



A New Fiscal Framework for Northern Ireland

Introduction

It is widely accepted that current arrangements for the funding and delivery of local public services are unsustainable. Since 2016, total Northern Ireland Executive spending per person has increased by £6,000, with key Departments such as Health, Education and Infrastructure seeing average annual growth rates in day to day spend of over 6%.

Regrettably, in the same period, public service outcomes in Northern Ireland have declined, characterised by the longest health waiting times of any region of the United Kingdom, high rates of economic inactivity and the fact that over 49,000 households were waiting on social housing as of June 2025. Housebuilding, and delivery of major capital projects, also continue to be stymied by endemic planning delays and a lack of wastewater capacity throughout our Province.

These pressures are likely to crystallise even further in the next Spending Review period, during which Northern Ireland's resource DEL has been projected to rise between 0.3% and 0.5% annually in real terms. In the current financial year 2025/26, it is likely that the NI Executive will overspend by the region of £400-£500m, placing increased strain on the block grant in subsequent years.

Against this backdrop, it is significant that the Northern Ireland Fiscal Council has previously outlined a number of interventions that could help bring Northern Ireland's public finances onto a more sustainable footing. These include:

- Setting a Budget in advance
- Increasing the Regional Rates
- Introducing explicit domestic water charges
- Increasing or introducing other fees and charges
- Public sector pay restraint
- Reducing spend in lower priority areas
- Increasing efficiency in public services
- Seeking more money from the Treasury
- Seeking to increase the Executive's tax raising and/or borrowing powers
- Simply to accept that the quantity and quality of services will be lower

This paper will explore the merits of a number of these proposals and set out the Democratic Unionist Party's priorities for a new Fiscal Framework for Northern Ireland.

Northern Ireland's public finances - key considerations

In seeking to understand the causes and drivers of Northern Ireland's precarious budgetary situation, it is important to acknowledge a number of factors:

- Block Grant - approximately 95% of day-to-day spending comes from the Block Grant from Westminster, with the Barnett formula ensuring that when the UK Government increases spending, funding for NI rises by a broadly equivalent amount per head.
- Funding floor - as part of the Interim Fiscal Framework agreed with Treasury in May 2024, the UK Government accepted that Northern Ireland should have

a funding floor - set at £124 per head for every £100 per head spent in England. This means that if the Executive's funding falls below the NI Fiscal Council assessment of relative need - 124% - a needs-based factor of 24% will apply to changes in spending allocated through the Barnett formula.

- One-off Settlements/Non-Barnett Additions - between 2022–23 and 2025-26, total funding levels were only above 124% of comparable English spending because of non-Barnett additions, including restoration package agreed in February 2024.
- Capital Borrowing - the current Interim Fiscal Framework agreed with the Treasury has increased annual capital borrowing capacity from £200 million to £220 million per annum in 2024-25 - rising in line with inflation from 2025-26.
- Revenue Streams - the Regional Rate is the Executive's main source of revenue, levied on both domestic and non-domestic rates. Other streams include NI Water non-domestic water charges, court fees and Translink fares. As part of the Interim Fiscal Framework, the Executive will raise at least £113m in new revenue from 2025/26.
- External funding - the Executive has also received additional funding through PEACE Plus and Shared Island Funding - the latter from the Irish Government.
- Super Parity Measures - these are policies where the Executive has chosen to diverge from revenue raising measures in place elsewhere in the UK or to provide more generous support. Presently, this includes the absence of domestic water charges, lower tuition fees and welfare reform mitigations. The NI Fiscal Council has estimated that the total average household rates bill in

Northern Ireland is £1,239 compared to £2,373 in England (the latter including water/sewage).

- Agriculture - Northern Ireland spends about four times as much per head as England on agriculture. Prior to the UK leaving the EU, funding for direct farm support was provided by the EU (UK was a net contributor) and administered by DAERA. Following an independent review published in June 2025, Professor Gerald Holtham assessed Northern Ireland's level of relative need at 128% of comparable spending in England, including agriculture. As part of the 2025 Spending Review, agricultural funding was no longer ringfenced. However, agreement was reached with the Treasury to exclude this pot from the calculation of Northern Ireland's funding premium, a move that DoF projects to provide the Executive with an additional £600m by 2028/29. The longer-term picture is uncertain.
- Size of the public sector - the public sector accounts for 26% of the total workforce in NI compared to 17% in England. This means maintaining pay parity and increases in employers' national insurance contributions accounts for a larger share of public funding in NI. Public sector pay makes up around 60% of resource DEL.
- Institutional arrangements - the provisions of the Belfast and St Andrews Agreements dictates that the Executive Budget command cross-community support by way of vote in the Assembly. The Executive also operates out-with the convention of collective responsibility. Unlike other regions, the Head of the Civil Service also does not act as either Principal Accounting Officer or Accountable Officer for government finance. There has also been criticism of the impact that periods of non-functioning devolved institutions has had on budget planning and public service transformation.

- Productivity - NI economic inactivity remains high relative to the UK average and higher than any of the other three nations. As of June 2025, 26.6% of the population aged 16-were not involved in the labour market or currently seeking employment.

- Policing and Security - Unlike in England and Wales, the PSNI has no ability to raise revenue, the ability to maintain reserves, carry forward or borrow to invest. It is also reliant on a disparate and often time-limited series of funding streams, including Additional Security Funding and Paramilitary Crime Task Force Funding.

- Legacy of the Troubles - Northern Ireland's uptake of Personal Independence Payments (PIP) is typically around twice as high as in England, including among those with in psychiatric disorders. NI also prescribes a substantially higher volume of nervous system drugs (includes those for mental health) than England and has a higher rate of suicide.

- Climate Legislation – the Climate Change Act 2022 enshrines a net zero by 2050 commitment. The Assembly has since approved interim emissions targets and carbon budgets, which assessments suggest will be costly and impact a range of sectors and industry, including agriculture and transport. The CCA 2022 has been cited by the courts as a determinative factor in the failure to progress major infrastructure projects, including the A5 road upgrade.

- Infrastructure - concerns have been raised that the costs and needs of infrastructure in NI have not been adequately reflected in the current needs-based adjustment of 24% premium on top of spend in England.

Current DUP policy commitments

In the DUP Manifesto for the 2024 General Election, we articulated the case for a long-term fair and equitable funding model for health and social care and other public services in Northern Ireland. Whilst we acknowledged that the Government had accepted the case for a new definition of relative need, it was, and remains, our position that the failure to baseline the new formula as if it had been in place from the start of the 2022-2025 Spending Review period (during which devolved funding dropped below £124 for every £100 spent in England) has unjustly reduced funding available from the block grant in future years. As we will argue later in this paper, it is the DUP's view that any future agreement on a new, responsible, long-term fiscal framework must include redress on this particular aspect.

Our 2024 Manifesto also included a commitment to ensure that Barnett funding cannot drop below the level of £124 for every £100 spent in England. Although this is currently the needs-based adjustment factor agreed by the Department of Finance with His Majesty's Treasury, it is significant that the Independent Review by Professor Gerald Holtham in June 2025 concluded that the central estimate of NI's level of need is now 128%, including agriculture. HMT and DoF, having excluded unringfenced agriculture funding from the calculation for this Spending Review period, have argued that Barnett and non-Barnett additions will now keep funding at £128 for every £100 spent in England. Question marks remain, however, over the future treatment of agriculture monies in relation to the needs-based adjustment factor, particularly if the 124% figure is not increased in line with the Holtham assessment. Another obvious concern with potentially including this within Barnett is that over time - given that NI currently spends over four times the amount per head as England on direct farm support - changes in funding based solely on population share could begin to erode spending power.

In terms of the NI Executive's fiscal effort, the DUP has been traditionally advocated for low taxation, taking a conservative stance in relation to the prospect of domestic water charges, rises in tuition fees, the removal of concessionary public transport fares or increases in the Regional Rate. However, in a number of these areas, there has been no explicit commentary included in Party Manifestos since 2016. An overview of the evolution of DUP policy in relation to selected 'revenue-raising' measures is provided below:

Regional Rate

2007 Assembly - "At St Andrews we insisted that a cap on rates should be introduced. The Government has agreed to do this, but we believe the level at which the cap has been set at is too high. In particular more generous reliefs should apply to older people and other vulnerable groups."

2010 Westminster - "We were also able to reduce the pressure on domestic budgets by reducing household bills and a hardship payment to 150,000 people. The regional rates were frozen..."

2016 Assembly - "Whilst other political parties at Stormont are open about their desire to put more pressure on family budgets by hiking rates...the DUP recognises that times remain tough for many in Northern Ireland....we will therefore:

- keep NI household taxes the lowest in the UK"

Tuition Fees

2007 Assembly - "Local universities have worked hard to be open to all but variable top-up fees could deter potential students from disadvantaged backgrounds."

2010 Westminster - “Those who wish to pursue a university education particularly from disadvantaged backgrounds should not be deterred by fees”

2011 Assembly - ‘We continue to oppose any rise in student fees beyond the routine year-on-year inflationary uplifts’

2014 Local Government - “Our record stands for itself. The DUP has delivered. Without the strong voice of the DUP...student fees would have trebled. We have not followed the policy in England of increasing Student Fees to over £9,000 and have frozen them in real terms for Northern Ireland helping to make higher education available to all.”

2015 Westminster - “We have sought to keep higher education open to all by keeping student fees much lower than in England.”

2017 Assembly Manifesto - “The DUP remains fully committed to maintaining University fees at a level that will keep University places affordable and allow access to everyone in our society.”

Domestic Water Charges

2007 Assembly – “The Government’s plans for water charging ignore the fact that people in Northern Ireland already pay for their water. The debate should not be about whether people should pay for water, but whether they should be expected to pay twice.”

“The DUP has consistently opposed the Government’s plans for water charging. Any system of water charging must:

- Fully reflect the existing contribution made through the regional rate
- Extend the option of metering for householders
- Keep bills at a level no higher than in England and Wales”

2014 Local Government - “Judge us on our record of low taxation - we delivered on our pledge not to introduce water charges.”

2015 Westminster - “The DUP is a low tax party. It has worked hard to help family incomes by blocking water charges...”

2016 Assembly -

“Whilst other political parties at Stormont are open about their desire to put more pressure on family budgets by hiking rates or introducing water charges, the DUP recognises that times remain tough for many in Northern Ireland. We also believe that Stormont should not be asking you to dig deeper into your pockets to pay more if our government is not as efficient as it should be. We will therefore:

- keep NI household taxes the lowest in the UK;
- defer water charges in the next Assembly term.”

A case for change?

Any consideration of the potential pillars of a revised Fiscal Framework for Northern Ireland must be set against the significant and unavoidable cost pressures facing Northern Ireland’s public services. Health continues to experience rising demand driven by growing waiting lists, workforce pressures and demographic change. Education budgets are increasingly dominated by inescapable costs; particularly special educational needs provision and the sustainability of the school estate. As mentioned previously, these pressures contrast sharply with projections from the Northern Ireland Fiscal Council and other stakeholders, who estimate only modest increases in the block grant over the next number of years. This combination of rising demand and constrained funding leaves the Executive with limited scope to maintain services without public sector reform and efficiencies, reprioritisation of spending or levying additional sources of revenue.

Business and industry representative bodies including the NI Chamber, the Construction Employers Federation, the Northern Ireland Federation of Housing

Associations and the Mineral Products Association NI have expressed support for a modest, progressive infrastructure levy, hypothecated through the regional rates system, as one way of placing the local public finances on a more sustainable footing. This, they argue, would enable Northern Ireland Water to borrow and invest to address the acute crisis in wastewater capacity that is constraining housebuilding delivery, economic growth and infrastructure development across Northern Ireland. Recent industry-commissioned analysis by Grant Thornton has concluded that NI Water's current funding model is structurally unsustainable and that, without a new revenue stream, wastewater capacity constraints will continue to worsen. It remains to be seen, however, in what circumstances political parties who have generally resisted the introduction of either direct or indirect domestic water charging would agree to chart a new course in this direction. Alternative proposals mooted include a 1% increase on all existing revenue levers, which has been estimated to generate an additional £200m per annum.

Since restoration of the devolved institutions in February 2024, there has been a clear hardening of the UK Government's position with respect to additional devolved funding for Northern Ireland, which is far from insignificant in the highly constrained budgetary environment local public services already find themselves in. With Whitehall seemingly reticent to consider an enhanced financial settlement while the Executive continues to sit on the revenue-raising tools already at its disposal, Sinn Féin, among others, have called for greater fiscal devolution, including in relation to income tax. Meanwhile, in contrast to other devolved regions such as Scotland, the Executive has not proposed or agreed a substantive public reform strategy.

Policy proposals

The Democratic Unionist Party believes that if our vision is to make Northern Ireland work as a thriving, prosperous and integral part of the United Kingdom is to be

realised, the budgetary crisis facing Executive Departments and critical public services must be sustainably addressed.

We believe the answer must not be piecemeal. There should be a laser-sharp focus on driving efficiencies in the public sector. Departments and senior public servants should be held to account for failings in policy development and frontline service delivery. However, the growing body of independent research highlighting a disparity in household taxes in Northern Ireland and other parts of the United Kingdom also cannot be ignored.

The DUP believes any conversation about raising additional revenue should only be advanced in circumstances where there is local political agreement and discernible evidence that it would lead to meaningful improvements in public services and society as a whole. In our view, both of these tests can only be satisfied through agreement with the UK Government on a vastly improved fiscal framework; one which addresses previous Treasury underfunding, unlocks additional investment in public sector reform and better reflects the drivers of demands on public spending in Northern Ireland.

In this context, the DUP will only consider modest and progressive proposals to increase the Executive's tax effort should sufficient progress is achieved on the following:

- a) A Public Sector Reform Strategy. Before asking households or businesses to pay more, we will seek cross-party agreement for measures which deliver efficiencies in how local public services are configured, tackle unnecessary or wasteful spend, and harness innovation and digitisation. We will advocate for the appointment of an independent expert to advise the Executive on a medium-term

strategy for the public sector workforce and propose rolling efficiency targets for day-to-day departmental spending. This will build on recent initiatives in place in other jurisdictions, including Scotland. We will outline our priorities for these strategies in greater detail in a separate policy paper.

- b) A new and time-limited *Invest to Save* programme funded by the UK Government. This funding would be delivered alongside Executive agreement to incrementally increase revenues over the course of the 2027-2032 Assembly term, with central government's contribution tapering off gradually as devolved receipts increase. We believe this injection in funding is justified for a number of reasons, including the fact that the current 124% per head funding floor was not baselined within the block grant from 2022 (despite funding dropping below need), the reality that it could take several years for the Executive and Assembly to legislate, and enact, certain revenue raising measures, and the need to prevent a cliff edge for households and businesses in terms of new fees or charges. The DUP will seek to agree a profile that adopts a preventative approach to rising demand facing local public services.
- c) Agreement with His Majesty's Treasury that Northern Ireland's level of relative need should rise to £127 for every £100 spent in England, adjusting for taxable capacity. This assumes that Northern Ireland moves toward parity of tax effort with England. The NI Fiscal Council previously estimated that if domestic rates revenue per head of population rose from the current average of 71% of Council Tax in England it would increase our current need indicator by 3 percentage points. This should be a prerequisite for any requirement to raise

more revenue locally, given NI has comparatively low average disposable household incomes compared to the rest of the UK.

- d) Exclusion of agriculture from the Barnett Formula. Recognising the importance of local agriculture and agri-food in terms of the UK's food security, we believe future settlements in terms of direct farm support budgets for Northern Ireland should be agreed and ringfenced outside the Barnett Formula and any assessment of relative need or funding premium calculation. The DUP believes that a population-based share of increases in UK funding would set Northern Ireland's agriculture budget on a downward trajectory, below our historic budget share, given that we currently spend more than four times per head as England. This is not acceptable given the contribution our agri-food sector makes to food security throughout the United Kingdom. We will defend farm incomes.
- e) NI Housing Executive borrowing. The DUP will continue to seek Treasury approval for changes that will enable the Housing Executive to borrow, thus providing additional funds to build more homes and renovate existing housing stock.
- f) A new funding settlement for policing. In contrast to their counterparts in England and Wales, the PSNI is currently subject to a patchwork of funding pots and are unable to carry forward underspends or to build and maintain reserves. Unlike the Public Prosecution Service (PPS), which is directly funded by the Department of Finance as a non-ministerial department (but retains crucial representation on the Criminal Justice Board) the PSNI has faced significant challenges securing a fair budget settlement from

the Department of Justice budget, characterised by chronic underfunding compared to other Departments including Health and Education. The DUP will press the case for reform of the PSNI's funding mechanism to provide greater protection and cohesion going forward. We will advocate for a more streamlined and flexible approach to PSNI funding, whilst separately making the case for additional UK Government funding to address the contemporary policing costs flowing from ongoing legacy investigations. We feel this ask also fairly takes account of challenges comparing data relating to policing and justice spend across the UK as part of the most recent assessments of relative need in Northern Ireland.

- g) An Infrastructure Needs Review. The DUP believes the Government should commission an assessment of infrastructure project needs, and current costs, throughout the devolved regions. This would provide greater certainty over whether factors such as the legacy of the Troubles are adequately reflected in the current needs-based adjustment.
- h) Making specified demand-led services AME-funded - In 2017, SEN accounted for 13% of the education budget. This increased to 21% in 2025-26. The number of children with a Statement of SEN has gone up by 65%, with spending increasing by more than £400m. In order to guarantee future parity with England in terms of the quantity and quality of services for affected children and young people, we will seek UK Government agreement to remove SEN funding from the Executive budget and instead make these programmes AME-funded. At the core of this must be agreement to identify, assess and

support children and young people with special educational and complex needs up to the age of 25.

- i) Tackling welfare fraud and error. HM Treasury has committed to considering a business case from the Executive that would see a proportion of savings from activities to tackle benefit fraud and error returned to Stormont. The DUP will press for the support of the other parties for the upfront investment needed to unlock these savings and subsequent reinvestment in programmes that support people with barriers to employment, including those with disabilities or health conditions.

- j) No further fiscal devolution. The proposals we outline in this paper would represent a step change in the Executive's use of existing fiscal powers. We remain of the view that the necessary capacity does not exist in the contemporary context of Northern Ireland to devolve additional fiscal powers, including income tax, at this time.

The DUP believes that progress in each of these areas is essential toward ensuring Northern Ireland's public finances are placed on a stable and sustainable footing for the next decade.

Whilst we are open to examining a variety of options and configurations for increasing tax effort, it is evident, given the challenges facing the wastewater and sewerage system, that any outcome must be conducive to enable Northern Ireland Water to borrow. As a Party, are clear that any resource budget saved as a result, for example through a hypothecated infrastructure levy or direct domestic water charge model, must be reinvested in robust and operable protections, including social tariffs, for the most vulnerable households in our society.

The DUP will also ensure that any agreement on modest and progressive ways to raise additional revenue includes in-built safeguards, including periodic review, to quantitatively measure the impact of contributions levied on households on the performance and delivery of public services.