

Sir Robert Chote
Chairman

info@nifiscalcouncil.org
2nd Floor
Colby House
Stranmillis Court
Belfast BT9 5RR

Phillip Brett MLA
Chairperson
Committee for the Economy

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Dear Phillip,

Views of the NI Fiscal Council on the Regional Balance Bill

Thank you very much for your letter of 24 June, in which you invited the Fiscal Council to provide a written response to the Committee in respect of the Regional Balance Bill, which is expected to reach Second Stage in September.

At the outset, we would remind the Committee that our Terms of Reference preclude us from commenting on the underlying policy to which the legislation is intended to give effect:

The Council should not however comment on the merits of individual policies, or examine alternative policy scenarios.

We therefore restrict our comments to some observations we would like to make about the practical outworkings of the legislation on the sustainability of the Executive's long-run finances.

The Explanatory and Financial Memorandum explains that the Bill aims to address regional imbalances in economic performance and living standards via a reporting framework. If enacted, Clause 1 of the Bill will require the identification of the mechanisms by which this would be achieved, measured and reviewed. Furthermore, under Clause 2 departments will be required to have regard to the framework when developing policies and strategies.

The Bill does not therefore seek to commit the Executive to particular policy choices in relation to either public spending or revenue raising. As a result, we consider that any fiscal impacts would most likely be indirect.

Public spending

Any legislation which imposes a duty on departments can give rise to resource costs, for example related to compliance and reporting, as acknowledged in paragraph 33 of the Explanatory and Financial Memorandum:

Ongoing data collection, collation and reporting requirements may require additional capacity, especially if new indicators, software systems or analytical processes are needed to implement the Bill provisions, evidencing progress against regional balance objectives.

If the proposed legislation were to operate as is intended, we anticipate there would be impacts on *where*, or *how*, public money is spent rather than necessarily on the quantum of that spending. There would be therefore consequences for prioritisation or allocative efficiency. Although the reporting framework might raise expectations of different patterns of resource or capital spending, this would form part of the regular process of budget planning and execution.

The one clear driver of costs for departments (therefore adding to aggregate expenditure pressures) is a requirement to “collect the regional distribution of public capital expenditure” (see page 8 of the EFM). We believe that the creation of the dataset will likely come with some attached cost.

We note that the data that will be compiled to measure regional difference may be of use to the Council in future, in assessing sub-regional variations in economic performance. For example, our report on the sustainability of Water considered areas in NI that were constrained economically due to NI Water infrastructure.

Finally, the intention of the Bill is to even out NI’s economic performance. If it operates as intended, we note that under the current fiscal framework any additional tax revenue collected as a consequence (with the exception of Regional Rates) would accrue to the UK government, not the Executive.

I trust that this information is helpful to the Committee, and we shall watch with interest as the Bill progresses.

Yours faithfully,

Sir Robert Chote

Chair of the NI Fiscal Council