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Peter McCallion

Clerk to the Committee for Finance

30 June 2021

**Update on the work programme of the NI Fiscal Council**

Thank you for your letter of 25 June.

The Council is always happy to provide update the Finance Committee, and I hope that you found the oral evidence session that you held with us last month useful.

Your letter notes the Minister’s statement regarding the two New Decade New Approach (NDNA) agreement commitments (in addition to our overarching mission), which are reflected in the Council’s initial Terms of Reference (ToR), 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 we said during the evidence session, we anticipate completing the consultation process soon, and will publish a full (anonymised) report when we have done so. However, the completion of the consultation depends on stakeholder availability, and unfortunately it has not been possible to complete it this month as we had hoped. As you will appreciate, among other respondents we want to allow all political parties represented in the Assembly to have a chance to speak with us.

One of the three key themes raised with us so far has been the importance of public education. Stakeholders believe strongly 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.

***An introductory publication***

Relating directly to this feedback, the Council’s first publication this autumn will be a relatively comprehensive introduction to NI’s public finances, from which the NDNA publications and other outputs can build. The aim of this guide will be to provide a regularly updated reference point to which interested stakeholders can refer and from which we can draw (and suitably tailor) material for more casually interested audiences. Reflecting the feedback we have received, the guide will 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. The Council has already gathered extensive information to inform this work, and is in the process of agreeing a Memorandum of Understanding with the Department of Finance (and other departments) to enable us to continue to develop a comprehensive profile of data and evidence to inform our future work programme.

***Work programme***

The Council’s work programme will depend crucially on what stakeholders tell us about the preferred timing of our flagship publications, given the Executive’s Budget timetable. We set out some early views on this area in our evidence to the Committee, and I will develop those here in a little more detail. However, this is subject to change should other arguments or perspectives be raised through the remainder of the consultation process.

Budget publication

A common desire among stakeholders was for the Executive to publish a draft budget in September rather than January-March. They wished the timetables for the publication and agreement of the Budget by the Executive and Assembly to be clearer, earlier and adhered to.

Most stakeholders wanted the Council’s budget 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 we 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.

As regards the content of this publication, 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.

The Council intends at this stage to offer an independent commentary on the choices made by the Executive in respect of both income and expenditure. Stakeholders have expressed interest in the Council’s views on areas including borrowing, rates, and the relationship between bids made by departments and the allocations agreed by the Executive.

Sustainability publication

In this publication, 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.

In its initial sustainability report, therefore, the Council is minded to establish some general material that will be common to all its sustainability reports, but we also see value in including in each report a particular special topic.

Throughout the consultation process to date, stakeholders had a clear and understandable focus on health, given the proportion of spending in this area and the impact of the pandemic:

* Of the specific issues mentioned, health was frequently the first and highest priority, with others including 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.
* 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.
* On efficiencies 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. Even in Health, stakeholders pointed to a lack of recent serious work on efficiencies. They noted the lack of data on departmental websites, and the fact that there were very few departmental or Executive-wide plans.

On this basis, health is an obvious contender to the first sustainability special topic.

In terms of the timing of this publication, generally stakeholders wanted as far as possible for the Council to place this annual report around 6 months away from our budget publication. This was for a number of reasons including: bandwidth, in particular within political parties whose resources to consider these issues are constrained; to avoid adding to the existing complexity of both the administrative and legal budget processes; and so that the sustainability report is published at a time when it can best influence the setting of the next Executive budget.

Not much time has passed since we appeared before you, but I hope that nonetheless this update is helpful. I note the Committee’s intention soon to finalise its report on the Fiscal Council and Commission. The Committee’s views will be an important consideration for us as we draw together our work programme, and I look forward to reading the report.

Sir Robert Chote

Chair of the NI Fiscal Council