



Northern Ireland
Assembly

Public Accounts Committee

OFFICIAL REPORT (Hansard)

Inquiry into the Northern Ireland Budget
Process: Northern Ireland Fiscal Council

25 November 2021

NORTHERN IRELAND ASSEMBLY

Public Accounts Committee

Inquiry into the Northern Ireland Budget Process: Northern Ireland Fiscal Council

25 November 2021

Members present for all or part of the proceedings:

Mr William Humphrey (Chairperson)
Mr Roy Beggs (Deputy Chairperson)
Mr Cathal Boylan
Ms Órlaithí Flynn
Mr David Hilditch
Ms Cara Hunter
Mr William Irwin
Mr Maolíosá McHugh

Witnesses:

Mr Stuart Stevenson	Department of Finance
Miss Karen Beattie	Northern Ireland Audit Office
Mr Kyle Bingham	Northern Ireland Audit Office
Mr Kieran Donnelly	Northern Ireland Audit Office
Ms Pamela Dugdale	Northern Ireland Audit Office
Sir Robert Chote	Northern Ireland Fiscal Council

The Chairperson (Mr Humphrey): Members, we are delighted to be joined by Sir Robert Chote. Also in attendance are Mr Kieran Donnelly CB, Comptroller and Auditor General for Northern Ireland, and Mr Stuart Stevenson, Treasury Officer of Accounts (TOA).

Sir Robert, welcome to the meeting. As you will be aware, we have just heard from the accounting officer and permanent secretary of the Department of Finance and other officials from that Department as part of our inquiry into the Northern Ireland Budget process. The Committee would very much like to hear about the newly established Fiscal Council, of which you are Chair, and your perspective on the Budget process in Northern Ireland. It would be helpful if you could highlight any key points from your recent reports on the improvements that are needed to improve the transparency of the Budget process in Northern Ireland. I ask you to make an opening statement, and members will then ask questions.

Sir Robert Chote (Northern Ireland Fiscal Council): Good afternoon, and thank you very much indeed for the invitation. It is a great pleasure to join you. By way of introduction to the Fiscal Council, it was created as part of the New Decade, New Approach (NDNA) agreement. Two specific reports are required of us each year: one looking at the Executive's Budget and how the numbers are balanced; and the other looking at the longer-term sustainability of the Executive's finances. We very much see that within a broader mission of increasing transparency, understanding and independent scrutiny of the Executive's finances and public-sector finances more broadly in Northern Ireland.

The aim of the reports that we produced this week was to lay the groundwork for the reports that are required of us under our terms of reference and that, presumably, will be required of us by legislation. That was, obviously, to reflect on the UK spending review, which, as you have been discussing, is enormously important because it determines a very large proportion of the money in the pot that the Executive have to spend in the Budget, and then to do what we could to set out a reasonably comprehensive guide to how public finances here work. That is very much work in progress. We are looking forward to hearing people's comments on it and to updating it in line with changes in policy and data. Colum was kind enough to say that it was an "easy enough read". I am not sure that that would necessarily be a majority view. We felt that we had to do a comprehensive job to start with, but then, as some people were saying, there is the job of trying to simplify that and deploy the learning from it in a way that means that more people will be able to grasp it.

As you have been discussing, there are some elements of the overall Budget process that are more transparent in Northern Ireland than at UK level. There are two obvious examples. The UK Government do not publish a draft Budget and put it out to consultation. The Executive usually do that when time permits. There have been various attempts in the UK over the years to move in that direction by making the autumn or spring statement — a fiscal event that is not the Budget — a more decision-free, consultative exercise. That has never lasted for more than one attempt before it, basically, ends up becoming a second, mini-Budget.

Another area where the Northern Ireland process is more transparent is in the in-year monitoring round statements. There is more detail about the way in which resources are allocated between Departments, and, for example, the Department of Finance publishes details of unsuccessful bids by Departments for additional resources in that process. You do not get that at UK level.

The greater degree of frustration about transparencies is very often with the publication of data. Of course, that is complicated greatly by the fact that you have the UK Budget process and the Treasury's rules for managing the public finances at the UK level meshed into and constraining the way in which the Executive present their own numbers and have to reach their decisions. One challenge is that, when you get a draft or final Budget document, you will see the plans and allocations by Department for the next three years, but it does not present that in a table against comparable figures for the past five or 10 years that would allow you to understand the trend and evolution. One thing that we will continue to try to do is encourage the Department to make more progress in that area, and we will do what we can too, by drawing on different sources of information. It is, obviously, particularly tricky at the moment because, owing to the impact of COVID, 2020-21 and 2021-22 are such unrepresentative years that discerning that pattern through those two years is harder to do anyway. Nonetheless, it is an exercise that is well worth pursuing.

Another area that you have discussed already on the Budget process is a theme that we have heard time and again from stakeholders across the political spectrum and others during the months since we were announced and created and before we produced anything, and that is this: the importance of linking the Budget outcomes to a Programme for Government (PFG) and being able to see a line between the objectives in the PFG and how they feed through to particular lines and targets. Obviously, there is job of work to be done there to bring the two of those together. It is not entirely clear whether the cart comes before the horse or the horse comes before the cart; we will wait to see how that shapes up on the other side of the election.

As regards multi-year Budgets, a truism that we have heard countless times is that it is enormously difficult to do long-term planning when you have only one year of block grant being announced by the UK Government and that it will be so much easier when there is a multi-year Budget. On Tuesday, I said that it is a golden opportunity to have a reforming three-year Budget that can enable you to look further ahead and take longer-term thinking and policy decisions, but it is not a panacea. Arguably, there could have been more long-term planning even in the absence of a multi-year block grant settlement, and it remains to be seen how multi-year the multi-year Budget actually turns out to be. It is quite a task. I presume that it is currently, and will be, quite a task to get the Executive to agree on an allocation of resources in year 1. I would be surprised and delighted if they were also able to say, "This is how we think the path and the relative balance of Departments is going to change from year 1 to year 3", but that may be something that ends up evolving and being dealt with through in-year monitoring rounds etc. Quite how multi-year the multi-year Budget will be remains to be seen. Nonetheless, it is an opportunity that must be seized, particularly in areas like healthcare and infrastructure, where you are looking over a longer term.

The Chairperson (Mr Humphrey): Thank you very much. I will ask some initial questions and then bring colleagues in. In your presentation, you said that the Budget process here is more transparent

than it is at Westminster but that there are areas for improvement. For example, budgetary information could be more helpful and the forecasting of the Executive's finances is a bit fragmented. Will you expand on that?

Sir Robert Chote: Yes, certainly. The complexity and difficulty of the Budget-setting process and the process for the reallocation of resources operates very differently in Northern Ireland — in the Executive and the Assembly — than it does in the UK. As you covered at the tail end of your discussion in the previous evidence session, there is a combination of factors, including the multi-party coalition and the fact that Departments here have legal personalities and their own accounting officer, which they do not at the UK level or in Scotland, as was described.

Moreover, like it or not, the Department of Finance does not carry as big a stick as the Treasury does in the UK process. There are some elements of those differences, and the challenges that they create for the reallocation of resources over time, that you cannot wish away and need to deal with as best you can. There will obviously be more challenge in reallocating resources from priority to priority when it often means reallocating from party to party. That is not a surprise, and many people would say that.

On the other areas of transparency, is there anything in particular that you would like me to focus on?

The Chairperson (Mr Humphrey): I am not going to get drawn into a discussion on the coalition and the shape and form of the Northern Ireland Government, which came out of a political arrangement and, ultimately, a political document some years ago. You may have heard me mention that Sue Gray, Mr Boyle's predecessor, appeared before this Committee on a number of occasions and at times expressed some frustration at how the process worked in Northern Ireland. She had come to the Northern Ireland Civil Service from the Imperial Civil Service in London and has now returned there. Part of the problem that we all encounter as MLAs, in the Committees in which we work but also in our constituency work, is the silo mentality. That is a huge problem. One of the things that we find is that the permanent secretaries are the accounting officers. If I may quote you, when it comes to Budgets and Departments working in silos, you said:

"Consistent with having their powers vested individually by statute, each department's Permanent Secretary also serves as its accounting officer – rather than having a single accounting officer across all departments as in the Scottish and Welsh Governments. Sargeant and Rutter argue that 'this reinforces the tendency of departments to act as individual fiefdoms and makes cross-cutting working harder even than in Whitehall.'"

Most of us do not have experience of working in Whitehall, but, looking at it nationally, I think that we would all say "amen" to that. To ensure that we get the budgeting that we need for Northern Ireland plc, multi-year Budgets will be an advantage. Unless we end that silo mentality, however, and achieve more effective cross-government working, I am not sure that it will be as impactful as we would want it to be.

Sir Robert Chote: That is a legitimate concern for that combination of structural and political reasons that make siloing more of an issue. On the other hand, it does not always work brilliantly at the UK level either. Departments do not always play nicely together. Often, the efficiency with which the whole system fits together depends a good deal on how well Number 10 and Number 11 are getting on at any time and whether they are singing from the same hymn sheet and driving the agenda in that way.

I am sure that Sue was not implying that you look over to this side of the water, where I am sitting at the moment, and say that this is a wonderfully harmonious way of operating government. That is not always the case, but there are obvious political and institutional differences that make that even more of a challenge at Stormont than it is at Westminster.

The Chairperson (Mr Humphrey): Equally, you could argue that that is the case in all democracies across the world. The point is that it is important to make sure that permanent secretaries are accountable to someone. At the moment, I am not sure that they are, and that is a problem.

I want to turn to national moneys — money from the Treasury that bypasses devolved institutions like Northern Ireland's; in other words, direct funding from Westminster. May I ask you to expand on that? Obviously, there may be frustrations within the devolved Administrations about those moneys.

Sir Robert Chote: Exactly, yes. You are right to say that that is not a Northern Ireland-specific issue. It is one that has caused a greater or lesser degree of anxiety across the devolved Administrations. At

the moment, we are still dealing with small sums of money relative to the overall spending pot. For example, some of the money that used to come from the European Union to the Executive was pushed on to the ultimate recipient. Now, however, more of it is going directly from the UK Government to local partners or recipients and is bypassing the Executive. That is legally how it has been set up, and nothing constitutionally untoward is going on there.

Nevertheless, it raises the difficulty of making things coherent and ensuring that money follows strategy, which becomes that bit more challenging. Whether you like the way it has been set up or not — most of the devolved Administrations do not like it or would rather it was set up the other way — what you want, in practice, is there to be as much collaboration and communication between the UK Government and the devolved Administrations as possible so that there is at least some discussion as to whether a project is a sensible one to support, whether the money is going to the right place, or whether we doing something that would either duplicate or run counter to something that you are trying to do.

Leaving aside the argument in principle about whether that, as some people might say, undermines the devolution settlement, in practice, you want to ensure that there is good communication in order to minimise any potential problems arising from that, such as money being sent where it should not be, or two pots of money being sent to the same place.

The Chairperson (Mr Humphrey): OK. Thank you very much for those answers. Do members have any questions?

Mr Beggs: Thank you for your interesting evaluation. Hopefully, we can improve with guidance from others. You said that you understood the difficulty with coalition government. You will have had some oversight of the Governments in Wales and Scotland, which, from time to time, have operated on a coalition basis. Are there any lessons for us from those situations?

Sir Robert Chote: They were, clearly, coalitions of a different type from the multi-party system of coalition set up in Northern Ireland, as distinct from a coalition of, probably, two parties. The importance of getting an agreed set of priorities to work to is even greater when you are trying to herd five cats rather than two. The Department of Finance and the Executive are confronting that key challenge as they pull the draft Budget together. Most people would assume that the most likely outcome, reflecting what has happened in the UK, is that Health emerges as a big winner from any allocation of money, for all the obvious reasons. The question then is what you do about the other priorities. How many priorities can you identify, and can you get agreement on the silver and bronze medals, as it were, unless you want to treat everybody else equally?

Another issue goes back to the link with the Programme for Government. At the Executive level broadly, as well as considering just spending, there are shared sets of priorities and objectives. A challenge that Governments across the world doing those sorts of strategic exercises wrestle with is this: do you want six priorities or 46 priorities and 46 sets of targets? You have to strike the balance between having enough detail and not making absolutely everything your top priority and thus ending up with a lack of clarity.

With both what the Budget says and what eventually emerges as a Programme for Government, there is that issue of the appropriate level of granularity. Can you summarise it in one sentence by saying, "The three most important things that the Executive are trying to achieve are A, B and C"?

Mr Beggs: In your report, you highlight the fact that, in Northern Ireland, a number of areas are still operated directly by government or through non-departmental public bodies, which is not the case elsewhere. I note your comment:

"So regions like NI with a higher per-capita proportion of civil servants will end up with a higher gross operating surplus."

I am trying to understand what you are getting at there.

Sir Robert Chote: Those are the deep weeds of national accounting, and I would not have you concern yourself too much about them. It is about the way in which the income of the Northern Ireland public sector is added up. You have, effectively, the profit of public corporations, and there is also an element of surplus or profit that is attributed to central government. That is the way that it is done in an accounting sense. It is likely to change, because the Office for National Statistics is likely to move it by

changing the relative size of the income of the Northern Ireland public sector per head relative to the other areas. Frankly, however, it is accounting. It is not something that the person down the pub need worry about affecting real life.

Mr Beggs: It was the "gross operating surplus" bit that I did not understand, because we normally have to pass money to the various bodies rather than receive surplus moneys.

Sir Robert Chote: This is one of those areas — it comes into the financial reporting exercise a bit — where the way in which numbers are presented, calculated and shown in the national accounts is different from the way in which they are shown by the Treasury or the Department of Finance in managing numbers. It is different again from the way in which the numbers are presented when they are dealt with by the Assembly in the Estimates process and through voting.

That bit of the national accounts is at the obscure end even of that spectrum, but it is one of the reasons why, the more you can do to bring a greater degree of coherence across those numbers and tell a single story, the better. That is a lot of water to push up a steep hill, though.

Mr McHugh: Tá fáilte romhat, Robert. You are very welcome. I will go back to an area that the Chair mentioned in relation to EU funding. You have made the point that, rather than get involved in the discussion about the actual democratic aspect of all that, you want to park some of it at the door, but does the fact that, when it comes to much of that EU funding, central government is bypassing the Executive pose a problem for local accountability and scrutiny?

Sir Robert Chote: It is early days for this. We have to see how it operates and how much transparency and cooperation in communicating what is going on can be done between the bodies that are making the decisions about the allocation of money at UK level and at the Executive.

There will be issues for the Committee and for the Northern Ireland Audit Office. Some elements that would have fallen easily within the ambit of what the Executive were doing in scrutinising how that money was being spent are now somewhat more distant. It will be a much smaller set of money for the National Audit Office at UK level to worry about, but it is slightly off the pitch at the Northern Ireland level. There has to be concern that accountability and transparency will be harder to achieve. That is not to say that there should not be an effort to do it on both sides of the water.

Mr McHugh: There was mention of the limited capability of the Executive to carry over funding from year to year and that they do not have the ability to hold reserves. What impact does that have on our ability to spend? Is that something that the Executive should be fighting to change? In fighting to change it, where would the decision on those powers be made? Would it have to be made by central government, via Westminster, or by whom?

Sir Robert Chote: It is essentially the UK rules. They are part of the rules set out by the Treasury and "agreed" with the Executive, I think. They are set out as the statement of funding policy, which the Treasury produces alongside each spending review. As Joanne explained, there is a proportion of any underspend relative to Budget that you are allowed to carry forward.

As you say, the system is different in Scotland and Wales. They do not have access to the Budget exchange scheme but are allowed to run their own reserves. That is partly a reflection of the fact that they have greater tax-raising powers. It is not that Northern Ireland is being picked on specifically; it is related to the degree of devolution there.

At one level, the use-it-or-lose-it incentive is more powerful in Northern Ireland because you are not merely losing it to your colleagues in other Departments at home; you are "losing it" to London, which makes people all the more reluctant not to spend it and to get the money out the door. That may affect Departments' behaviour.

The Treasury's use of the Budget exchange scheme has evolved over the years. There are various mechanisms because it is trying to trade off. On the one hand, you do not want Departments spending it simply because if they do not get it out the door, they will lose it. From the Treasury's perspective, however, what you also do not want is people building up a bank account of money that they have not spent, which may then suddenly splurge just at the point at which the Treasury is going to keep the public finances belt tightened. The way in which Budget control mechanisms have evolved has reflected which of those two things you are worried more about at each moment.

Mr McHugh: Given the extent of our block grant, there will be no explosion of reserves or anything else from here.

Finally, given the very limited range of taxation powers available to the Executive, if more powers were devolved, would we see more fiscally responsible decisions being taken?

Sir Robert Chote: I will happily leave the merits of greater devolution to the Fiscal Commission that has been set up to consider that separately. At the moment, fiscal responsibility is forced because, basically, the Executive have to balance their Budget. They are allowed to borrow for capital. They are not allowed to borrow significant amounts of money. They could, if they needed to, borrow to manage their cash flow within year, but there are other ways of doing that, so they have never had to.

In Scotland and Wales, there is a need to have borrowing powers because what happens if the money that you get from a devolved tax turns out to be different from the forecast that you made when you set your spending plans? There is an alternative there, but it is a different mechanism.

Mr McHugh: Go raibh maith agat. Thank you, Robert, for your answers.

The Chairperson (Mr Humphrey): Ms Hunter?

Ms Hunter: My question has been answered. Thank you.

The Chairperson (Mr Humphrey): Oh, right. OK. All members who indicated that they wanted to ask a question have had the opportunity to do so. Mr Donnelly, is there any comment you would like to make at this point?

Mr Kieran Donnelly (Northern Ireland Audit Office): No, Chair.

The Chairperson (Mr Humphrey): OK. Mr Stevenson, any questions or comments?

Mr Stuart Stevenson (Department of Finance): Nothing from my perspective, thank you, Chair.

The Chairperson (Mr Humphrey): OK. Sir Robert, thank you very much for attending the meeting; we really appreciate your time and input. We will say good afternoon to you. Thank you.

Sir Robert Chote: Thank you very much indeed for the invitation.