Supplementary written evidence submitted by the Northern Ireland Fiscal Council, relating to the funding and delivery of public services in Northern Ireland inquiry (FPC0032)

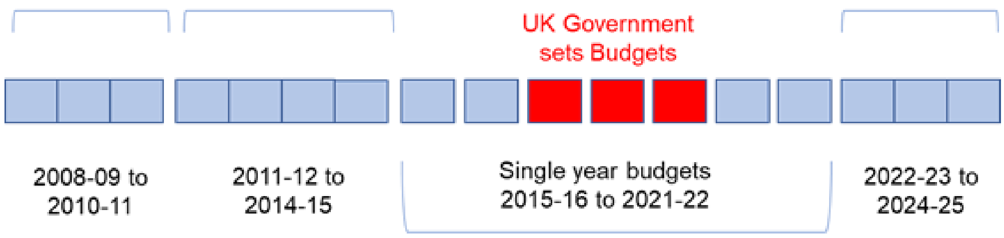
Follow-up questions from evidence session

Thank you for the invitation to give evidence to the Committee on 4 July, and for your ongoing interest in the work of the Council. I trust the Committee found the session useful. I have provided some additional comments below in relation to the three follow-up questions which your office passed on to the Fiscal Council staff team.

1. *Organisations have stressed the importance of multi-year budgets in planning for service delivery long-term. However, the Committee has also heard that, even when the Executive is up and running, Spending Reviews being superseded by changes in UK government priorities impact on NI and do not allow for long-term strategic policy making. Do you agree that this is an issue for financial management in NI?*

It has been some time since NI had both a multi-year budget and an Executive in place so, to an extent, it is difficult to evaluate the relative effectiveness of spending in that scenario. After the restoration of the power-sharing institutions in 2007, the Executive agreed two multi-year Budgets from 2008-09 to 2010-11 and 2011-12 to 2014-15. These coincided with the final multi-year Spending Review of the Labour Government and the first under the Coalition. The move to single-year Budgets in NI began when the Coalition opted for a single-year Spending Review in the general election year of 2015-16. The incoming Conservative Government then announced a Spending Review covering the years from 2016-17 to 2019-20, but this was not matched by a multi-year Budget in NI, initially because of the political crisis around welfare reform in 2014 and then the collapse of the institutions in 2017. Once Stormont was up and running again, the UK Government was forced to set single year Reviews for 2020-21 and 2021-22 to reflect the disruption first from the Brexit negotiations and then the pandemic. [1] The current SR period therefore marked a return to multi-year budgeting in NI after seven successive single-year Budgets, as illustrated in the figure below. Of course the Draft Budget, although multi-year in scope was not agreed by the Executive and the initial possibility of multi-year budgeting has not materialised.

Figure – multi and single year Budgets in NI since 2007



Source: Northern Ireland Fiscal Council

[1] https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2022-11/NIFC%20Budget%20report%20-%20Jan%202022%20-%20final%20web%20version%2007.11.22_0.pdf

We noted in our response to the Spending Review that stakeholders across the political spectrum felt that multi-year budgets could provide an opportunity for better long-term planning by NI departments across a range of public services. [2] While changes in the UK Government spending position can cause the initial SR profile to vary, often this is to increase Barnett Consequentials, and when this occurs late in the fiscal year the Devolved Administrations are often allowed to carry-over a greater than usual quantum of unused funding. There have been examples where the Block Grant (or at least one of the individual control totals within it) has been reduced late in the year, but this has not caused the strategic-level issues currently being faced in NI.

The single biggest factor in this respect is the vacuum of executive authority within the NI institutions. A further complexity is that, in the absence of a Finance Minister, the statutory requirement to put in place a Budget does not explicitly transfer either to the NI Civil Service or the UK Government. In practice, the UK Government works with the NI departments to regularise this position in the Executive's absence. While it is difficult to judge, due to the length of time since a multi-year budget was in place, the Executive does not appear to have had a disproportionate problem (compared to the other Devolved Administrations) in dealing with changes at SR periods. It might even be argued that the Executive could have undertaken greater long-term thinking even in the absence of a multi-year Block Grant settlement.

2. *How can NI move towards implementing multi-year budgets? What needs to change to make it easier for the Executive to do this?*

The critical requirements needed to take full advantage of the relative financial predictability provided by multi-year Spending Review settlements are for a functioning Executive and Assembly to be in place to run the Budget process and develop and pursue reform in each NI Department.

As we saw with the Draft Budget, a second key challenge is for the parties in the Executive to reach agreement on a shared set of multi-year priorities that can be reflected in the Draft and Final Budgets. As many stakeholders have told us, this priority setting is complicated in the mandatory coalition by the need to allocate resources between the political parties as well as between policy priorities.

A costed/funded Programme for Government has been raised by a number of stakeholders as one way to set the foundations for multi-year budgets.

3. *Is there a limit to how well the Executive can manage its finances when ultimately the Treasury has much of the fiscal authority and control?*

Relative to its counterparts in Scotland and Wales, and to the UK Government in England, the Executive is responsible for a very large share of 'identifiable' public spending in NI – almost £9 in every £10. The Executive has responsibilities in NI that in the other regions fall either to the UK Government (e.g. pensions and social security benefits) or to local government (e.g. education, social care and roads). As such, the NI Executive has greater control over spending

[2] https://www.nifiscalcouncil.org/publications/technical-paper-0121-fiscal-council-response-2021-spending-review

than either of the two other Devolved Administrations, or England. One might expect then that the Executive should be at least as successful as the other Devolved Administrations in managing its finances.

There are similarities between how the Treasury treats the Devolved Administrations and Whitehall departments.

- Each has a 'Departmental Expenditure Limit' (DEL) within which to meet commitments that the Treasury deems it to have control over in the short term and the ability to plan over the medium term – notably the day-to-day cost of public services and capital investment.
- Each is also responsible for some 'Annually Managed Expenditure' (AME), which is more volatile and/or demand led.

However, the Treasury is much less involved in how the Devolved Administrations spend their DELs than it does with Whitehall departments – it does not agree policies with them, approve business cases, scrutinise spending or undertake performance assessments. Instead, these functions are carried out by the finance departments of the administrations, but these are generally less powerful than the Treasury in the UK context. It may be that this relatively lower power of the finance department is part of NI's difficulty in managing spending.

The Treasury does penalise DEL overspends (as we saw last year) and allows underspends to be carried forward (within limits) through NI's 'Budget Exchange' scheme. The Scottish and Welsh Governments are allowed to run their own contingency reserves, instead of having access to Budget Exchange. While a contingency reserve may be of benefit to NI, it is not a core strategic issue at the heart of the current budget difficulties.

The Barnett Squeeze, as I highlighted in my evidence is much more likely to be playing a part in the current budgetary challenges, alongside the lack of an Executive. The example in the Council's written evidence shows that for an illustrative 10 per cent increase in spending in England (approx. £7.4 billion) this would finance a 7.8 percent increase in Scotland, 8.4 per cent in NI and 9.9 per cent in Wales (boosted by the 5 per cent uplift referred to above). The NI Executive would need to find £46 million from other sources in order to achieve the same 10 per cent rate of growth in education spending as in England.

The speed and scale of the convergence in NI in recent years, accentuated by the natural conclusion of support from several political packages coterminously, is likely to be more of a factor than the balance of power between the Executive and Treasury, which is very similar to the balance of power with other Devolved Administrations.

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