rate again next year, the overspend could be around £900 million. If increases are pared back to 4.5% or 3%, the overspend would still be around £750 million or £500 million respectively.

Ann Watt, Director of Pivotal, said: "Public services, as they are currently configured, are not affordable within existing budgets. Change is needed, and setting a multi-year budget offers opportunities for important conversations about the best way to do this.

"At the same time, the funding available in the next three years will be far more challenging to manage than even recent years. The uplifts are very small, with the Executive looking at a budget increase next year that is little more than flat in cash terms. This is unprecedented, particularly considering pay awards and other rising costs.

"The Executive faces a number of tough choices and it must be brave enough to take these on. Pivotal urges the Executive to be transparent about the

numbers and honest with the public about the decisions needed. Otherwise Northern Ireland is set for a series of crises on a continual basis.

"Longer term transformation remains essential and long overdue, although it may not yield the immediate savings needed. We would also encourage the Executive to embed some elements of 'zero based budgeting' into its plans, which asks more fundamental questions about all spending in a particular area, rather than just looking at funding additions.

"In doing so, the Executive will face immense political challenges. Many of the necessary, individual changes might not be popular. However, if nothing changes, budgets will be overspent, and public services in Northern Ireland will continue to deteriorate and, at the same time, become increasingly unaffordable.

"This is a crucial time for Northern Ireland. The Executive needs to meet things head on. They must embrace this joint challenge, display unity, and accept the fact they are collectively responsible for our public services and budgets. Some very difficult, and likely unpopular, choices will need to be made. This can only be achieved if they act together.

"The Executive's role is not just about setting budgets and delivering public services. It also needs to give focused attention and resources to growing Northern Ireland's economy. The real terms decline in funding for the Department for Economy over recent years is very concerning. Ambitious plan for skills, infrastructure and innovation are needed, to boost growth, productivity and incomes across Northern Ireland."

Northern Ireland's public finances

NI's funding allocations are mostly determined by the Barnett formula, which calculates the value of increases to the block grant. Although some revenue is raised locally, 95% of the Executive's day-to-day spending – known as resource Departmental Expenditure Limit (resource DEL) – is effectively decided by increases in funding in England.

Resource DEL is different from capital DEL (which departments use to pay for investments and long-term infrastructure, such as social housing). Another arm of public spending is called Annually Managed Expenditure (AME), which covers areas like benefits and pensions.

This report concerns departmental options for day-to-day spending, therefore focuses on resource DEL.

Independent analysis by the NI Fiscal Council concluded that Northern Ireland requires around £124 per head for every £100 per person spent in England. A new agreement was reached in February 2024 to ensure that NI is given an extra funding uplift if it falls below this threshold – which is welcome news. This agreement set out arrangements to support the long-term term health of local public finances.

Despite arguments to the contrary, Pivotal's analysis shows that total spending available to the Executive has not fallen below this 124% level of need at any point in the past decade (although in some years this includes extra allocations provided by Westminster above and beyond Barnett consequentials).

Immediate budget pressures this year

The Finance Minister has previously said that Northern Ireland faces a total overspend of around £400m in the current fiscal year, plus an extra £119m in costs arising from the PSNI data breach.

Chancellor Rachel Reeves' recent budget provided an extra £19m in resource DEL for 2025-26, which does not come close to filling this shortfall.

The Executive will allocate up to £150m in the December monitoring round, with a priority put on public sector pay awards. The Department of Health, which could get around two thirds of the monitoring allocation, has also been permitted an overspend of £100m this year – to be removed from its budget for 2026-27 – in order to maintain pay parity. £70m earmarked for waiting lists has also been put towards pay costs.

Departments are all making efforts to reduce spending this year, with some success. In October, the projected overspend was £784m. However, a shortfall of £400m-£500m remains likely – and taking money out of next year's Budget will heap extra pressure on finances in 2026-27.

This situation mirrors similar crises in recent years. In 2024-25, a forecast £770m overspend was largely offset by a £640m injection from Westminster. In 2023-24, a £559m overspend was cancelled when conditions in the restoration package were met. In 2022-23, a £297m overspend was covered by Westminster, with the UK Government later cancelling this debt as part of that February 2024 restoration package.

Covid-related additions meant that funding during 2020-21 and 2021-22 was much less constrained.

Multi-year spending – and the need for transformation

Following a decade of single-year budgets and one-off funding additions, the chance to have **a three-year budget designed with strategic thinking is a big opportunity to take important steps forward with Northern Ireland's public finances and public services.**

However, the Executive needs to be realistic and honest about what can be achieved. Funding allocations will remain extremely tight.

Last year's UK Spending Review means Northern Ireland's allocation for this year is £16.4bn, with coming allocations of £16.5bn in 2026-27, £16.9bn in 2027-28 and £17.3bn in 2028-29.

The Chancellor's recent Budget allocated £132m, £89m and £2m respectively for the next three years on top of the Spending Review settlement. Given the size of recent shortfalls, these are very small numbers.

Factoring in inflation, local resource DEL is set to rise by only 0.3% annually for the next three years. Over the previous six years, the average annual rise has been 2.1% in real terms. Meanwhile demand for public services – largely driven by health and social care – will continue to rise.

Pivotal's analysis shows that day-to-day spending on health and social care increased by 68% in the eight years to 2024-25. Healthcare already takes up around half of NI's total budget and, as things stand, this will continue to increase.

Education and Infrastructure have also seen rises of over 60% during the same period. Budgets for Justice and Communities have increased by 28% and 15%, representing real-terms cuts in funding, while funding for the Department for Economy has barely increased in cash terms.

For many years, it has been an accepted truth in Northern Ireland policy and politics that local public services cannot continue without a radical transformation. This transformation is recognised as essential to delivering good quality public services which are affordable within NI's budget.

However, **the pace of any transformation has been far too slow, often piecemeal, and has lacked the political will to face the tough choices required to reconfigure local public services. As a result, neither improved services nor better value for money have been achieved on the scale needed.**

Public sector pay

Public sector pay comprises around 60% of the Executive's day-to-day spending. The *New Decade, New Approach* agreement included a commitment to maintaining pay parity with England for most healthcare staff.

In other parts of the public sector, pay can differ significantly compared with England, although there is some alignment in some sectors such as teaching and the police.

Maintaining local pay parity is relatively expensive because Northern Ireland employs proportionately more people in the public sector (26% of the total workforce compared to 17% in England).

There are arguments for and against pay parity. Living costs here are lower, but on the other hand there is a need to recruit, reward and retain staff, and this is made more difficult if they can earn more for the same work elsewhere in the UK or Ireland.

However, the need to match pay has been a significant contributor to recent budget crises. Maintaining parity will mean trade offs in other areas, such as reducing the number of workers for whom pay parity applies and/or reducing the size of the workforce overall.

Revenue raising

The Northern Ireland Executive has limited tax-raising powers. Its main avenue for this is through rates on domestic and non-domestic properties.

Each year the Executive decides at what level to set the regional rate (local councils determine and collect their own district rates) and, in 2025-26, revenue brought in via regional rates will make up around 4.3% of overall resource DEL.

Pivotal's analysis shows that the levels at which rates have been set has gone down in real terms over the past decade.

The domestic regional rate has increased by 31% in the past ten years – which is just below the rate of inflation. Non-domestic rates have fallen by 6% in cash terms (meaning much further in real terms). However, local business rates are now at similar levels to the rest of the UK, while domestic rates are much lower than equivalent taxes in England.

These lower domestic rates, combined with the absence of any local water charges, mean that local household charges are on average over £1,000 per year lower than in England and Wales, and almost £700 less than in Scotland (which has similar average income).

While choosing not to increase rates is a valid policy choice, it reduces the amount of funding available for the Executive to spend on public services and has contributed to recurring budget crises.

Pivotal's analysis also looks at 'super parity measures' – areas of policy where local taxation is lower or spending is higher than equivalents in England, showing that, by making different choices, the Executive could increase its spending power considerably.

Previous Fiscal Commission analysis in 2022 identified options worth £600-700m per year where the Executive could increase its revenues by making different policy choices. Water charges on their own could contribute £350m per year to the public purse, and higher tuition fees could provide £90m. Other possibilities include ending vacant property rates relief or reducing concessionary fares. Again, maintaining these policies is a valid policy choice, but that choice needs to be made in the knowledge that it means less funding for public services.

It's important to note that Northern Ireland is less generous than the UK in some of its policy choices, such as childcare, sometimes called 'sub parity measures'.

Conclusions and recommendations

One of the unavoidable conclusions from Pivotal's analysis is this: **public services, as they are currently configured, are not affordable within existing budgets.**

Given that Northern Ireland has consistently received a level of funding that is deemed fair according to independent analysis from the Fiscal Council, **the unavoidable conclusion is that good public services are currently impossible within current structures. Transformation is required.**

Delivery of services needs to be more efficient and more effective – such as by rationalisation of the health service, with money spent on specialist centres rather than geographical convenience – along with any other possible innovations.

In Pivotal's view, this is no longer a political choice – it is a necessity if public services are going to be affordable and sustainable now and into the future. Continuing with current systems and approaches will only lead to further deterioration in standards, repeated budgetary crises, and potentially unprecedented cuts or collapses in services.

The upcoming multi-year budget provides an opportunity to truly begin this process, with a three-year spending plan that is focused on future sustainability and, ultimately, quality within public services.

Local Ministers must ask how, where and when public services are being delivered. Do established models of delivery need to change? What does the future workforce look like, and how does it operate? Can early intervention and prevention be more clearly embedded to prevent future costs? Can technology be used to boost cost efficiency?

Pivotal's eight headline messages for policymakers are:

1. **Agreeing a multi-year budget provides a strategic opportunity. The Executive *must* grasp it.**
2. **The cycle of annual budget crises must be broken. Allocations for departments must be realistic, anticipating all costs (including pay increases).**
3. **Funding for the next three years is particularly tight. The Executive needs to be transparent about the tough choices it faces and why these are necessary. This is only possible if they work together and accept joint responsibility.**
4. **Historically, local Executives have been reluctant to consider whether pay parity should be maintained, the possibilities of extra revenue raising, or changes to super parity measures. Now, however, everything should be on the table.**
5. **The multi-year budget process should incorporate some "zero-based budgeting", which reconsiders departments' baseline spending as well as new allocations, to re-evaluate how well all public money is spent.**
6. **Transformation is essential across the entire public sector. This has been discussed for years but progress has been slow and piecemeal. It now needs to be comprehensive and determined.**
7. **There are examples of excellent innovative practice across the public sector. Often it is front-line practitioners who have the best ideas about how to improve service delivery. These ideas, energy and commitment should be valued and promoted.**
8. **The Executive's role is not just about public services; it also needs to consider how it can grow the economy. The real terms decline in funding for the Department for the Economy in recent years is very concerning. Ambitious plans are required for skills, infrastructure and innovation.**

ENDS

Notes to Editors

Ann Watt is available for interview. To schedule a discussion, or for any other queries, contact Ryan Miller on 07789 552 340 or ryan@millercomms.co.uk

1. Pivotal is an independent think tank launched in September 2019. Pivotal aims to help improve public policy in Northern Ireland
2. Pivotal's published reports are available here
3. Pivotal's Board of Trustees provides oversight of its work. They are David Gavaghan (Chair); Sarah Creighton; Judith Gillespie; Rosalind Skillen; Barry Byrne; Andrew McCormick; Seamus McAleavey; Alan Whysall
4. Pivotal's Director Ann Watt is a former senior civil servant with 25 years' experience in public policy development and delivery. Most recently Ann was Head of the Electoral Commission in Northern Ireland (2014-2019)
5. Pivotal has received funding and in-kind support from Belfast Harbour Commissioners, The Community Foundation Northern Ireland, the Department of Foreign Affairs and Trade, The Joseph Rowntree Charitable Trust, NICVA, Queen's University Belfast, Ulster University
6. For further information about Pivotal see https://www.pivotalpolicy.org/ or contact Pivotal's Director Ann Watt on 07932 043835
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