



Northern Ireland
Assembly

Committee for Finance

OFFICIAL REPORT (Hansard)

Draft Executive Budget 2024-25: Northern
Ireland Fiscal Council

15 May 2024

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Matthew O'Toole (Chairperson)
Ms Diane Forsythe (Deputy Chairperson)
Dr Steve Aiken
Mr Phillip Brett
Miss Nicola Brogan
Mr Gerry Carroll
Mr Paul Frew
Mr Eóin Tennyson

Witnesses:

Dr Esmond Birnie	Northern Ireland Fiscal Council
Sir Robert Chote	Northern Ireland Fiscal Council
Mr Jonathan McAdams	Northern Ireland Fiscal Council
Ms Maureen O'Reilly	Northern Ireland Fiscal Council

The Chairperson (Mr O'Toole): I welcome Sir Robert Chote, Dr Esmond Birnie, Maureen O'Reilly and Jonathan McAdams from the Fiscal Council. Thank you very much for being here and for your comprehensive document, which has been hugely helpful and welcome, particularly the notice. As an innovation in the last few years, it will be really helpful for scrutiny for all MLAs and, indeed, the broader public. I invite you, Sir Robert, to make an opening statement.

Sir Robert Chote (Northern Ireland Fiscal Council): Thank you very much indeed, Chair, and good afternoon, everybody. It is a great pleasure to be back. We will be very happy to focus on the questions and priorities that you have. To kick off, I am pleased to say that this is the first occasion on which we have been able to fulfil our written terms of reference in reporting on an Executive Budget and explaining how, ex ante at least, it balances that, so that is a pleasure in its own right. As you will appreciate, every year of Budget management here is different, and on this occasion the Budget has had to be put together relatively swiftly following the timing of the restoration of the institutions. There are some differences around process, which you and the rest of the Assembly will be familiar with, but from our point of view it is great that it is here and that it is possible for us to be looking at it.

Let us focus on the largest element, which is the day-to-day resource funding for and spending on public services. There is majority agreement — though not universal amongst the Executive, as the Health Minister has not agreed — around the Budget of £15.2 billion in total, which is a little under £20,000 per household. To say how big a sum of money that is depends on the baseline at which you are comparing it. We have looked at that in a number of ways. One way is simply to say that, given the way in which the Department of Finance has presented it, reflecting the way in which it asks for bids, you would say that it is up on the opening position that Departments were given at the beginning of the

last financial year. However, the amounts of money that Departments had to spend in 2023-24 were topped up, first by Barnett consequentials as a result of increases in UK Government spending during the course of the financial year, and then, of course, by the money that was provided as part of the UK Government package to support the restoration. On that basis, the total amount of money is about 2% lower than what Departments were working with at the end of the financial year. Interestingly, it is roughly 7% higher than Departments were working with at the beginning of the year and, indeed, 9% higher than the first Budget which was set out in the draft Budget that was never agreed in 2021. Incidentally, we are amongst the first to say that it is a very valuable thing to have multi-year Budgets, but the picture has moved significantly since then, as has the amount of money that is there to play for.

Where is the money coming from for 2024-25? As ever, the core block grant is dominant, comprising roughly 90% of the total. Five per cent each comes from regional rates and the specific amount of money that was put in as a result of the restoration package. Our best estimate — we do not entirely know the methodology that the Treasury works on — is that, as a result of the support package, the figure is probably in excess of the 124% estimate of relative need, ie 24% higher spending per head against comparable spending —.

The Chairperson (Mr O'Toole): Can you clarify that point? Does that mean that, in 2024-25, the amount of money that the Executive have to spend is in excess of 124%?

Sir Robert Chote: Yes. We estimate that it is between 25% and 27% higher per head than equivalent UK Government spending in England on the things for which the Executive are responsible in Northern Ireland.

The Chairperson (Mr O'Toole): So, in this financial year, it is at the level of what the most optimistic account of need would be, certainly for 2024-25?

Sir Robert Chote: Obviously, different people have different views on what the appropriate number is, as we explained when we were here previously. We think that 124% is a reasonable central estimate, but the precise number depends on judgements and, obviously, the period of

The Chairperson (Mr O'Toole): Higher than 124% for 2024-25.

Sir Robert Chote: That is right. Questions were raised, obviously, about the treatment of agriculture and, in particular, policing and justice, but reasonable people can entirely disagree on that. When you are talking about those need numbers, it is important to consider whether it is relevant in a medium- to long-term context. The fact that it is above 124% in one year and, maybe, next year, is informative, but only up to a point.

As I was saying, the package is contributing about 5% to the resource budget this year. Clearly, the package, as it was set out, was providing, roughly speaking, three years of stabilising funding for the period of overspending that we had seen. It is a relatively large sum, albeit backdated for 2023-24, and then £520 million in this year and next year. The reason for having the backdated money for 2023-24 was to allow the Executive to make the public-sector pay awards broadly comparable. The estimate, I think, is that that on its own cost around £600 million in 2023-24. Not all of that is recurrent — some of it is specific to just that year — but most of that £600 million probably flows through into what the Executive will need to spend to maintain that pay position over this year and next year. One way of viewing the interaction between the pay pressures and the support package is to remember that the support package is essentially paying for the pay deals that were agreed last year for last year, this year and next year, but there is no guarantee that that money is there for 2026-27. That is the cliff edge of which we have spoken before.

There are some challenges for the Executive, particularly around pay, but not just pay, regarding what can be done this year and next — the Department of Finance has suggested that Departments should maybe budget for 3% per year pay increases — but more particularly into 2026-27, when the short-term boost from the support package comes to an end, but before the 24% uplifting of the Barnett formula has had time to build up to fill the gap.

I am happy to expand further, or shall I leave it there?

The Chairperson (Mr O'Toole): That is excellent. We will leave it there, unless Maureen, Esmond or Jonathan have anything in particular. Thank you very much. I am sure members will have questions. If you do, indicate to me or the Clerk. Thank you very much, Sir Robert, for that opening presentation.

Does the Fiscal Council have a view on whether — Not to turn this into a bunfight between Departments — the Department of Health versus the Department of Finance — but you have acknowledged that the starting position for 2024-25 is below the out-turn for 2023-24 for the Department of Health, but that it is above the baseline budget that was set at the start of the financial year. Do you have a view on which is the correct process? Is it right to work from the start of the year or from the out-turn for the end of the year?

Sir Robert Chote: It depends on the purpose for which you are trying to ask the question. It is entirely reasonable for the Department of Finance to ask Departments to bid against a lower baseline than where they ended up at the end of the year. The baselines against which Departments were asked to bid were essentially what they were allocated at the beginning of 2022-23, taking out earmarked and one-off items. I suspect that the Department of Finance did that, in part, to signal that where we ended up last year was not a sustainable position, once again requiring Treasury to come in and help provide support. In that sense, asking people to bid against that lower starting point makes good sense. As we have seen, that left just under £1 billion. The Department of Finance could accommodate about £1 billion of bids against those baselines and still balance the budget, but what happened is that Departments put in bids of around £3 billion, which is three times as much as the available pot of money that DOF could have allocated. You always expect, in any Budget process, that bids will exceed the amount of money that is available, but this is a larger multiple than has been the case in previous years, when, typically, bids are about 1.6 or 1.7 times the total. This is three times the total. That is one indication of the pressures that are at play here.

Most stakeholders, including the Departments, are probably more interested in the consequences for the quality and quantity of public services if Departments can spend more or less than they ended up spending last year, so that is why we focused on and described quite a lot how the settlements look relative to the final plans position at the end of last year. As you say, overall, those are lower by about 2%. Obviously, the picture differs across Departments. On this occasion, as I recall, Education and Justice fared somewhat better than average, but Health fared slightly less well than average. That is the flip side of the picture that you had in 2023-24. Health, of course, remains by far the largest chunk of the resource budget at fractionally above 50%, but, because it fared slightly less well than average, its overall share falls fractionally. However, the big picture is that the Health budget remains essentially half of the day-to-day Executive spending on public services. For most people's purposes, the comparison to what Departments actually ended up spending over the whole of last year is probably relevant in thinking about what it means for public services this year, but it is a perfectly legitimate way for DOF to manage the budget process: to operate off lower baselines and then describe what has happened relative to those lower baselines.

The Chairperson (Mr O'Toole): From a theoretical accountancy/public spending control perspective, using year-start baselines is a reasonable thing to do, but it is also reasonable, from a public service delivery point of view, to look at the amount of money that has actually been spent. In a sense, there is no perfect right answer.

Ms Maureen O'Reilly (Northern Ireland Fiscal Council): Another issue that we discussed was that, when you use the start of the year, you do not know what you are going to get through the year.

The Chairperson (Mr O'Toole): Of course.

Ms O'Reilly: Obviously, that baseline is a good way to start, because that —.

The Chairperson (Mr O'Toole): You do not know; you could be allocated more.

On the additional allocation that you just mentioned, Maureen, we know — you have summarised it well in the paper and, indeed, Joanne McBurney from the Department confirmed it last week — that tens of millions will release that are not factored into the 2024-25 Budget. I just want to confirm the council's perspective. Some of this is marking back and reading across to the restoration package, but there is £47 million that is going to come from the public-sector transformation board. My understanding is —.

Sir Robert Chote: That is conditional.

The Chairperson (Mr O'Toole): It is conditional on setting up that board. I think that the condition is that it exists, and, once it exists, it gets £47 million, or the Finance Minister has an extra £47 million.

Sir Robert Chote: That is my understanding, but we will need to wait for the Treasury and DOF to talk about where they have got with the fiscal framework discussions to know exactly the nuts and bolts of that.

The Chairperson (Mr O'Toole): We might be hearing about that at some point soon, but we do not know very much about it at the minute. There is also the Barnett — the £24 million from the UK spring Budget that has not been allocated yet. In addition to that, as far as you are aware, has the pausing of the debt repayments been properly factored into the 2024-25 Budget, or is that still —?

Sir Robert Chote: On the £24 million, again, we may hear about that in the relatively short term. The issue there is essentially when you start the topping-up process. Do you start it at the beginning of 2024-25, or do you apply it from the point at which the Executive was restored? That basically brings the UK spring Budget Barnett consequentials into or out of scope. I think that most people are assuming that it will end up in scope, but that is above my pay grade.

On the debt repayment situation, we are essentially talking about the repayment of the short-term supports that the Treasury had to provide to cover the 2022-23 and 2023-24 overspends. The issue is that you need to put in place a sustainability plan. We may need to wait, although not necessarily for very long, to see exactly what the scope of that has to be. The UK Government have said that, ideally, that should include some element of revenue raising, plus other savings and public service reform, with a plan set out reasonably swiftly, although not as swiftly as was being asked for originally, and then some signs of implementation. That essentially affects 2025-26. If that money were demanded back, it would not be demanded back in 2024-25; it would be demanded back in 2025-26, which potentially pulls your cliff edge one year earlier.

The Chairperson (Mr O'Toole): If the agreement is reached to pause the debt repayments, will that have an impact on the 2024-25 Budget in-year?

Sir Robert Chote: Not as far as I am aware. I cannot see how it would.

Mr Jonathan McAdams (Northern Ireland Fiscal Council): It should not, Chair. At the moment, as Sir Robert has set out, the Budget is based on the assumption that it will have to be repaid in the next financial year. If it is removed entirely, it is removed from that financial year.

The Chairperson (Mr O'Toole): OK, so, it is removed from 2025-26? Agreeing that is not an additional in-year —. As far as we are aware, the two additional in-year moneys that could be released from the UK Treasury are —. It could be £24 million from the spring Budget, but that could also mean that, if there are further Barnett consequentials in the financial year, they will be slightly higher than they would otherwise have been, but the cash amount at the minute, if it includes the spring Budget, is £24 million, and the £47 million for —. That is what we think. However, there may be underspends already for June monitoring.

Sir Robert Chote: The £24 million and the £47 million might be in play for this. Well, the £24 million would be, and I think that you are right about the £47 million. On the debt repayment, I think that the ask in the UK Government package is that a proposal be put out — originally, they were asking for it unrealistically quickly — by August, and that there should be sign of implementation in 2025. I do not think that you will be in a position, within 2024-25, where the requirement for an implemented sustainability plan — you would not be able to mark the homework then; it is too early.

The Chairperson (Mr O'Toole): You made some broader points about the way in which the Budget process could improve. As you acknowledged, this has to be turned around extremely quickly. Not speaking as a Committee Chair, but for myself, I commend the Fiscal Council for producing a 50- or 60-page document with tables, which you have been able to present to us today. It is well formatted and very straightforward, but it is also extremely rigorous. The Department's Budget statement was about five or six pages, with a couple of pages of tables. To be quite honest, that reflects well on the Fiscal Council and not so well on the Executive and the Department, but that is slightly by the by, and I hope that —.

Sir Robert Chote: To be fair to them, one of the reasons why we were able to produce this is that we have a good working relationship. There are aimed at different audiences, as you will appreciate.

The Chairperson (Mr O'Toole): I am not asking you to endorse the comparison that I have drawn, but I hope that part of what we see is improved documents and presentation, and more rigorous presentation, but that is by the by.

You talk in the paper about — and obviously this is not new. Lots of people, including Pivotal, the Nevin Economic Research Institute (NERI) and everybody who comments on policy delivery here, talk about not just multi-year Budgets per se but multi-year Budgets that are connected to a Programme for Government (PFG). We may get a PFG before the summer, but it appears unlikely that it will be connected to a multi-year Budget, and a multi-year Budget may not even be doable until some point next year, when there will be a new UK Government — hopefully, from my perspective, they will be a Labour Government, but whatever the composition of that UK Government is, they might not do a multi-year comprehensive spending review (CSR) until some point in 2025. Would it be possible to do something like an indicative multi-year Budget that is contingent on questions that have not yet been answered by the UK Government but at least allows Departments to plan? Would that be that inadvisable in the absence of a full confirmed spending review?

Sir Robert Chote: Thinking in a medium-term perspective, whatever the Budget horizon you have, is important to some degree. As you say, there are challenges here in that you do not know yet the period over which the UK Government will set their spending plans, and therefore you do not have a reasonable idea of the block grant settlement. You could, however, say, "Let's work on the assumption that it rises from the current level by some amount", and produce some sort of indicative plan on that basis. I draw you back to the odd comparison with the amount of money that is in the pot for 2024-25 being a lot higher than it would have been if you had agreed a multi-year Budget in December 2021. Therefore, even if you had a three-year UK Government spending plan that allowed you to have draft or initial block grant settlements over a three-year period, the chances of those settlements, particularly in the out year, looking the same by the time you get there are relatively low. There will always be that degree of uncertainty around the amount of money that you have to play with. However, you need to have that medium-term perspective for service delivery, service reform and workforce planning purposes.

At the moment, the area where this is a particular challenge is, if you are thinking over the next three years, what do you assume will be available to you in 2026-27 when, on the face of it, you have a short-term financial support package that runs out at that point? Therefore, you may want to come to a view with the UK Government about what is appropriate to assume over the interim. Clearly, the Treasury is not going to come out and give you a firm indication in advance of what the block grant will look like when it does not even have a UK Government spending plan. There is only so far you can go, but if you are trying to think about what a multi-year programme of public service reform and workforce planning will look like, you have to have that medium-term perspective.

The Chairperson (Mr O'Toole): Indeed. I have one specific question about a policy area that is a high priority for every party here, and that is childcare. We know that, versus GB, we are subpar on childcare support. I should declare an interest, as I am a parent of children who are in childcare. I do not have the number in front of me, but I think that I am right in saying that it would cost — the amount that it would cost to get back to parity with GB, whether the policy was based on 23 hours or whatever it was, was in one of your earlier documents — hundreds of millions, rather than tens of millions. That is correct? Esmond is nodding.

Dr Esmond Birnie (Northern Ireland Fiscal Council): I am pretty sure, Chair, that that is correct. It would cost several hundred million.

The Chairperson (Mr O'Toole): There is a £25 million allocation in this Budget. We do not yet know how the Education Minister who has been allocated that is going to spend it. It is welcome; it is better than nothing, obviously. Is it fair to say that it is hard to see, particularly with things like rising wages and costs in the childcare sector, how we get close to parity or equivalent offerings to those across the water without either substantial revenue-raising or money coming from somewhere else in the Budget?

Sir Robert Chote: Yes, but I do not claim to be an expert in exactly how much. That is simply a matter of arithmetic; it has to come from somewhere. If the Budget remains balanced, you can look at savings across the rest of the resource budget. You mentioned that childcare is one of the relatively rare sub-

parity areas where the policy is less generous than the equivalent policy at the GB level. There are several super-parity areas, for which the total cost, as I dimly recall, is about £600 million. Money could come from the super-parity areas, but perhaps that is what you want to spend the money on and you want to take something from elsewhere. This is a constrained environment, so the magicking up of several hundred million is not straightforward.

The Chairperson (Mr O'Toole): OK. I will let members in now. There is just one further question from me at this point, and it is about ring-fencing. There has been a fair bit of debate about money that was taken out of what were previously agreed integrated education projects. For the purposes of the record, the un-ring-fencing of that money does not remove the funding from those projects. Is that true to say?

Sir Robert Chote: That is beyond my —. Do you know?

The Chairperson (Mr O'Toole): What I mean is, if there is an agreement —. In this case, there was an agreement nearly a decade ago in Fresh Start, which ring-fenced an amount of capital spending for integrated and shared education projects. It was ring-fenced, which meant that Executive Ministers could not spend it on A N Other thing that they wished to. However, as part of the Executive restoration package, it was agreed that, for £150 million of that, which was ring-fenced, the ring fence would be removed. It was removed after lots of schools had been given capital allocations to start planning to build new schools. From your perspective, for the record, removing a ring fence is not the same thing as removing agreed funding?

Sir Robert Chote: I would not have thought so.

Mr McAdams: I will come in on a technical point, if it is OK, Chair. I understand that the ring-fenced moneys that you were thinking about there were capital moneys, but, when the ring fence was removed, the money that is going to be received in future is going to be resource. Therefore, in one sense, if the Executive have agreed to that capital and now the money is going to come in the form of resource, they will have to displace capital from elsewhere to put it back into that pot, if that is what they want to do. Removal of the ring fence gives the Executive the ability to do whatever they like with it, with the one caveat that the removing of the ring fence has turned the money from capital to resource, effectively, as far as I understand it.

The Chairperson (Mr O'Toole): If my granny gives me £10 and says that I have to spend it on school books and then, a month later, she says, "Don't worry, you can spend it on whatever you like", that does not mean that I have to not spend it on school books; it means that I have the freedom not to spend it on that thing. I think that there has been a bit of confusion over that.

Ms Forsythe: Thanks to you all for joining us again today. We were discussing parity of funding and trying to get in line and the fact that it would take hundreds of millions of pounds for some sort of parity on childcare. I highlight once again the fact that it is not just the fact that we have been chronically underfunded here in Northern Ireland but that, for decades, the lower Budget that we already were getting had to be used to rebuild this country after terrorist bombing. We were rebuilding our roads and our hospitals, and we were not able to invest in programmes such as childcare and build railways, so we are even further behind. It is not just the chronic underfunding but the fact that the money that we had been getting for so long was spent on other things.

As we look at this Budget, what is the Fiscal Council's assessment of the actual level of challenge faced by the Executive? Much has been said about the fact that the Executive have this Budget and face challenges. I am keen to know whether you have worked with them or reviewed any of their work on any realisation of efficiencies and effectiveness in what they are already doing. When it is said that the Budget is difficult, everyone looks straight for cuts, but has there been any work, any template or any correspondence with the Fiscal Council on how it reviews the efficiencies that the Executive are making already?

Sir Robert Chote: Not specifically on that area. Obviously, we did a report looking at sustainability around health, where we had quite a long discussion about relative performance indicators, many of which you will be familiar with, but essentially the reviewing of the efficiency with which public spending is spent is largely an issue for the Audit Office, rather than for us. We certainly do not make any recommendations on, across the board, the potential for greater efficiency. In specific case of Health, we identified that there were certain areas, for example relatively long hospital stays —

number of days spent in hospital — that you could argue were evidence of relative inefficiency that would allow you to improve the quality of services if you were to address that. On the other hand, there may be good clinical reasons for thinking that the rest of the UK keeps people in hospital for too little time. That does not seem the most likely of explanations, but it is not part of our remit to do a value-for-money study across the rest. You get more of that from Dorinnia Carville in the NI Audit Office.

Ms Forsythe: Absolutely. I sit on the Public Accounts Committee also, and you often feel that you are only scratching the surface well after the event if the efficiency is not being made. That is something that I am quite interested in.

There has been much talk recently about how the Northern Ireland Civil Service operates. What is the council's opinion on the level of expertise in the Northern Ireland Civil Service in budgeting, financial management, review of efficiencies and financial planning?

Sir Robert Chote: I may come to my colleagues on that, because they are probably better informed. We interact primarily with the Department of Finance, because we are looking primarily at the Budget mechanics, but, when we have engaged with other Departments on the more specialised areas that we have been looking at, I have been very impressed with the quality of the people and their responsiveness and willingness to share and discuss. From a very parochial perspective, I have no concerns in that area. Jonathan is probably slightly conflicted on this one, as a member of the Civil Service, but I will pass to Maureen.

Ms O'Reilly: Similarly, I have had a very good experience with the Department of Finance, even when it comes to the points that you raised, Chair, about the timing of getting reports out. We had more time, and the staff worked very strongly with us. In the Department of Finance, staff have to have that detail; it is very specialist knowledge. You probably have seen evidence of that in the presentations that you have had from the Department of Finance.

Sir Robert Chote: It is a perennial problem the world over that, pour encourager les autres, finance ministries tend to cut their own cloth very harshly — I know I am speaking in the presence of a former Treasury employee — to send a signal to everybody else. Sometimes, that comes back to bite them later when it comes to turnover rates. I am sure that that was not the reason why you moved to your current life.

The Chairperson (Mr O'Toole): No — maybe originally.

Dr Birnie: I reiterate what colleagues from the Council have said. The Deputy Chair asked a very interesting question. My impression is the fiscal relationship between the Executive, the Treasury and the UK Government is managed well by the civil servants. You perhaps need to go to other pieces of evidence to answer the more general question about whether there have been occasions when policymaking at the devolved level has been — "hindered" is maybe too strong a word — held back a bit by the sheer lack of capacity, which is almost inevitable when you have a regional Civil Service that is small in absolute terms. I am thinking of evidence presented in the renewable heat incentive (RHI) inquiry or, more recently, the COVID inquiry that may, on occasion, point to that. Our experience of the fiscal management is that, although it is true to say that the staff are stressed and under great strain, they seem to be highly effective and productive.

Sir Robert Chote: When resources are squeezed, thinking carefully about how you prioritise things is really important. With my other hat on, as head of the UK Statistics Authority, it is fair to say that the Northern Ireland Statistics and Research Agency (NISRA) is clearly under a budget squeeze, which has forced it to think very carefully about what it is able to produce. It has had a very good process of engaging with stakeholders about that. When tough choices have to be made, and you are not able to deliver everything that is being asked of you or that you would like to do, talking to the people who use your outputs is really important to make sure that those difficult decisions are substantively as good as possible and that they land as well as possible with the people whom you serve.

Ms Forsythe: Absolutely. We have discussed that as the Finance Committee. From my career as an accountant, I know that, quite often, people turn to finance staff saying, "We need to save money. Where do we make the cuts?", but, actually, those staff are trying to add value by finding the best efficiencies and to see what can be done. In the Northern Ireland Civil Service, I wonder whether the

staff providing the financial advice and guidance are getting their full status in the rest of the teams and having their ideas heard.

I have another question about the voluntary and community sector. Have you done any work or do you have any opinion on how we can measure the return on investment in that sector? As I mentioned, when we look at cutting budgets, a lot of people cut the edge of the services, which, quite often, are those in the voluntary and community sector. I feel very strongly that, given the smaller amount of money involved, the return on investment is so significant. Have you looked at that as part of your role?

Sir Robert Chote: When I have been over here at conferences, stakeholders and representatives across the sector have often made that point when I have talked to them. For a Department that is thinking about how it wants to allocate resources to deliver the best outcomes that it can, if the voluntary sector can do the work cost-effectively, and it is better to give it money rather than to do the work directly, it is a false economy to take it away from that sector just because it is administratively easier to do so. I do not see any evidence that that happens. I know that it is clearly a concern in that area, but my colleagues are closer to that.

Ms O'Reilly: We had a discussion on what proportion of the spend went on public servants as opposed to the delivery of services. It is something that we want to look into in more detail in order to understand, when services are cut, who delivers them if pay has to be maintained, for example. We will probably look at that in more detail.

Ms Forsythe: Absolutely. Some services here, the support services provided by organisations such as Women's Aid and by a lot of mental health organisations, for example, are not delivered by central government. Last year, Southern Trust employees told me that they had over 10,000 people whom they would not be able to refer to any service if those organisations were not funded. I am interested in how we capture and quantify that. It is, ultimately, about outcomes and not necessarily about pound signs. I appreciate that that is a difficult thing.

Sir Robert Chote: It is a difficult thing to back up, because it is an area where the network of Departments, arm's-length bodies, local councils and the voluntary sector has to work together in an imaginative and open way. You can see plenty of examples of that happening in some areas such as support for younger people. I do not know whether the Audit Office has done anything specifically on how well those cross-sectoral things fit together. It is something that we are aware of, but we have not done anything specific on it.

Ms Forsythe: I appreciate that. Thank you. It is just that it often comes to a crisis and ends up on the Floor, when my colleague recently raised the case of the Northern Ireland Hospice, for example, or in the case of the Nexus sexual abuse counselling service.

Mr Tennyson: Thank you, Robert, for your answers so far. I will return to the Chair's question about comparing health spend in this year and last year. The figures of a 6% increase and a 2% cut have been selectively quoted, largely depending on political perspective. Is it fair to say that, given the financial package that was arrived at, neither is a perfect comparator and that, when we can compare the end-of-year out-turn with last year's out-turn, the actual figure will be somewhere between the two numbers?

Sir Robert Chote: There is a reasonable case. Looking back, if you are able to make the comparison across the same point in the years — final to final is a good way of doing that — that is helpful. In talking about a Budget, the best thing that we can do is to compare like with unlike in that sense, but you are right. Again, as is often the case, it is really a medium-term prediction. There can be volatility from year to year. For example, in making comparisons of change relative to baselines, if there are technical adjustments or reasons why money needs to move between Departments during a financial year, and you make a comparison based on a figure from just before such a thing happened and a figure from just after such a thing happened, that can confuse the picture; it is not straightforward.

Mr Tennyson: That is helpful. I will turn to the concluding reflections of the Budget assessment that the Fiscal Council published. The council particularly highlights the

"lack of buy-in from the Health Minister".

Will you elaborate on why the Fiscal Council felt that it was important to highlight that and on what, from your perspective, the impacts of that might be?

Sir Robert Chote: Having a universally agreed package would obviously be the most desirable outcome. A particular issue is that Health is by far the largest chunk of the Budget, so the degree to which the Executive as a whole underspend or overspend their Budget and the consequences that that might have for interactions with the Treasury and what needs to be done are disproportionately determined by what happens in Health relative to what happens in Agriculture or in the smaller-spending Departments, for example, important though that is.

Clearly, we would not want to imply that, by not supporting the Health settlement in this Budget, the Minister is not going to do his best to stick within the budget. Those are choices for *[Inaudible.]* We are not implying that that is to be taken as a signal that, "I am not going to stick to this because I did not agree with it is the first place". That is, obviously, something to explore with him and the Department further. That is not an implication that we are trying to make, but having universal agreement and a bit more concern about the concerns coming from Health. As I say, that partly may reflect the fact that, on this occasion, Health did, relatively speaking, slightly less well than other Departments, whereas in the previous year it was the other way round.

Mr Tennyson: That is helpful. Thank you. On the capital allocations, if I understood you correctly earlier, you rely predominantly on the Audit Office for value-for-money assessments. There are a number of earmarked and ring-fenced projects, one of which is the Strule shared education campus. Those schools have waited a long time for capital investment, and I understand entirely the support for them. That project was flagged by the independent review for education as not providing value for money and potentially constraining capital spend on other school builds in the medium term unless there was a significant increase in capital investment. We have not seen an increase significantly in capital investment. The Audit Office has echoed the independent review's concerns, and there is no business case for that project. In terms of the process and how we arrived at those earmarked projects for capital spend, does the Fiscal Council have a view on or assessment of that?

That is a fairly long-winded question.

Sir Robert Chote: On the specifics of Strule, I may pass it on to colleagues.

Mr Tennyson: Of course.

Sir Robert Chote: Just to take a step back and look at the capital budget overall, we are talking about £2 billion. On the face of it, that looks to have had a tougher squeeze than the resource budget, in that, overall, it is down 7% compared with not just the opening position at the end of last year but the final plans towards the end of the year. Neither the Barnett consequential nor the package have put more money into the capital budget through last year in the same way that they did for the resource budget. The only way in which the support package has increased the overall envelope for capital spending is by increasing the amount of borrowing that is possible from £200 million to £220 million.

The process for bidding in capital is different from bidding in resource. Rather than having a baseline and bidding above or — much less likely — below that, we are talking here about categorising projects from a zero base as being inescapable, pre-committed and desirable. On this occasion, there was not enough money to cover even the first two of those.

Mr McAdams: I cannot remember whether it is a flagship project, but we did look a little at ministerial directions during the caretaker Minister period. That is how things can happen without a business case. We looked a little at that during the COVID-19 period and the caretaker Budget period, but we have not gone back to it. We have not gone back to look at the flagship projects but the Audit Office has reported on capital projects a couple of times, so it probably has a clearer picture of how those have evolved over time.

Dr Birnie: There is a general point, as I think the Chair was referring to, of the Programme for Government. Ideally, we would have the investment strategy in place alongside or ahead of the Budget, but we do not. We are where we are.

Mr Tennyson: Thank you. You mentioned, Robert, that the process of commissioning bids is different for capital and resource. Is there merit in future — or is it even possible or desirable — to take that zero baseline approach for resource spend?

Dr Birnie: A good question.

Sir Robert Chote: I do not think that it is quite as realistic, given the way in which a decision on — . You are not going to start straight away with, "Am I going to have the same number of health service workers as I did last year?", and start from, "Should we have zero?." There are more decisions with recurrent consequences that go through the Budget.

However, there is an argument for that. In the UK context, there are times when you have spending reviews and times when you have comprehensive spending reviews. How much more the comprehensive spending review is comprehensive than a normal one may be more in the eye of the beholder rather than in reality. However, it would be good practice, periodically, to take a greater step back and ask, "Are we simply doing things here that we do not need to do? Are we doing things that are not very good so we should just stop? There are better and more efficient ways of doing this." Essentially, think about what you want the functions of the state to be and the structure of the public sector. With periods of Budget stress and difficulty, the paradox is that it would seem simultaneously to be more desirable to do it at those times, but it is also more difficult to do it at those times because you are wrestling with the sort of public-sector-pay planning issues that the Departments, particularly Health, have all been wrestling with over the last couple of years.

Mr Tennyson: That is helpful. Thank you.

Dr Aiken: Thank you, Sir Robert, and thank you very much for a very comprehensive report. I have a couple of questions. You will have noticed that we have gone for a Vote on Account that gives us 65% of availability to spend over the period of time. Part of the reason for that Vote on Account is that we would have more time to sort out our priorities, agree a Programme for Government and do some consultation. We have done none of that. However, from the conversation that we have had already, you have pointed out the fact that conversations go on behind the scenes to look at other monies as well. What is the Fiscal Council's view on the speed at which we are bringing this forward? In your report, you quite clearly say that we have not agreed a Programme for Government, we have not prioritised and we have not done any consultation.

Sir Robert Chote: Yes. In an ideal world, you would have —

Dr Aiken: Specifically, we went for a Vote on Account for 65%, which is quite unusual as well, so it would give us more time, yet, here we are, seemingly charging ahead.

Sir Robert Chote: Yes, as we have seen in the past, when the Vote on Account period draws to a close, there are other ways that the can can be kicked further down the road in this department. It is not surprising that you have seen a larger Vote on Account than on previous occasions. Whether that is a meaningful constraint on how quickly an Executive will seek to bring together a PFG, knowing that there are other ways of, essentially, ensuring that the whole of the public services does not collapse as spending just stops at some stage. It seems to me that it is a recognition of reality. Whether it is a particularly powerful stimulus for the Executive to move more quickly than they otherwise would do, I will leave that for others to say whether history points in that direction.

Dr Aiken: OK. A very diplomatic answer. Well done. My second question is about the issue of the UK as a whole, and looking at increases in Health and Education spending. If you look at England — I am not so sure about Wales or Scotland — on average, you see that they have been above the line, whereas, here, with this particular settlement, Health is below the line. Regardless of whether you take a baseline from 2023-24 when many of us were looking at it —. Many of us sat in conversations with the Department of Finance while we were in our interregnum, and the conversation was that we were being given, basically, a punishment Budget to get us back into Government. It seems quite strange to be using that as a baseline when we know where we were against the rest of the UK. Bearing in mind that, in your report, you say that in the rest of the UK, Health and Education are ahead of the baseline and Northern Ireland is below. Is there any particular rationale for that, or is it just the way that the prioritisation of the Budget was made by the Finance Minister?

Sir Robert Chote: As you know, the way the block grant works is that the Barnett consequentials, although they will arise from a mixture, for example, part of it is because Health spending in England has gone up by x or Education spending in England has gone up by x, the Executive are not constrained to spend that money in the same areas that have generated the money in the first place. That is entirely reasonable. Therefore, to some degree, these are the choices that the Executive have made — not with universal agreement in this —

Dr Aiken: Correct. I declare a declaration of interest, of course, as the Health Minister is a member of my party.

Sir Robert Chote: Understood. The relative generosity or not of whether it is above or below average or appropriate depends on the different metrics that you are looking at. As I said, at one level, you could say that on this occasion, Health has received a smaller increase than average and Education and Justice received more, but, on the other hand, you could say that that is a correction from the previous year, when a lot of money went into Health.

The other way, which we would be the first to concede is an imperfect comparison, is to ask how the increases or decreases from last year to this year in departmental budgets here compare with the equivalent UK Government ones. There is, for most Departments here, a bigger increase than for those in the UK, but in Health and Education, which are the big ones —

Dr Aiken: There is less.

Sir Robert Chote: — there is less. However, is that, again, a reflection of the fact that more money was put in here last year? You would not want to say that that was a bad idea, just because it makes the comparison this year look less favourable.

At the end of the day, it is for the Executive to decide how they divide up the cake. As you point out, not just across GB and Northern Ireland but across the world, there is upward pressure on health budgets in particular, partly because of demographics but more particularly because of non-demographic cost pressures. To see a large slice of the cake being given to Health and assorted underlying pressure for the relative size of that cake to get even bigger is not unique to here.

Dr Aiken: That is correct. This is my final question. Nobody else has mentioned it, but I will: it is the question of revenue-raising. Everything seems to have been taken off the table. The Economy Minister took tuition fees off the table and the Infrastructure Minister has taken off everything to do with water charges. Everything seems to have been taken off the table but nothing has been put on the table. I hate using such a horrible term, but there are "inescapable pressures" that are going to continue to build, as you very clearly outlined. We are continuously chasing half a billion pounds a year, yet we have an opportunity, potentially, if we are taking grown-up decisions, to look at what we were likely to do or even to discuss it, but everything seems to have been taken off the table. What is the Fiscal Council's perspective on the fact that everything that we would have looked at to try to increase the size of the cake has been reduced — not even reduced: we are not even taking the ingredients to bake the cake.

Sir Robert Chote: I will come to my colleagues on that as well. There are a number of factors at play here. One is that any sensible Government or Administration in any jurisdiction should be thinking about revenue spending and composition size on both of those areas, within the constraints in which they are presented. There is clearly a challenge here that the block grant is so large, in the proportion of the resource budget that it pays for, that at the moment, the regional rates are the only tax lever that the Executive have. You would have to pull that lever jolly hard to make a very big difference to the overall size of the spending pot, which is not to say that it is not something that should not be considered.

There are, of course, all the old favourites, some of which you have described, such as domestic water charging — you name it — that could be considered as well. At the moment, the additional stakes have been raised here by the UK Government's insistence that revenue-raising has to play some part in the sustainability plan. They have given an example of how firmly wedded they are to that idea — it has to be £113 million, and £112 million is not enough, you know. If you do not do that, then you are, essentially, going to lose £500 million or thereabouts from the Executive's spending pot in 2025-26.

Yes, households are under financial pressure at the moment, and I can quite understand why people do not wish to increase that financial pressure. However, if you take £500 million out of the public services budget in 2025-26, that will have consequences for households as well — not be directly in their pockets but, potentially, also, consequences may follow for poorer households rather than those that, on average, would be paying the regional rates. That is not straightforward, but our view would be that any sensible Administration or any sensible Government would be thinking about their revenue options as well as their spending ones.

Dr Birnie: Thank you, Dr Aiken. I very much endorse what Sir Robert said. The Fiscal Council's remit does not allow us to tell you or the Executive what policies they should adopt, and revenue-raising would be such a policy. That said, we can point to the constraints and the mathematics of the situation. By not having revenue-raising, the Budget envelope is smaller than it would otherwise have been. It certainly needs serious consideration and, simply, in a very pre-emptive sense, if that is what has happened, to rule out X, Y and Z may not lead to a helpful policy debate.

Dr Aiken: With your indulgence, Chair, I have another quick question. You said that we are not at 124%; we are probably at between 125% and 127%. If that is the case, the delta between what Northern Ireland pays and the average in England and Wales per household is about £800. Does that significantly affect that figure if we are already at 125% or 127%? It would mean that the £800 figure would probably be greater.

Dr Birnie: I do not think that it affects that figure. The figures that you refer to there are, admittedly, for 2021-22, for the sum of council tax plus water charges in England, Scotland and Wales. It varies between the three nations compared to the average domestic rate here.

Dr Aiken: It was Paul Johnson's work, but I remember looking at the figure, and it was about £800.

Dr Birnie: Yes, it is.

Sir Robert Chote: If you were to do that, and that were a permanent source of future revenue, that would lift your 12X number that bit higher, and it would do so on an ongoing recurrent basis. Regional rates are the main lever for the Administrations that the Secretary of State and the Executive have had to pull.

One thing to bear in mind on the domestic water charging front is that, if you were to go down that route, you would probably end up having to compensate poorer households. The number you might get if you multiply it straight through by the number of households is probably an overstatement of the difference that it will make, because you are not going to dump that on the doormat of every household in Northern Ireland.

Mr Carroll: Thanks for your presentation. I have a couple of quick questions. If possible, can the council outline the difference between the borrowing powers available to the Executive and those available to Wales and Scotland?

Sir Robert Chote: We looked at the borrowing powers in the introductory guide, and I am now struggling to remember. I think that, per capita, the borrowing power for capital is greater here than it is in Scotland and Wales. That is because the Executive fulfil some of the functions that local authorities fulfil in Scotland and Wales. Local authorities are able to borrow, so the Treasury accepted the argument that there should be greater ability per capita to borrow pounds for capital spending here.

On the resource side, the Executive, unlike the UK Government, are not able to borrow to finance day-to-day spending on public services. In Scotland and Wales, there is a greater ability to run a reserve that allows you to smooth out variations in funding in order to maintain a smoother path for spending than is the case here.

The Treasury has been willing to allow Scotland and Wales to have that greater flexibility, in part because more tax powers have been devolved to them, which, in addition to giving them the ability to do things with those tax powers, exposes them to greater risk in respect of the revenue that they are losing. In the case of the devolution of tax powers in Scotland, they have had to "raise taxes in order to stand still" because the block grant adjustment has more than outweighed the revenue that has been foregone. In Wales, the story is different.

To summarise, there is a bit more ability to borrow for capital and less ability to borrow for resource to smooth over, but that is reflective of the fact that the Executive have different functions and powers than either the Scottish Government or the Welsh Government.

Mr Carroll: I appreciate that. I would appreciate your team forwarding that paper, if possible, to the Committee.

Has the council looked at the total money handed back to the Treasury over the last three to five years or thereabouts? In 2019, £150 million was handed back in unspent financial transactions capital (FTC). Is there a collective figure for the last number of years that was handed back to the Treasury?

Sir Robert Chote: I do not know about a total. It has to be said that FTC is an unusual example here. As members will know, FTC is money that can only be lent to or used as a capital injection into private-sector bodies, albeit those bodies include universities. The Barnett consequentials that generate the FTC money arise, essentially, when the UK Government take measures to support the English housing market — I am oversimplifying somewhat sharply. None of the devolved Administrations has found FTC to be a particularly effective tool to meet their investment requirements. All the devolved Administrations, I think, have routinely underspent their FTC budgets because the money does not come in a helpful form. It has been used in some areas — Ulster University is a case in point, and it is entirely appropriate to support my colleague to my right —

Dr Birnie: Thank you.

Dr Aiken: I am sure that it helps with your overspend.

Sir Robert Chote: — but it has not been very flexible.

In other areas, such as Budget exchange, there is a limit on the amount of underspending permitted. If the Executive underspend their resource budget, the Treasury allows them to carry some of it forward into additional spending in the following year, subject to a limit. On occasion, the limit has been met and some of the money has been handed back. On one hand, there is the danger that that creates an incentive, and people say, "Goodness me, let's quickly spend this money on anything to stop us having to send it back to London", which is not a desirable position to be in. On the other hand, there may be instances where a perfectly good case could be made for spending money in the next year rather than in this year, but the Treasury rules do not go that far. Jonathan may know whether we have ever added that up.

Mr McAdams: No, we have not worked out a total for the FTC money that has been handed back. I note that the amount of FTC this year is lower; in previous years, I think, there has been a significant chunk, and the Executive have struggled even more to spend those larger sums. However, we have not done a 10-year run of that data or anything like that.

Mr Carroll: OK. If that changes, let us know. That would be useful.

I want to make a point about tax avoidance and tax evasion. That is rarely talked about when revenue raising is proposed. I do not think that the council has looked at how much money would be available for services here if the Westminster Government were to clamp down on it. That may be a side point.

Finally, I am concerned that, in conversations about revenue raising, the old points about charging twice for water or other public services are often trotted out. We should rule out those measures for two reasons, primarily because they are an attempt to satisfy dangerous Tory austerity logic, and because, if they were implemented, the implication would be to further impoverish working-class communities and people across the board. I and my party disagree in the strongest possible terms with people being charged twice for services that they have already paid for over decades. I hope that the Committee generally endorses that view.

Sir Robert Chote: There are a couple of points there. First, there is a long-standing debate over whether people are double-charged for water. Views differ on that. The average size of the bill in Northern Ireland is clearly lower, but so are incomes and average house prices, so there is not a straightforward comparison to make on that front.

On tax avoidance and how it affects the amount of money that the Assembly and the Executive have to spend, avoidance of domestic or non-domestic rates has a direct impact on the amount of money that is in play. If the UK Government were to manage to crack down on tax avoidance and tax error and bring in more revenue, the consequences for Northern Ireland would depend on what the UK Government did with that revenue. If they used it to reduce borrowing or to cut other taxes, that would not feed through to the block grant here. If they chose to spend more than they otherwise would, that would be beneficial, because it would feed through to the Barnett consequentials. There is a tenuous link between what the UK Government do on tax avoidance and what happens to the amount of money available to spend on public services here.

You will forgive me for not taking the opportunity to leap on the austerity argument, tempting as that is. A specific issue exists because of the link between the UK Government's request — or demand — that there should be some revenue raising and the potential demand to bring back the short-term support that was provided to cover overspends. There is a tough choice. If the Treasury was absolutely serious and said, "We're going take £500 million away from the budget that the Executive have to spend on public services in 2025-26", versus, "Would you increase taxes on domestic properties?", that is likely to be regressive. Poorer, working households are more likely to be hit by the hit to public services than by the increase in regional rates. That revenue could come from other places; that is a specific issue that exists because of the structure of this particular package.

Mr Carroll: On your last point, Robert, it is a question of whether to be kicked in the face or in the stomach. It is a kick, nonetheless. *[Laughter.]* I appreciate your commenting on that.

Dr Aiken: Thank you, Gerry.

Mr Brett: I might use that analogy in the future, Gerry. *[Laughter.]* That is the first time I have heard that.

Apologies for being late; the Committee meeting that I attended previously overran.

The Department of Finance anticipates there being additional allocations throughout the financial year. There is probably stuff still outstanding from Fresh Start. Is there a belief that there will also be additional Barnett awards to Northern Ireland throughout the financial year?

Sir Robert Chote: Additional Barnett awards are dependent on whether there are increases in UK Government spending through the rest of this year. There is the £24 million, the question about which is basically, "Do you get the uplift to the Barnett consequentials that came out of the spring Budget in the UK?". I think that most people expect that to turn up at some point, but there is no guarantee of it. As you said, there are other elements that, for reasons that I still do not understand, the Executive are not allowed to put into the Budget until they have been confirmed by the Secretary of State. Jonathan, is that Fresh Start money?

Mr McAdams: Yes. It is a requirement of the Northern Ireland Act 1998, I think, that the Finance Minister is only allowed to put forward a Budget for which the total has been set by the UK Government. Therefore, until it is formally confirmed, that money cannot be included.

Sir Robert Chote: That would not seem to be hugely helpful to transparency or Budget planning, but I am sure that there are complicated reasons why it is in place. It has to be said that those sums of money are relatively small. The expected pots of additional cash will not be game changers for the overall amount that the Executive have to spend.

Mr Brett: Would it be tens of millions of pounds?

Sir Robert Chote: Yes, probably.

Ms O'Reilly: There is the £47 million.

Sir Robert Chote: It is £47 million, plus £24 million, plus some Barnett consequentials.

Ms O'Reilly: But then they have to raise the £113 million, so there are two sides to it.

Mr Brett: In relation to revenue raising, on page 42, your report refers to:

"Uplifting or introducing other fees and charges."

What are you talking about there? Is it university fees or public travel? Steve said that Ministers have taken things off the table. Maybe he is putting prescription charges back on the table. What are you talking about there?

Sir Robert Chote: Many of those things are the sort of super-parity areas that we described. Again, many of these things make a difference at the margin but are not game changers. On prescription charges, how big is the difference? Given the number of people in England who are exempt from prescription charges, is there actually that big of a gap in the generosity of the policies? A number of areas were covered in the consultation exercise that the Secretary of State put in place. They are not trivial sums of money, but they will not change by 10% the amount that the Executive have to spend.

Mr Brett: Maybe I am wrong, but I do not think that that consultation on a lot of the revenue-raising items ever took place. The Department of Finance stopped it.

The Chairperson (Mr O'Toole): Indeed. The consultation that happened and had 1,400 responses —

Mr Brett: That was on rates.

The Chairperson (Mr O'Toole): — was on rates, but the consultation on broader revenue raising did not happen.

Mr Brett: Has the council done any work on university fees, prescriptions, travel, etc?

Sir Robert Chote: Not recently. When started and did our initial guide, the Department of Finance's estimate was, I think, that the super-parity measures were about £600 million in total. You then have childcare going in the other direction. Some of the super-parities were around welfare mitigations, plus the other things that you mentioned.

Mr Brett: Gerry has covered FTC. You do not think that Northern Ireland is out of kilter with the other devolved regions in its difficulty in spending its —?

Sir Robert Chote: No.

Mr Brett: OK. What is next for the Fiscal Council, after your work on the Budget?

Sir Robert Chote: We are constantly surprised and delighted by what comes along the road for us to have a look at. As you know, we have terms of reference that require us to produce an annual report on how the Budget is balanced and then a longer-term sustainability report. We have necessarily had to interpret that somewhat flexibly since we started. Essentially, we try to produce what we think will be of most use to you and the wider community. If announcements come from the UK Government and DOF about the shape of how the fiscal framework will evolve and we want to look at the sustainability plan and the element that tries to avoid repayment of the debt, we will do that. As I say, work is under way on another sustainability report. The first one focused on health, and we think that the second one will focus on transport and water. We certainly hope to do that this year, but, if other stuff comes along, we will focus on what we think will be most useful to you. If there are particular areas that you think it would be of value for us to focus on, we would be very keen to hear that.

Mr Brett: Have you had any further discussions with the Department about legislation that the Minister indicated she would bring forward?

Sir Robert Chote: No. We wait and are ready and happy to engage with that further. Coming back to the immediate past point that we made, when you get to legislating for us, there could be a recognition of the fact that it would probably be quite useful to give us flexibility in discussion with others about what outputs we produce rather than being too prescriptive and saying, "You must do this once a year. You must do that once a year". I have really enjoyed doing this job, and one of the first lessons that I learned was to stop asking, "How does this normally work?", because there never seems to be an answer to that question.

The Chairperson (Mr O'Toole): "It doesn't", I think, is the answer to that question. *[Laughter.]*

Sir Robert Chote: I would warn against framing a very directive terms of reference about how things normally work when they never work normally.

Miss Brogan: Thanks very much for your presentation. Robert, I will bring you back to the discussion about multi-year Budgets or, in this case, the one-year Budget. First of all, can you give an assessment of the impact that one-year Budgets have on our public services here? I take your point about the multi-year Budget that Conor Murphy drafted in the last mandate, and that, if that had been agreed, there would have been less finance available in this financial year than there is now with the financial package. That Budget was not agreed, and, then, because there was no Assembly and Executive, we had the punishment Budget from the Secretary of State imposed on us instead. That left our public services in an even worse state, and maybe the level of need is greater now because of that. Is it fair to say that?

Sir Robert Chote: I will take those questions in turn. I will start with multi-year Budgets in general. This is now the tenth successive single-year Budget. To have a multi-year Budget here, you need the combination of a multi-year spending review from the UK Government that gives you a multi-year settlement for the block grant, plus the institutions being stable and functioning over the same period. Those two things have not coincided recently. As the Chair said, it is possible that, if there is a change of Government at UK level, or even if there is not a change, there might be another single-year Budget rather than it going straight into a multi-year one, which would make that more problematic still.

Clearly, having multi-year Budgets, a relatively stable outlook — albeit one that can change, as you acknowledged — is desirable if you are trying to think about public-service reform or workforce planning. Those are not things that you want to think about in a one-year time horizon. As we discussed earlier, the fact that you only have one-year Budgets should not preclude you from trying to do some of that long-term thinking.

As for whether it was the absence of a multi-year Budget that caused the particular spending-control challenges of the past couple of years, as, I think, we have emphasised in previous reports, multiple factors are at play, including pay and inflation pressures, which were not unique to Northern Ireland but were true across the UK; the long-standing issues of the Barnett squeeze and, therefore, the squeeze on the relative generosity of the block grant; and the particular issues caused by the absence of an Executive and Assembly. We moved from having an Assembly and an Executive that could set a Budget, to having an Executive that could not agree a Budget, to having responsibility handed to caretaker Ministers who knew they would not be in power at the end of the year, to having responsibility handed to accounting officers plus the Secretary of State, to having responsibility handed back. The part of that period in which no one was fully in charge is not a recipe for good public-finance management. That would have been true whether you had inherited a multi- or a single-year Budget through that period. There are different elements at play there.

I have probably forgotten the final part of your question, which you may now need to remind me of.

Miss Brogan: No, I think that was it, Robert.

Sir Robert Chote: Very good.

Miss Brogan: You covered it; thank you for that.

Steve mentioned the fact that a Programme for Government has not yet been agreed. It is very important that the Executive get the time and space to create the Programme for Government correctly and put it out to consultation. Do you think that there are issues in not having a Programme for Government in place before a Budget is set?

Sir Robert Chote: Ideally, you want money to follow strategy. You want to have an idea of what the Executive are trying to achieve and what their key priorities are and, then, to ensure that the money goes to those. There are clear challenges in a multi-party coalition and the nature of the debates that have to happen to establish those priorities, so it is not surprising that it is not straightforward to agree a PFG in the same way that it is not straightforward to agree a Budget or an investment strategy. However, in particular, it is important for the Executive's goals or ambitions that span Departments. There again, it is a more complicated process of making sure that the money is in the right place. It is built into the system here that Departments are relatively siloed — compared to at the UK level, not that the UK runs things terribly well — which complicates matters further. A multi-year Budget and a PFG embodying a strategy so that you can follow the money to link to it is a very valuable thing. The

sooner we get there, the better. Ideally, you would be thinking about them at the same time, or thinking about the strategy first. It is not ideal to be thinking about the strategy afterwards.

Miss Brogan: Fair enough. Following on from that, we know that childcare will be a priority for the Executive and, hopefully, part of the Programme for Government. The discussions earlier were about the cost of the 30-free-hours model in England. Obviously, whatever model we come up with will be expensive as well. Can you see the importance of healthy investment in the childcare sector here? There are so many reasons why it is important including child development, the driving down of costs for parents, economic growth and gender equality. It will bring more women back into the workforce. Women — and it is mostly women — have had to give up work because of their childcare needs. Can you see the importance of that investment for economic growth?

Sir Robert Chote: We have not looked at that specifically, but, as you say, there is widespread recognition of the fact that it can have social and distributional objectives in terms of the well-being of children and families, and that it can be a way of increasing labour market participation by women, in particular, and more generally, and, therefore, of increasing GDP and the strength of the economy. There are multiple reasons to think about why you want to structure your childcare policy in the way in which you do. Different people will have different views on the extent to which the state should incentivise or encourage labour market participation, care at home, etc, so it is not a completely uncomplicated story. As you say, there are both social and economic dimensions to it. I do not know whether anybody else wants to comment.

Dr Birnie: I will just add this obvious point: yes, this is an identified investment area, but there are competing demands on public funds for capital investment, so although, as Sir Robert says, it would yield certain economic and social returns, bear in mind that, in the fixed pot, if x amount is allocated to childcare, that will not be available for investment in water, roads, digital, training or whatever. That is the dilemma that will face the Executive.

Miss Brogan: Yes. That is fair. Listen, folks: thanks very much for that.

Mr Frew: I will try to be quick. In the report, you talk about three dilemmas that face each Minister. Should we raise more money for public services, and, if so, how? Where should we look to save money through better efficiencies? Do we need to reduce or completely stop delivery of any services? Is there not a fourth dimension to that? Should Ministers look at where they can invest to save, or is that phrase now confined to the history books?

Sir Robert Chote: I would say that it is part of the second of those: whether there are ways of doing the things that you are currently doing more efficiently. For example, if you do that by revamping an IT system or changing a set of employment contracts, that will often involve an upfront cost. There may be circumstances in which spending £10 today will help to save you far more than that over future years. It would be fair to say that, if you work in a Finance Ministry, every day of the week, Departments will come along and say to you, "Give me £200 million this year, and I will save you an awful lot over the next three decades". That is what economists call the discounted rate of time preference; i.e. how much notice you pay to this year versus things promised five, six or seven years down the line. It is not straightforward. Finance Ministries typically want the ratio of save to invest to look pretty high in order to offset the likelihood that it involves over-optimism and the possibility that you invest but never get the save.

Mr Frew: Ten years ago, we would have talked about efficiency savings simply with regard to reducing burden of cost, but we are probably looking now at failing infrastructure that will cost lives. How and where do we get the equation for how much we have to invest to revamp our sewerage system so that we do not have people dying because of it in 10 years' time? We are at that level now.

Sir Robert Chote: In all the discussions that we have had about relative need — and about how much to spend on, say, running costs in the health service — that is quite complicated to do. Different people will reach different views on that. Judging the quality of the stock of capital that you have and what you would need to do to get it to a comparable basis is an even harder thing to do. In our examination of particular sectors, we found it easier to judge the relative need in terms of day-to-day spending than in terms of how big the infrastructure deficit is.

As you say, there are particular areas in which that matters, but so, too, can resource spending matter when it comes to people's lives. How much you put into care for vulnerable people and the health

system has those sorts of implications in the same way. In some areas, there are longer-term considerations. The argument that is often made about water charging, although it does not need to be exclusively about water charging, is that, if you were to sort out the sewerage system, that would not only have implications for human lives and day-to-day well-being but provide a basis for a much more vibrant development sector, more building and more opportunity, which is good socially and for economic growth. Those factors come into play in both.

Mr Frew: It is fair to say that, even if the British Government were to fund us higher than need, a Budget here that targets the wrong things could completely negate that rise.

Sir Robert Chote: That is true of any Budget that is set in any place. In a democracy, the Administration chooses where those allocations are made. As Esmond said, Northern Ireland has a given pot of money and does not have the flexibility to borrow for day-to-day spending that the UK Government have and, arguably, over-use. If £500 million is spent on sewerage, that money is not available for childcare or education. To govern is to choose.

Mr Frew: Let me bring you on to the Programme for Government. I harp on about this all the time: a Programme for Government should be funded, and that funding should be the Budget. The two overlap each other: one is the road map, and the other is the vehicle. I am aware that the legislation was changed and that Ministers were allowed an extension to agree a Programme for Government. That period was extended by seven days, and here we are now, 100 days on. Does the Fiscal Council have a view on how long it should take to agree a Programme for Government?

Sir Robert Chote: It largely depends on the people who have to agree it and on how straightforward that is. The period in which that change was made was the more normal times, when an Executive would be formed and people would have a reasonable idea of when a PFG might be there. The process of rolling the pitch for that would mean that it was more realistic. Clearly, in recent months, it was not at all clear when the institutions would be back, so all of that pitch-rolling was not in place. Jayne Brady and her colleagues in the NICS did their level best to do as much of that as possible in the background, but, realistically, if you do not know when the Executive are coming back, and then they come back very close to the end of the financial year, that is not straightforward.

You are absolutely right about the relationship between the PFG and the Budget. It goes in both directions. Having a Programme for Government that guides your Budget is the sensible way of thinking about it, but because you are not determining your Budget envelope — realistically, there is only so much that you can do to add to the block grant from regional rates — the Programme for Government also needs to take a realistic view on the amount of money that you will have available to spend on it. There is no point in having a Programme for Government that has bells and whistles all over it and then turning round and saying, "Oh, actually, we don't have the budget for this". The two need to come together.

Mr Frew: Should invest to save be in a Programme for Government, or should it be in the sustainability plan?

Sir Robert Chote: That is an interesting question. If the Executive were to make a case to the Treasury saying, "This is a programme that will strengthen the public finances of Northern Ireland over the longer term. Please support this", invest to save could be an element of that. In the past, there has often been — and there has been in this — money earmarked for transformation, which is another word for the investment that is supposed to save. It might be investment to increase the quality and quantity of output. It is not necessarily to save money; it can be for that reason as well. It would not at all surprise me if the Executive were to make some of those cases as part of a discussion around sustainability. However, the Treasury has heard a lot of claims from people saying, "Give us the money to invest, and we will save", and it and looks at them with characteristic scepticism.

Mr Frew: The previous draft Programme for Government was a very high-level document that was more about aspirations, such as that everyone should have a warm home. Should a Programme for Government be like that? Or should it direct an action and say, "We will do that to get everybody a warm home"? What should it look like?

Dr Birnie: In the context of a very tight and difficult Budget, particularly, and, as you well know, limited timescales, it looks as though the most appropriate PFG would be a case of "less is better" in the sense of having a small number of mission statements. I remember one of the PFGs, from back in the

2010s, had something like 84 targets or indicators plus targets. You would, therefore, have a limited number of very high-level summary statements of what we are going to try to achieve, such as reducing economic inactivity; raising economic productivity; reducing waiting lists; and reducing carbon. I am not sure what the fifth one would be. I know that it is clichéd, but the Labour Party and Conservatives in London are going that way: five mission statements on the back of a credit card-sized piece of paper, because that is something that people can understand and identify with.

Ms O'Reilly: We are at the point of it being luxuries and necessities. That totally links with your point that there are consequences of not having the money to deliver on better capital infrastructure or good services. It is for the PFG to decide what the necessities are, and they are set out as the priorities.

Mr Frew: To completely change the dynamic, you cite that the lack of buy-in from the Health Minister is a problem, but whether a lesser party votes for the Budget on the Floor is neither here nor there.

The Chairperson (Mr O'Toole): By "lesser", do you mean smaller?

Mr Frew: I mean parties with smaller numbers; sorry for being so disrespectful. The SDLP did it for years, and it did not have any effect. It is more important that the Health Minister is responsible with his budget, no matter the scale of the decision. Surely the issue is that he is not to be irresponsible with that envelope.

Sir Robert Chote: Yes, and, as I said earlier, drawing reference to that was not saying that I would assume that the Minister and his accounting officer will take the sum of money, inadequate as they may believe it to be, and not work that properly. They may make arguments in future in-year monitoring rounds that the initial decision could be rethought, and, if there is something to come out there, that is for them to decide. In an ideal world, with everybody across the political spectrum pulling together and agreed on something, there is a general case for thinking that it is perhaps more likely to succeed, but that is by no means a guarantee. It would clearly be problematic if somebody said, "I do not agree with this Budget, and I am not going to stick to it", but it is my understanding that that is not what the Health Minister is saying.

Mr Frew: Thank you.

The Chairperson (Mr O'Toole): We have had questions from most members. I have a couple of points that occurred to me as we went through the session. If members have any additional questions, let me know before we release the Fiscal Council.

We covered the statutory basis in the point on the law, which Phillip asked about. Is it your position that it would be a good idea at some point but that we do not need it ASAP? Or is that a product of the fact that you just do not know when the Department is going to introduce a Bill?

Sir Robert Chote: Yes, it would be desirable to have that. That is best practice for fiscal watchdogs across the world.

The Chairperson (Mr O'Toole): All the others on these islands are on a statutory footing. Obviously, the Office for Budget Responsibility (OBR) is, as is the Irish Fiscal Advisory Council in Dublin.

Sir Robert Chote: That is right. Obviously, the discussions that we have had, and which you will have had, with the Department of Finance are drawing on the legal basis for the other things. I am happily in the third year of my six-month appointment, and I am not running away because the legal i's and t's have not been dotted and crossed, respectively. It is desirable, but you want the right one later, rather than the wrong one quickly. In that sense, you do not want to rush at it, but it is a desirable thing to have in place in a steady state. Obviously, it is for you and the Minister to decide whether, when and how that happens.

The Chairperson (Mr O'Toole): I think that you are all eligible for parole soon, but it is not really a decision for me to make. *[Laughter.]*

Sir Robert Chote: Your reference to "release" had a certain penal quality to it.

The Chairperson (Mr O'Toole): I have a broader question. We have been talking a lot about the tightness of the position. We covered this a bit last week with Gareth Hetherington, Dr Birnie's colleague from Ulster University. As a devolved jurisdiction with a relatively minimal component of our funding coming from local revenue raising, we are almost entirely dependent — I do not mean that in a judgemental sense — on the block grant as our dominant source of revenue and, ergo, UK public spending writ large. That is connected to UK GDP, and its effect is multiplied by the political choices of the Government of the day on public spending.

Drawing on the work of the organisation that you, Sir Robert, helped to set up — your previous employer, the OBR — on the long-running economic impact of Brexit, the OBR's most recent economic and fiscal outlook (EFO) suggested that trade is down about 15% in the long run, which is a 4% medium- to long-term hit on GDP. Assuming that we agree with the fairly-established judgement that the OBR has been making for four or five years now about the economic impact of Brexit, is it fair to say that, were the economic activity that would have provided that extra 4% of UK GDP still there, there would be more money for public services in Northern Ireland? Is that a fair extrapolation? Obviously, the UK Government might still choose to cut spending, even if GDP was higher, but there would certainly be more trade intensity, more economic activity and, therefore, more tax revenue. Based on the OBR's analysis, there would, theoretically, be more money.

Sir Robert Chote: Thank you for the opportunity to revisit my judgement of the impact of Brexit on the size of GDP, which I will duck. *[Laughter.]* Clearly, if the UK economy is larger in real terms, it is likely to mean that you will have a greater amount of goods and services suppliable in both the private and public sectors. There are choices to be made about how you divide that.

As your opening remarks implied, there is a paradox that the performance of the Northern Ireland economy per se, while very important to the well-being of people in Northern Ireland, does not directly affect the amount of money that the Executive have to spend. That depends more on the performance of the UK economy, on the proportion of national UK-wide GDP that the UK Government want to spend in the public sector rather than the private sector and on whether they choose to do that.

As we discussed before, given the way in which that feeds through to Northern Ireland prior to the 24% uplift, when you decide to increase public spending at the UK level, you have this paradox: the faster public spending grows in the UK, the faster the block grant grows in real terms, but the slower it grows in relative terms — that is, relative to the total for comparable spending per head in England. A legitimate question is whether you are more concerned about how you are doing relative to England or about the total amount of money that you have available to you. We pointed out that you can interpret that in both those ways. The fact that there is now agreement on the uplift means that that is less of an issue, because the Barnett squeeze has, effectively, been loosened.

The Chairperson (Mr O'Toole): Thank you. That was a very fulsome answer. You are not telling me that I am wrong or that I am completely mad in inferring that, theoretically, there would be more public spending in Northern Ireland, subject to political choices by politicians, had there not been a Brexit-related hit to productivity. That is on the record as being true to the extent that we trust economic forecasters and the OBR. Can I make that statement without being unreasonable?

Sir Robert Chote: A larger UK economy means more money for both publicly and privately consumed goods and services, whatever the reason for it being larger.

The Chairperson (Mr O'Toole): That is very diplomatically put. I will append to that the statement where the OBR says that there is a 4% reduction in the potential productivity of the UK economy. The OBR is now your former employer, Sir Robert, I note.

Sir Robert Chote: You are the "appender", and that is absolutely appropriate.

Dr Aiken: I want to come in with a very quick point. It is on the reference to putting you on a statutory basis. I cannot remember how many times we were told that that was just about to happen. Are there any implications of you not being put on a statutory basis within this year?

Sir Robert Chote: Not particularly. We will carry on. It is self-evident that we are being funded adequately to produce what we are producing, and I hope that that is helpful.

Dr Aiken: There is not a problem with the funding.

Sir Robert Chote: We are not going to be either abolished or sunsetted in the absence of an agreement.

Ms Forsythe: I want to apologise. I was struggling to catch my breath a couple of times. Apologies for stepping out.

The Chairperson (Mr O'Toole): It was not a statement on the quality of the evidence.

Sir Robert Chote: Not at all. We are glad to see you back. That is the main thing.

The Chairperson (Mr O'Toole): Thank you very much, first, for the quality of the analysis and, secondly, for giving us such detailed thoughts. Thank you very much for your time, Sir Robert, Dr Birnie, Maureen O'Reilly and Jonathan McAdams. We really appreciate your time, and, obviously, we will see you again soon. It has been most useful, and I am sure that other MLAs will find all of this analysis and evidence really useful when we come to debate the Budget.