Northern Ireland Fiscal Council

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Finance Committee enquiry into the Fiscal Council and Commission

Many thanks to you and the Committee for the invitation to appear before you on 9 June to give evidence on the role of the Fiscal Council. In advance of that session, I wanted to update the Committee on the Council's engagements and thinking to date, and on our likely next steps.

Initial stakeholder engagement

As you know, the formation of the Council was agreed by the Executive on 11 March 2021 and announced to the Assembly on 12 March. Since then, we have been talking to a range of stakeholders to get their assessment of the strengths and weaknesses of public finance management, reporting and scrutiny in Northern Ireland and how best they think we can fulfil both the specific requirements placed upon us in our Terms of Reference (ToR) and our broader mission to bring greater transparency and independent scrutiny to the region's public finances. (At the same time we have also had the benefit of hearing the evidence given by witnesses to your current enquiry into the role of the Council and Commission.)

The ToR, drawing on the New Decade New Approach (NDNA) agreement, place two specific requirements on the Council in addition to our overarching mission. Namely to:

- "prepare an annual assessment of the Executive's **revenue streams and spending proposals** and how these allow the Executive to **balance their budget**"; and

- "prepare a further annual report on the **sustainability of the Executive's public finances**, including the implications of spending policy and the effectiveness of long-term efficiency measures".

As of writing, we have met over 20 different stakeholder organisations and individuals, including some members of the Committee. The consultation process is not yet complete and when it is we will publish a full (anonymised) report. In the meantime, the Annex attached to this letter gives a flavour of what we have heard to date. Three key themes recur:

- **Independence:** Stakeholders want to be confident that the Council will resist any political pressure it comes under from the Executive or the UK Government. Guarantees in legislation around appointments, funding, rights to information and rights to publish will all be important here, but at the end of the day fiscal councils earn their reputations for independence from the way in which they conduct themselves in practice.

- **Education:** Stakeholders believe that educating the public (and even MLAs and others with day-to-day involvement in the subject) about how NI's public finances work is just as important as the specific publications specified by the NDNA agreement and the Terms of Reference. As regards the publications, stakeholders had plenty of suggestions for topics to be covered by the 'sustainability' report, but they were less clear exactly what the 'balancing the budget' document might have been intended to cover.

- **Process:** Stakeholders expressed frustration with the Executive's budget process, notably in terms of the inadequacy, irregularity and unpredictability of periods of notice and consultation, and the difficulty of reallocating resources in the multi-party system when policy priorities change. A further frustration was that the Programme for Government and other strategies are not currently costed and linked clearly to specific budget allocations. While recognising that the Council is not primarily an advice-giving body, they hoped that it would highlight potential process improvements.

We hope to complete the consultation meetings this month, if stakeholder diaries permit, and then publish the consultation report as soon as possible but certainly over the summer. We hope this would also allow us to draw on the final report from the Committee's enquiry.

Work programme, Terms of Reference and legislation

The publication of the consultation report will also be an opportunity to set out a provisional work programme (which will depend crucially on what stakeholders tell us about the preferred timing of our flagship publications, given the Executive's Budget timetable) and to take up the opportunity we have been given to propose changes to our draft Terms of Reference.

As regards the ToR, stakeholders to date have raised few objections to the draft version published by the Department of Finance when the Council was set up, to the extent that they were familiar with what it would mean in practice. At this stage, we too do not see any particularly urgent need to change that draft – not least because the ToR will soon be superseded once the Assembly has legislated to put the Council on a statutory footing.

When the time comes to legislate, it will of course be for the Executive rather than the Council to put forward draft legislation for the Assembly to consider. But we will be happy to comment on it and to offer any assistance or advice we can to the Committee or other MLAs if that would be helpful. At this preliminary stage there are a few points perhaps worth making:

- The legislation (and any changes to the draft ToR in the meantime) need to reinforce both the substance and appearance of the Council's **independence** from potential political pressure, either from the Executive or from the UK Government. This will need to be reflected in: the procedures for the appointment and dismissal of Council members; the stability and transparency of the Council's budget; the right of the Council to examine any issue that it believes would have an impact on the Executive's finances (including the impact of UK Government decisions); and the right of the Council to issue publications without vetting by the Executive or the UK Government. (On this last point, the Council may well wish to share draft material for fact checking and be content to provide early access to facilitate ministerial statements in the Assembly.)

- Some stakeholders believe it would be desirable for the Council to publish **macro-economic forecasts** for Northern Ireland, to inform public debate and policy decisions. We are certainly not going to be resourced to do this in the first instance and it is far from clear that this would contribute to our core task of assessing the Executive's finances. Pending any further devolution of tax-raising powers, or more radical departures from parity in the operation of the welfare system, developments in the NI economy have a relatively weak relationship to the Executive's income and spending so the need for a forecast is less obvious for that purpose. That said, some discussion of the economic context for near- and longer-term Budget decisions might well be worthwhile and could draw on existing forecasts and analysis produced by academics and/or the private sector. There may of course be wider arguments for an official NI forecast and in the longer term the Council might be a potential provider.

- The most frequent complaint from fiscal councils around the world is that they find it difficult to get access to information from within government departments and other public bodies with the quality, detail and timeliness that they require to fulfil their role properly. It is important not only that fiscal councils have a legal **right of access to government information**, but also that this has political backing from the ministers in question and that the analytical functions within departments are adequately resourced to provide the information and to assist in its use. This will be particularly important if the Council here is to demonstrate that it has the teeth to make a real difference.

An introductory publication

One consistent theme from the stakeholder consultation has been the need to increase understanding of the NI public finances, to inform both the public and even relatively sophisticated stakeholders, and to provide data and reference material that people can draw upon. To that end, before turning to the ToR publications we plan to produce an introductory guide to the Northern Ireland public finances that subsequent publications will be able to build upon and refer back to. We would then intend to update this over time and draw upon it to produce outputs with wider or different appeal, for example via social media. The intention at present is for this to cover: the roles of the different layers of government in NI; the overall revenue and public spending picture in NI; where the Executive gets its money from; what the Executive spends its money on and; how the Budget process and reporting works.

We hope that this activity and our future work will be of interest and value to the Committee. We look forward to appearing before you next week and to subsequent interactions.

Sir Robert Chote

Chair of the NI Fiscal Council

Annex: Stakeholder consultation – emerging themes

Stakeholders are being asked a series of six questions, but encouraged to offer views on other topics or issues that they think we should take an interest in. Some of the views expressed to date are summarised below:

What do you see as the main strengths and weaknesses of current reporting and scrutiny of Northern Ireland's public finances? How might we expand or improve the public finances data that are currently available?

1. **Lack of multi-year budgeting:** Many stakeholders lamented the absence of multi-year budgeting by the Executive, while recognising that this was largely the consequence of the UK Government's failure to set out a multi-year Spending Review that would give clarity regarding its block grant income. The perceived detrimental impacts of single-year budgets included uncertainty for businesses and departments and greater difficulty for the Executive in addressing long-term, strategic challenges. Stakeholders noted that it was important for the Executive not to use the lack of a multi-year UK spending review as a justification for downplaying meaningful medium-term planning.

2. **Monitoring rounds:** Many stakeholders felt that the post-budget monitoring round process could be improved, even in the context of single-year budgets – where additional money may be allocated and then neither spent nor made available for future years. Some worried that by facilitating short term interventions at the end of the financial year, strategic problems went unaddressed and remained as a result.

3. **Lack of end of year flexibility in spending:** The requirement for departmental underspends against budget to be 'handed back' to the UK Government (except in so far as the Treasury allows them to be carried forward to future years under its 'Budget Exchange' scheme) creates an incentive for departments to spend up to their limits even when this offers poor value for money. It was suggested that the Executive should be given the power to reschedule spending and funding within three-year periods.

4. **Insufficient detail in Estimates:** The Executive is not sufficiently transparent when setting out spending plans for approval by the Assembly, because even large departments like Education have their spending allocations set out in only one or two categories rather than in detailed programme lines. (Some stakeholders said that this reflected the relative autonomy given to ministers to allocate funds within their departments under the multi-party coalition system.) Scrutiny of spending plans by the Assembly therefore tends to take place after allocation, at least for those committees whose departments provide adequate detail on budgets, planned expenditure and monitoring round returns. Generally stakeholders wanted to see greater consistency between departments on how budget issues are reported. Many stakeholders reported that the Estimates are hard to read and understand and that they are not something that the press and public engage with. Stakeholders also wanted to see more detail of the use of 'sole authority', under which departments can rely on a Budget Act to allow spending on functions that there is no existing legislative approval for. In these instances stakeholders were keen to see the rationale for dependence on the Budget Act made transparent in the Estimates documents.

5. **Lack of linkage to the Programme for Government and of scope for cross-departmental prioritisation:** Stakeholders said that it was important for the Executive to make clear in its budgets how spending allocations would link to particular objectives and performance indicators in the Programme for Government (PfG). The current draft PfG is not synchronised with the budget at this stage and is therefore in effect not costed. Many stakeholders said it was hard to prioritise properly across the Executive without a costed PfG, especially given the tendency to perceive political winners and losers in departmental reallocations. Similar to the PfG, other Executive strategies being developed were mentioned as not properly costed or reviewed from a budgetary perspective. This also encouraged siloed working in the NI civil service.

6. **Lack of comparable time-series data reporting:** Several stakeholders said that the transparency and scrutiny of the Executive's finances was hampered by the lack of consistent data showing how funding and spending evolves from year to year and within any given year from initial plans to final outturns.

How should we assess "the Executive's revenue streams and spending proposals and how these allow the Executive to balance their budget"? When in the year (or during the budget process) would this be most useful?

1. **Limited control over revenue:** Stakeholders noted that the vast majority of funding for the Executive's spending comes from the block and AME grants from Westminster, with the regional rate being the only significant (but still much smaller) revenue stream under its own control. There was specific reference to the need for greater clarity and reporting around AME by a number of consultees. That said the Executive also foregoes revenue (and arguably impedes efficient service provision) by being reluctant to charge for water [and other services] that are paid for in this way in the rest of the UK. As a result, the Executive does not take meaningful decisions on revenue and spending in parallel, but rather allocates spending against a revenue (and very modest borrowing) constraint largely determined in Whitehall. This tends to focus political attention unhealthily on the adequacy or otherwise of UK government funding rather than policy choices in NI.

2. **Timing of the Council's reports:** A common criticism from stakeholders was that the Executive should publish a draft budget in September rather than January-March. They wished that the timetables for the publication and agreement of the Budget by the Executive and Assembly respectively were clearer, earlier and adhered to. A small number felt there was a potential role for the Council in ensuring compliance with deadlines in the budgetary process. Stakeholders thought the Council's report on the annual budget position would be a helpful contribution, especially if accompanied by proper departmental reporting to Assembly committees. Most stakeholders wanted the report to be published either in time to inform the draft budget or as soon after the draft budget as possible to inform the final budget. But they recognised the challenge of delivering to a predictable timetable when it was hard to know when the Executive would agree a draft or final Budget in any given year. The Council's initial view is that

would make a more substantive contribution by reacting to and commenting on the draft budget. This would also be more consistent with the ToR/NDNA's instruction to report on the Executive's spending *proposals*. But it will be important to show flexibility here, especially when the gap between the draft and final budget is a short one.

3. **Transparency around the Block Grant and borrowing powers:** Several stakeholders highlighted the potential for greater transparency and education around the operation of the Block Grant. Stakeholders also wanted to see more transparency around the use of Reinvestment and Reform Initiative (RRI) borrowing (for capital spending), with some believing that more use could be made of that facility. Stakeholders were also interested in how effective the use of RRI had been in the past.

How best can we assess "the sustainability of the Executive's public finances"? How would you interpret sustainability in this context? When would publication of this analysis be most useful?

1. **General and specific:** Stakeholders noted that there was scope to discuss the sustainability of Executive's finances both in general terms (for example the implications of different potential medium-term spending plans at the UK level for the Block Grant, or the impact of an aging population) and particular sources of potential spending pressure. So each report might combine general discussion with a particular special topic. The specific issues mentioned most frequently were: health, education, water (and service charging more generally), wider capital investment, lack of multi-year budgets, lack of longer-term planning, limited revenue-raising by the Executive and climate change.

2. **Service delivery and reform:** Several stakeholders felt it would be desirable for the Council's consideration of sustainability to have "a broad definition" including service delivery. Several argued that while the Council should highlight particular sources of budget pressure, it should hesitate to advocate specific reforms in specific services. Many stakeholders argued that health services in NI would not be financially sustainable without major reforms, given the combination of long waiting lists with already relatively high spending. Education provision and the cost of duplicating provision for this and other services for different communities were also raised. Rationalisation in all sectors was seen to have been difficult and not to be delivering huge savings. Transformation overall was judged to be at a very slow pace.

3. **Lack of long-term planning or scenario building:** Some stakeholders saw a role for the Council's sustainability report in encouraging the Executive to undertake more long-term planning, notwithstanding the problems created when the UK government has no medium-term spending review plans. This could be based on flat-cash assumptions or alternative scenarios for the UK spending path. But others pointed to the difficulty of longer-term planning because of differing policy positions across the 5-party coalition. It was recognised that long-term planning had been particularly difficult recently, with the Executive only back in operation in January 2020 and then confronted almost immediately by the service challenges and financial uncertainty of the pandemic.

Given the requirement placed on us to assess "the effectiveness of long-term efficiency measures", what sorts of measures should we aim to look at and should we try to quantify their effectiveness?

1. **Not spoilt for choice:** This question received the fewest and least detailed responses, as many stakeholders struggled to identify positive examples of long-term efficiency measures in the past or of current examples. Stakeholders felt that this had not been a priority area for the Executive. They noted the lack of data on departmental websites, and the fact that there were very few departmental or Executive-wide plans (with the exception of the Department of Finance's initiative to reduce the number of Arms-Length Bodies, which was mentioned by a few). Even in Health, stakeholders pointed to a lack of recent serious work on efficiencies. Some speculated that the lack of interest might reflect the fact that the wage bill accounts for most spending in most departments.

Are there any other ways in which you think we could increase public awareness and understanding of the public finances?

1. **Basic education:** Most stakeholders felt that understanding of public finance issues was low, even on the basis of realistic expectations. Some argued that even among MLAs there was a lack of understanding of how the public expenditure system works. Some suggested that an explanatory publication or a Q&A on the Council's website to explain to the public where expenditure went and how it was funded would be useful as a first step. Others said that the Council could usefully explain the Block Grant and Barnett formula, the AME/DEL distinction, the Executive's borrowing powers and the Budget process in general.

2. **Stakeholder engagement:** Several stakeholders said that social media should be a key tool to drive engagement and understanding. A lot of information had been developed at UK level, and even at the level of cities in GB, but the equivalent information had never been produced in the same way for NI audiences before. Positive examples included the breakdown of rates bills and tax returns to show where money goes and the Department of Health's Covid dashboards. The latter were held up as an exemplar that had proved surprisingly effective in engaging the public with figures and statistics.

Do you have any suggestions regarding the long-term structure and role of the Fiscal Council that the Executive and Assembly should take into account when the time comes to prepare its underpinning legislation?

1. **Public confidence:** Stakeholders welcomed the creation of the Council and its membership (with one regretting the preponderance of economists). They felt that this sent a strong signal regarding independence that the Council would have to sustain and build upon. Several said that the Council would need to be accountable and responsive to the Assembly and to ensure that the Executive could make good use of its reports.

2. **Support to the Assembly:** Many stakeholders were interested to know what engagement the Council would have with the Finance Committee and the rest of the Assembly. Some asked whether the Council would provide reports to the public at the same time as to the Assembly, whether the Council would give evidence to the Finance Committee regularly, and whether it might help MLAs through briefing sessions. Many felt the Fiscal Council should support MLAs to scrutinise decisions about public finance and help MLAs have more informed conversations with the public on what spending decisions mean. There was a particular focus on the relationship between the Council and the Finance Committee, which was seen as a key stakeholder for the Council and its findings. Some felt accountability to the Assembly should be recognised in the underpinning legislation.

3. **Legislation:** Stakeholders recognised the importance of giving the Council a firm legislative foundation to increase public confidence, to protect it from political pressure and to ensure that it is accountable and responsive. It was recognised that many fiscal councils have seen their remits change over time to reflect changes to devolution or other circumstances, which is sometimes reflected in secondary or (more rarely) primary legislation. Some stakeholders wanted the Council placed on a legislative footing as quickly as possible, while others were more relaxed. Some wanted the legislation to be very detailed across a range of issues, while others saw dangers in being too specific and therefore inflexible. Important priorities for the legislation included term limits and the mechanism for appointments; the timing of the Council's publications and; its right to information. It was noted that while a formal right of access to information is essential (including from the UK Government), the government entities involved also need to have the political will and adequate resources to provide the information requested and to advise on its use impartially.

4. **Resources:** Stakeholders noted that while the Executive is smaller than the UK and Scottish Governments – and that its fiscal council might therefore be expected to be smaller than theirs – there would be a minimum level of staffing and other resources required for it to do a proper job. By way of comparison, the Scottish Fiscal Commission has resources of around £2 million p.a., the OBR around £2.7 million and the NI Fiscal Council around £0.5 million. Most stakeholders felt that more resources would be required over time than the Council currently has available (even if its remit does not expand) and they welcomed the Department of Finance's commitment to provide resources as needed. The Council may not have to undertake economic and fiscal forecasts or engage in ex ante policy scrutiny, but it will still require significant analytical resources, both in-house and able to be commissioned from outside. If a decision is made to add to the Council's remit, that will have further resourcing implications. Similarly, any decision in the medium to longer term to add to the Executive's fiscal powers (e.g. through devolving additional tax varying powers) would have similar resource implications.