Northern Ireland Assembly

Committee for Finance

Report on an independent Fiscal Council for Northern Ireland

Together with the Minutes of Proceedings, Minutes of Evidence and Written Submissions Relating to the Report Ordered by the Committee for Finance to be published 9 July 2021

Mandate 2017-22

2nd Report NIA 113/17-22

Contents

Powers and Membership

Powers

The Committee for Finance is a statutory departmental committee established in accordance with paragraphs 8 and 9 of Strand One of the Belfast Agreement and under Assembly Standing Order No 48. The Committee has a scrutiny, policy development and consultation role with respect to the Department of Finance and has a role in the initiation of legislation. The Committee has 9 members including a Chairperson and Deputy Chairperson, and a quorum of 5.

The Committee has power to:

- consider and advise on Departmental budgets and Annual Plans in the context of the overall budget allocation;
- approve relevant secondary legislation and take the Committee Stage of relevant primary legislation;
- call for persons and papers;
- initiate enquiries and make reports; and
- consider and advise on matters brought to the Committee by the Minister of Finance.

Membership

The Committee has 9 members, including a Chairperson and Deputy Chairperson, and a quorum of five members. The membership of the Committee is as follows:

Dr Steve Aiken OBE (Chairperson)
Mr Keith Buchanan (Deputy Chairperson)[2]
Mr Jim Allister
Mr Pat Catney
Ms Jemma Dolan
Mr Philip McGuigan[1]
Mr Maolíosa McHugh
Mr Matthew O'Toole
Mr Jim Wells

[1] Mr Philip McGuigan replaced Mr Seán Lynch with effect from 5 October 2020

[2] Mr Keith Buchanan replaced Mr Paul Frew as Deputy Chairperson with effect from 15 June 2021

List of Abbreviations and Acronyms used in this Report

Department for Work and Pensions	DWP
Independent Fiscal Institutions	IFIs
Her Majesty's Treasury	HM Treasury
Irish Fiscal Advisory Council	IFAC
Memorandum of Understanding	MoU
Northern Ireland Audit Office	NIAO
Northern Ireland Fiscal Council	NIFC
Office for Budget Responsibility	OBR
Oireachtas Parliamentary Budget Office	PBO
Organisation for Economic Co-operation and Development	OECD
Scottish Fiscal Commission	SFC
Terms of Reference	ToRs

Executive Summary

A key aspect of the governance of Northern Ireland is the budget development and agreement process. The Committee for Finance believes that the current budget processes are unsatisfactory, with documentation lacking in appropriate levels of granularity and/or aggregation and presented in a timescale which does not lend itself to a reasonable level of review by elected representatives. The Committee also contends that the inappropriate timing of budget debates prevents the Assembly from fulfilling its role of scrutiny and challenge. The above has led to a perception of a lack of transparency and poor governance.

The Committee hopes that an independent Fiscal Council for Northern Ireland will address any real or perceived governance and transparency challenges facing the Executive's existing budget process.

The Committee believes that legislation should be brought forward at the earliest opportunity to establish an independent Fiscal Council for Northern Ireland as a body corporate with: an independent board (appointed in line with the Public Appointments process); a circumscribed multi-year budget and appropriate level of secretariat support; powers to compel information from Ministers, departments etc. similar to those available to the Scottish Fiscal Commission; the discretion to report on (largely) any fiscal factors that it chooses relating to Executive (and non-Executive) income and the resources or expenditure deployed by the Executive; and a requirement to produce an annual authoritative multi-year expenditure budget analysis and forecast report. This report is to be laid in the Assembly and presented to the Finance Committee and debated in the Assembly in the early autumn regardless of whether the related Westminster or Executive processes are running late and which will illuminate the budget process for MLAs and the public and perhaps inform Executive decision-making in respect of final public expenditure plans.

Summary of Recommendations

The Committee recommends that legislation should specify that the Fiscal Council for Northern Ireland should:

1.1 Scrutinise, challenge, report and forecast in respect of all aspects of the Executive's public expenditure including Annually Managed Expenditure (including particularly all aspects of social security spending) and all existing income streams for fiscally meaningful periods i.e. 3-5 years or longer.

1.2 Scrutinise, challenge, report and forecast in respect of all aspects of cross-departmental spending including particularly the extent to which spending achieves or might achieve Programme for Government outcomes for fiscally meaningful periods i.e. the period of the Programme for Government or 3-5 years or longer.

1.3 Undertake forecasting and reporting with a view to: informing the understanding of MLAs as they scrutinise the budget development process; ensuring the engagement of the wider public with that process; and helping the Executive to improve the quality of its fiscal information.

1.4 Develop a Memorandum of Understanding (MoU) with the Northern Ireland Audit Office (NIAO) in order to avoid the possibility of any duplication of activity by both bodies.

1.5 Give consideration to the longer term development of a facility to forecast future devolved tax incomes and Northern Ireland-specific macro-economic matters, subject to the agreement of the Assembly.

2.1 Be permitted to publish a report on any fiscal factor relating to Executive (and non-Executive) income and the resources or expenditure deployed by the Executive including the significant costs of legislation.

2.2 Be permitted to draw comparisons between Executive expenditure decisions or Executive fiscal policies and those of similar jurisdictions.

2.3 Be permitted to comment on the effectiveness or likely effectiveness of Executive efficiency measures and to recommend such measures.

2.4 Generally demur from commentary on party manifestos.

2.5 Be required to produce annual budget analysis and forecast reports covering a fiscally meaningful period and timed to usefully inform the Assembly's scrutiny of the budget.

3.1 Have a right of access at reasonable times to any relevant information particularly from departments and Non-Departmental Public Bodies that the Fiscal Council may reasonably require for the purpose of performing its functions.

3.2 Have the right to require any person – particularly Ministers and officials - who holds or is accountable for relevant information to provide at reasonable times any assistance or explanation that the Fiscal Council may reasonably require for the purpose of performing its functions.

3.3 Publish an annual data statement commenting on the quality of information provided and any gaps in data, information or explanations of assumptions or methodologies which the Executive shall address.

3.4 Permit the Fiscal Council to devise MoUs with key partner organisations such as HM Treasury, DWP and the OBR etc..

The Committee further recommends that consideration also be given to amendments to the Northern Ireland Act by the UK Government in order to require reciprocal co-operation between HM Treasury, DWP and the OBR etc. with the Fiscal Council for Northern Ireland.

4.1 Have a chairperson and a board which shall be appointed by the Minister using the Public Appointments process.

4.2 Have sufficient resources to permit the chairperson and board members to allocate commensurate time to their roles in the Fiscal Council. These resources to be specified by the Fiscal Council and confirmed by the Assembly within 5 years of the passage of the relevant legislation.

4.3 Have a multi-year budget which is sufficient to undertake the Fiscal Council's work programme and which shall be subject to change only with the agreement of the Assembly - possibly the Committee for Finance.

4.4 Where it has a secretariat, require these staff to report to the board of the Fiscal Council, which shall recommend their pay and conditions in line with the requirements of Managing Public Money NI and subject to the agreement of the Assembly. The Department of Finance Treasury Officer of Accounts will be required to comment to the Assembly in respect of the value for money associated with the relevant pay and conditions.

5.1 Require the board of the Fiscal Council to have appropriate competence in fiscal and economic scrutiny and particularly experience relating to an understanding of Northern Ireland public expenditure.

5.2 Require the board of the Fiscal Council to employ its own secretariat with an appropriate level of expertise such that reasonable efforts are made to minimise associated non-essential costs.

5.3 Produce an annual report and accounts which shall be audited by the Northern Ireland Audit Office.

6.1 Lay any report which it has prepared before the Assembly as soon as reasonably practicable and within 30 days of preparation and that it may publish reports in such manner as it considers appropriate.

6.2 At least once in every 5 years, appoint a suitable and independent person or body, subject to the approval of the Assembly, to review and prepare a report on its performance of its functions during the period and it must arrange for the report to be laid before the Assembly.

6.3 Should engage with other independent fiscal institutions (IFIs) across these islands in order to share best practice and positive learnings.

7.1 Produce an annual report on past Executive expenditure and including a multi-year forecast of Executive expenditure and income which shall be published in a manner and at a time which will inform elected representatives and public debate on the budget scrutiny process, regardless of delays to the Westminster budget process or deliberations at the Executive.

7.2 Be required to appear before Assembly Committees particularly in respect of its annual multi-year budget analysis and forecast report.

Introduction

1. The New Decade New Approach document (published January 2020) made reference to the establishment (by July 2020) of an independent Fiscal Council for Northern Ireland. The Fiscal Council was to provide independent scrutiny and expert advice to the Executive and the Assembly on fiscal and budgetary matters including spending proposals, with a particular focus on sustainability. Additionally, the Fiscal Council was to provide independent monitoring and reporting on the Executive's performance in delivering the Programme for Government. The membership and terms of reference of the Fiscal Council were to be agreed with the UK Government.

2. The Minister of Finance, in an oral statement to the Assembly on 12 March 2021, announced the establishment of the Northern Ireland Fiscal Council (NIFC) indicating that it would be a permanent independent body which would bring greater transparency and scrutiny to the public finances.

3. The NIFC was established on a non-statutory basis with the Terms of Reference (ToR) developing and legislation to follow which would set out the relevant appointments processes and interactions with the Assembly as well as the arrangements for external review by the Organisation for Economic Co-operation and Development (OECD). The Minister indicated that this initial iteration of the NIFC would not comment on individual Executive policies or examine alternative policy scenarios.

4. The Minister appeared to advise that the ToRs of the initial iteration of the NIFC had been agreed with the UK Government. It is not entirely clear whether revisions to the ToRs and any new legislation determining the membership of the NIFC etc. will require the agreement of the UK Government.

5. The Minister also indicated that the NIFC would:

- prepare an annual assessment of the Executive's revenue streams and spending proposals and how these allow the Executive to balance their budget; and
- prepare a further annual report on the sustainability of the Executive's public finances, including the implications of spending policy and the effectiveness of long-term efficiency measures.

6. A timescale for the production of both reports identified above has not yet been provided. It is understood that the NIFC has undertaken an informal consultation with stakeholders in respect of its work programme; its current ToRs and the need for additional legislation in order to secure its independence, discretion etc.. It is anticipated that the NIFC will publish a report on its informal consultation along with a work programme during the summer of 2021.

7. It is also understood that in order to inform the NIFC report and to assist the Department of Finance in its belated consideration of related legislation, a report on the role and nature of an independent Fiscal Council for Northern Ireland from the Committee for Finance is required.

8. It is not the Committee's responsibility to undertake a policy development function on behalf of the Department of Finance. However, the Committee felt that it was important to ensure that a key promise, made as part of the New Decade New Approach agreement, is kept in this mandate in respect of improving the governance of the Northern Ireland Executive by establishing a truly independent Fiscal Council for Northern Ireland.

9. Under these unusual circumstances, Members agreed to continue their consistent practice of measured and proportionate scrutiny while also being helpful to the Minister and his Department. The Committee therefore agreed to bring forward its own special report – this document – on these matters and in line with Standing Order 46(7), prior to the anticipated publication of the NIFC report.

Committee Approach

10. In developing its approach to the scrutiny of policy in respect of an independent Fiscal Council for Northern Ireland, the Committee had regard to the recommendations of the OECD in respect of the establishment of IFIs in many other jurisdictions. IFIs appeared to have become much more popular following the global financial crisis and are often critical to restoring public confidence in governmental financial decision-making as well as enhancing the understanding of fiscal matters by elected representatives and wider society. The OECD had identified and published a number of strong principles which underpin successful IFIs – these are summarised below.

Local ownership

11. The OECD contends that in order to be effective and enduring, an IFI requires broad national ownership, commitment, and consensus across the political spectrum. The IFI should reflect the country's political framework and the available professional capability.

Independence and non-partisanship

12. IFIs should be non-partisan and independent and should have no part in normative policy-making. The OECD argues that its membership should have fixed terms set in legislation and independent of the election cycle and be based on professional competences not political affiliations.

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13. IFIs should have the scope to produce reports on their own initiative but their work should also be linked clearly in legislation to the budget process and perhaps also to the costing of major proposals and the development of fiscal projections. IFI legislation should define the above and also set out the kinds of reports that it can produce and who may request such reports.

Resources

14. The OECD contends that the resources allocated to IFIs must be commensurate with their mandate in order for them to fulfil it in a credible manner on a multi-annual basis. This includes the resources for remuneration of all staff and, where applicable, management council members. All of this should be published and subject to scrutiny so as to avoid any appearance of political influence.

Relationship with the legislature

15. The OECD advises that IFI reports should support parliamentary scrutiny including submission of reports in a timely manner in order to inform parliamentary debate and including public appearance before committees to answer questions. OECD suggests that this relationship should be clearly set out in legislation regardless of whether the IFI is established by the executive or as a function of the parliament.

Access to information

16. The OECD suggests that legislation should guarantee access by the IFI to government information in respect of budget information (and related methodology and assumptions) and expenditure. The IFI's resources should be sufficient to pay for analysis e.g. by government actuarial services. Any restrictions on access to government information should be set out in legislation.

Transparency

17. The OECD contends that there is a special obligation on IFIs to operate transparently. Thus all reports and analysis should be published in the IFI's own name and be made freely available – release dates should be formally established and should be linked to but not dependent on the key dates in government's budget process.

Communications

18. The OECD argues that IFIs should develop their own effective communication channels from the outset including the media, civil society and other stakeholders.

External evaluation

19. The OECD contends that IFIs should develop a mechanism for external evaluation of their work by international experts e.g. OECD. This might include review of selected pieces of work; annual evaluation of the quality of analysis; a permanent advisory panel or board; or peer review by an IFI in another country.

20. The Committee felt that notwithstanding the obvious and proven validity of the OECD approach, there was unlikely to be a single "one size fits all" approach to the establishment of an IFI and this might particularly be the case where the IFI served a sub-national purpose as would be the case in Northern Ireland. The Committee therefore agreed to seek written and oral evidence from a number of IFIs in other jurisdictions as well as from key fiscal governance organisations in order to explore the applicability of these OECD principles to Northern Ireland. Owing to the short timescales, the Committee agreed to limit itself to 7 related oral briefings which were as follows:
    - OECD – 5 May 2021;
    - Institute for Fiscal Studies – 5 May 2021;
    - Scottish Fiscal Commission – 12 May 2021;
    - Irish Fiscal Advisory Council – 19 May 2021;
    - Oireachtas Parliamentary Budget Office – 19 May 2021;
    - Office for Budget Responsibility – 9 June 2021; and

- Northern Ireland Fiscal Council – 9 June 2021.

21. The Committee commissioned Assembly Research to provide much-needed background research. The Committee also sought the views of statutory committees of the Northern Ireland Assembly.

22. The Committee considered a draft of the report at its meetings of 23 June 2021 and 29 June 2021. The Committee ordered that the report should be published at its meeting on 7 July 2021

23. Minutes of Proceedings are at Appendix 1. The Minutes of Evidence of the oral evidence sessions are included at Appendix 2. Written submissions are included at Appendix 3. Departmental papers are at Appendix 4. Links to background papers are included at Appendix 5. The relevant Assembly Research paper is included at Appendix 6.

Acknowledgements

24. The Committee wishes to record its thanks to all those who gave written and oral evidence often at very short notice.

Key Findings and Recommendations

Governance and Transparency

25. The Committee agreed that a key aspect of the governance of Northern Ireland was the budget development and agreement process. Members indicated in no uncertain terms that the current budget processes are unsatisfactory. It was indicated that existing documentation – the Estimates and the Budget Bills – are impenetrable, featuring very large amounts of information with inappropriate levels of granularity and/or aggregation and presented on a timescale which does not lend itself to a reasonable level of review by elected representatives. Members also referred to the absence of explanations in respect of key fiscal assumptions and underpinning methodologies.

26. Members also referenced the inappropriate timing of budget debates which tend to take place after decisions have been made and thus prevent the Assembly from fulfilling its role of scrutiny and challenge. The Department has contended that delays and timing issues often originate at Westminster or are owing to political disagreements in the Executive and are thus unavoidable.

27. Members also referred with some frustration to the persistent use of single year budgets by the Executive indicating that this limited the opportunity for Members to compare expenditure timelines with forecasts, over a number of years. The Department of Finance has argued that this was an inescapable consequence of practices in Westminster. That said, it was also noted that single year budget information is sometimes supplemented by some departments with information

to their committees on multi-year forecasts/bids, albeit these forecasts/bids are subject to correction.

28. The majority of the Committee felt that a single year budget process where Members often struggled to understand precisely what was being voted on and where it sometimes appeared that the Committee was being coerced into limiting its scrutiny in order to prevent the risk of public services running out of money, was unacceptable. The majority of Members asserted that the limitation of the Assembly's scrutiny of these important matters represented a perceived challenge to good governance and risked the possible perception of a lack of transparency.

29. The Committee hoped that a Fiscal Council for Northern Ireland would address the possible governance and transparency challenges facing the Executive's existing budget process.

Legislating for a Fiscal Council for Northern Ireland

30. The Committee felt that in order to: allow for the full appreciation of the roles and responsibilities of an independent fiscal institution; capture the unique circumstances of Northern Ireland; and recognise the likelihood of future developments, consideration should be given to the following 7 dimensions of the Fiscal Council for Northern Ireland, namely: function, discretion, powers, independence, competence, credibility and Assembly engagement. The Committee also felt that these dimensions should, in line with OECD principles, be protected in legislation.

31. The Committee's findings and recommendations in respect of legislating for a Fiscal Council for Northern Ireland are discussed below.

1. Function

32. Members were greatly impressed not only by the professionalism and the breadth of the remit of the Scottish Fiscal Commission (SFC) but also by its

pivotal role in the governance of public finances in Scotland. The SFC not only scrutinises the government's finances but it also devises complex multi-year fiscal forecasts which the Scottish Government is generally obliged to use. Its work involves consideration of anticipated income from devolved taxes (including VAT and aspects of income tax) as well as demand for social security. Additionally, the SFC provides economic projections including predicting variations to on-shore Scottish Gross Domestic Product and forewarning of Scotland Specific Economic Shocks. Members noted that where the SFC forecasts differ from that provided by the Office for Budget Responsibility (OBR), there can be substantial medium term consequences for the Scottish Block Grant. Members also noted the transformative impact that the increased devolved fiscal risk and responsibilities for taxation and spending have had on devolution in Scotland.

33. Members considered with interest the work of the Oireachtas Parliamentary Budget Office (PBO). The PBO evolved from a non-statutory provision in 2015 to being established in legislation in 2018 in the Republic of Ireland and has a special relationship with the Oireachtas Committee on Budget Oversight. PBO documents provide detailed analysis of the Main Estimates and public expenditure proposals. Members felt that the PBO analysis is considerably more granular and understandable than current provision by the Executive. The PBO's work doesn't appear to include forecasting and is more budget-related as compared to the higher level economic forecast-driven information provided by the Irish Fiscal Advisory Council (IFAC). Members noted that IFAC publications also often included challenging and relatable commentary which could equip reasoned criticism and thus inform fiscal policy improvement. Members asserted that the above represented a clear and measurable advantage for elected representatives in that jurisdiction.

34. Witnesses to the Committee commented on the importance of forecasting and analysis over a fiscally meaningful period – that is to say usually at least 3 to 5 years and in some cases much longer. It was even indicated by a key witness

that a legislature will be relegated to being “along for the ride” if the budget process is limited to a single year. Members strongly supported the concept of multi-year analysis and forecasting in order to enhance understanding by elected representatives of complex expenditure decisions.

35. Members noted particularly how the work of the SFC, PBO/IFAC and the OBR had substantially improved the understanding of elected representatives and the engagement of the wider public in public expenditure matters. The Committee was also surprised to learn of the related and demonstrable improvement to the quality of fiscal information within governments e.g. in respect of the understanding of the VAT implications of a collapse in the housing market in the Republic of Ireland, following the work of IFAC. The Committee noted also the OBR’s challenge function in respect of the assessment of income from the devolved Welsh Rate of Income Tax. Members concluded that informed external challenge was key to the necessary improvement of Executive fiscal processes.

36. The Committee noted and agreed with suggestions from statutory committees that the Fiscal Council for Northern Ireland should scrutinise and report on cross-departmental spending effectiveness including in particular the effectiveness of spending in achieving the outcomes of the next Programme for Government.

37. Members were however less convinced that a Fiscal Council should have any role in respect of the detail of infrastructure or planning matters except in respect of assessing the effectiveness of (or forecasting related to) macro-spending decisions rather than undertaking smaller scale individual project value for money evaluations. Members felt that the latter role sat more readily with the Northern Ireland Audit Office and that a MoU would be required between both bodies so as to avoid overlap and limit duplication.

38. In evidence to the Committee, it was argued that academics and others currently provide economic forecasts for Northern Ireland which may already be credibly

used to inform Executive policy. It was also indicated that the NI block grant has no predictable connection to NI economic outputs. Consequently, it was contended that there is no requirement or obvious benefit to developing a further macro-economic forecasting facility for Northern Ireland, at this time. In evidence to the Committee, witnesses suggested that as the Executive has few substantial sources of income or devolved taxes (other than regional rates) and the provision of the block grant has no predictable connection to this income, there is little point in developing a NI-specific tax income forecasting facility, at this time. However, Members accepted that if the Executive was to seek the devolution of other income streams e.g. VAT or a Northern Ireland Rate of Income Tax (perhaps in concert with a reform of business rates), then macro-economic or income forecasting facilities – like those provided by the SFC - might then be required.

39. The Committee agreed that the development of such a facility to forecast tax incomes from taxes which might be devolved in future or in respect of macro-economic forecasting should require a further agreement from the Assembly.

40. The Committee noted that although social security is devolved, the Executive's general adherence to the existing parity arrangements meant that the UK Government generally undertakes to meet all social security demand in Northern Ireland, regardless of other circumstances. This arrangement is expected to continue provided the Assembly continues to adopt all UK Government welfare legislation and administrative systems. Where the Executive and Assembly deviates e.g. welfare reform mitigations, then the costs will fall entirely to the NI block grant. Some witnesses argued that as these deviations are limited, there was therefore little value in Fiscal Council consideration of social security demand.

41. Notwithstanding the above, some Members contended that owing to: the very significant sums involved – i.e. £2.5bn for social security in NI; the different social security claimant profile in NI; issues relating to social security fraud or benefit

caps and the significant changes associated with the introduction of Universal Credit and Personal Independence Payments etc. there would be a benefit to consideration of the expenditure profile; comparison with other jurisdictions and multi-year forecasting in respect of social security.

42. Some Members recorded some confusion in respect of the current terms of reference for the interim Northern Ireland Fiscal Council which refer to "an annual assessment of the Executive's revenue streams and spending proposals and how these allow the Executive to *balance* their budget." It was indicated that as taxation – other than rates – is not currently devolved, the Executive does not receive a great deal of income and therefore can not *balance* its budget. It was also noted that this wording had been copied from the Fresh Start Agreement which indicated that the Executive would endeavour to balance its budget i.e. ensure its in-year spending did not exceed its in-year resources.

43. The Committee therefore recommended that in respect of function, legislation should specify that the Fiscal Council for Northern Ireland should:
    - Scrutinise, challenge, report and forecast in respect of all aspects of the Executive's public expenditure including Annually Managed Expenditure (including particularly all aspects of social security spending) and all existing income streams for fiscally meaningful periods i.e. 3-5 years or longer;
    - Scrutinise, challenge, report and forecast in respect of all aspects of cross-departmental spending including particularly the extent to which spending achieves or might achieve Programme for Government outcomes for fiscally meaningful periods i.e. the period of the Programme for Government or 3-5 years or longer;
    - Undertake forecasting and reporting with a view to: informing the understanding of MLAs as they scrutinise the budget development process; ensuring the engagement of the wider public with that process; and helping the Executive to improve the quality of its fiscal information;

- Develop an MoU with the NIAO in order to avoid the possibility of any duplication of activity by both bodies; and
- Give consideration to the longer term development of a facility to forecast future devolved tax incomes and NI-specific macro-economic matters, subject to the agreement of the Assembly.

2. Discretion

44. The Committee considered with great interest the importance that all witnesses attached to the ability of IFIs to generate reports on fiscal topics at their own discretion. Members noted particularly that the relevant legislation permits the SFC to report on *any* fiscal factor. This is defined as anything which the Scottish Ministers use to ascertain the amount of resources likely to be available for the purposes of sections 1 to 3 of the Public Finance and Accountability (Scotland) Act 2000 and which covers all departmental spending and contingencies.

45. Members were intrigued to note that the relevant legislation permits the PBO to provide fiscal and economic information, analysis and advice to the Oireachtas which, among other things, may relate to the financial implications of *any* proposals affecting the public finances. In that jurisdiction, this is taken as including fiscal commentary by the PBO on the manifestos of political parties. Some Members indicated that commentary on manifestos may provide valuable insight into the actual costs of policy commitments and bring necessary realism to policy development. Other Members commented that such a practice might be viewed as routinely and unnecessarily contentious in NI.

46. By way of contrast, the Committee considered the legal constraints on the OBR which prevents both normative commentary on government policy and the consideration of alternative policies. It was suggested that this wide-ranging prohibition might inhibit an IFI from commenting freely on important fiscal matters and making useful suggestions.

47. Members felt that an appropriate balance for a nascent Fiscal Council for Northern Ireland would be to permit a considerable level of discretion – similar to that available in Scotland - in respect of those matters on which it might report, with only some limitations. Members felt that the Fiscal Council should always be permitted to draw comparisons between the Executive's expenditure policies and those of other similar jurisdictions. Members also felt that commentary should extend to the effectiveness (or likely effectiveness) of Executive efficiency measures and the opportunity to always offer related helpful recommendations. That said, Members felt that commentary on party manifesto commitments may appear to compromise the impartiality of the Fiscal Council and should thus generally be avoided.

48. Some Members noted the limited information provided in explanatory and financial memoranda associated with Bills and felt that to enhance transparency, the Fiscal Council should also have the discretion to comment on the financial implications of legislation, where these are significant.

49. Other Members referred to the importance of non-Executive income i.e. EU funding and replacements for EU funding e.g. Shared Prosperity Fund; the New Deal for Northern Ireland funding etc.. It was argued that the Fiscal Council should also report on the impact of the variations in these sources of income.

50. The Committee also felt that in line with the OECD principles, in addition to the *discretion* to publish reports, there should be a *requirement* for the Fiscal Council to publish an explanatory report(s) on the Executive's public expenditure proposals covering a fiscally meaningful period and timed to coincide reliably with the budget development process. Members particularly wanted to ensure that the report(s) would inform a timely and useful debate(s), probably in the early autumn, and at the formative stages of the budget process.

51. The Committee therefore recommended that in respect of discretion, legislation should specify that the Fiscal Council for Northern Ireland should:

- Be permitted to publish a report on any fiscal factor relating to Executive (and non-Executive) income and the resources or expenditure deployed by the Executive including the significant costs of legislation;
- Be permitted to draw comparisons between Executive fiscal policies and those of similar jurisdictions;
- Be permitted to comment on the effectiveness or likely effectiveness of Executive efficiency measures and to suggest such measures;
- Generally demur from commentary on party manifestos; and
- Be required to produce annual reports covering a fiscally meaningful period and timed to usefully inform the Assembly's scrutiny of the budget.

3. Powers

52. The Committee noted the consistent emphasis that all witnesses placed on the importance of an IFI being able to compel data and assumptions and to require departments to provide explanations. Witnesses commented that this was an essential and indispensable element of any successful IFI. The SFC referred to the production of annual data statements which sets out its unmet requirements and the successful development of MoUs with key partner organisations such as the OBR, HM Treasury and the Department for Work and Pensions (DWP). Members noted that the PBO lacks the legislative authority to compel information and thus occasionally finds itself limited in respect of the level of information and explanation it can provide to elected representatives. The Committee unanimously agreed that this was a crucial consideration and the SFC model probably provided the best template.

53. Members felt that powers to compel information were of particular importance in dealing Ministers, officials, departments and Non-Departmental Public Bodies which can be responsible for the disbursement of very considerable sums of public money.

54. The Committee therefore recommended that in respect of powers, legislation should specify that the Fiscal Council for Northern Ireland should:

- Have a right of access at reasonable times to any relevant information particularly from departments and Non-Departmental Public Bodies that the Fiscal Council may reasonably require for the purpose of performing its functions;
- Have the right to require any person – particularly Ministers and officials - who holds or is accountable for relevant information to provide at reasonable times any assistance or explanation that the Fiscal Council may reasonably require for the purpose of performing its functions;
- Publish an annual data statement commenting on the quality of information provided and any gaps in data, information or explanations of assumptions or methodologies which the Executive shall address; and
- Permit the Fiscal Council to devise MoUs with key partner organisations such as HM Treasury, DWP and the OBR etc..

55. Members further recommended that consideration also be given to amendments to the NI Act by the UK Government in order to require reciprocal co-operation between HM Treasury, DWP and the OBR etc. with the Fiscal Council.

4. Independence

56. The Committee noted the consistent reference by all IFIs and fiscal governance organisations to the importance of the independence of the Fiscal Council. Witnesses argued independence could only be assured through a suitable appointment (and removal) process for the chairperson and board of the IFI which was independent of the government. The OECD also referred to the importance of a chairperson who would be able to devote sufficient time to what may prove to be a demanding role. Members struggled to identify the precise resource commitment that the chairperson and board members would need to

provide but agreed that this would become clear and could be specified by the Assembly within a few years of the appointment of the board.

57. Other witnesses highlighted examples of government interference e.g. in Hungary were unpopular pronouncements by the IFI led the government to cut the IFI's budget by 90%. Most witnesses stressed the importance of a circumscribed multi-year budget for an IFI which the legislature rather than government could amend.

58. The Committee noted that the members of the secretariats of both the OBR and the SFC though civil servants, reported to the board rather than to a parent department in the government. Members concluded that this was another hallmark of a suitable level of independence.

59. Notwithstanding the above, some Members indicated that it was important that the pay and conditions of Fiscal Council staff should be in line with the requirements of Managing Public Money Northern Ireland and that necessary assurances to this effect must be provided by the Departmental Treasury Officer of Accounts.

60. The Committee agreed that in line with New Decade New Approach and to ensure that the Fiscal Council begins to address the perceived or actual fiscal governance and transparency failings of the Executive, a truly independent body was required. The Committee considered different methods of assuring independence including those adopted by the SFC, OBR and the IFAC and noted certain common factors including the involvement of the legislature in confirming appointments or removals of chairpersons and board members and the direct employment of a secretariat.

61. The Committee asserted that the existing Public Appointments process should be used for appointments to the board of the Fiscal Council. Members felt that this would provide an appropriate guarantee for the independence of the Fiscal Council.

62. The Committee therefore recommended that in respect of independence, legislation should specify that the Fiscal Council for Northern Ireland should:

- Have a chairperson and a board which shall be appointed by the Minister using the Public Appointments process;
- Have sufficient resources to permit the chairperson and board members to allocate commensurate time to their roles in the Fiscal Council. These resources to be specified by the Fiscal Council and confirmed by the Assembly within 5 years of the passage of the relevant legislation.;
- Have a multi-year budget which is sufficient to undertake the Fiscal Council's work programme and which shall be subject to change only with the agreement of the Assembly - possibly the Committee for Finance; and
- Where it has a secretariat, require these staff to report to the board of the Fiscal Council, which shall recommend their pay and conditions in line with the requirements of Managing Public Money NI and subject to the agreement of the Assembly. The Department of Finance Treasury Officer of Accounts will be required to comment to the Assembly in respect of the value for money associated with the relevant pay and conditions.

5. Competence

63. The Committee noted that the schedule of the legislation establishing the IFAC specified that board members should be appointed by the minister "having regard to the desirability of their having competence and experience in domestic or international macroeconomic or fiscal matters". It appeared that legislation in other jurisdictions appeared to allow quite a lot of latitude in respect of the competence of the board of the IFI.

64. The Committee gave some consideration to this matter and agreed that the board of the Fiscal Council should be required to have appropriate competence in fiscal and economic scrutiny and particularly experience relating to an understanding of Northern Ireland public expenditure.

65. The Committee also considered whether the board required a permanent secretariat or if the appropriate functions might be met by e.g. the Fiscal Council contracting these matters to another body e.g. the OBR. Members noted that the Welsh Government had undertaken this option at a cost of around £100k pa. These costs are considerably lower than those accrued by the SFC at around £2m pa. Members also noted contrary evidence from the PBO that, owing to its limited means, it had experienced significant churn in its secretariat and consequently struggled to deliver a consistent service to elected representatives.

66. Some Members strongly felt that governance in Northern Ireland is already relatively expensive and efforts should be made to control and reduce such expenditure. They argued that another secretariat for yet another Arms Length Body represented an unnecessary additional expense. Other Members felt that without its own secretariat, the nascent Fiscal Council would lack the agency to undertake the fairly wide range of important activities identified above and which would deliver improved governance and greater transparency. On balance, the majority of Members supported the latter view insofar as reasonable efforts would be made by the Fiscal Council to minimise non-essential costs such as office costs etc.

67. In order to ensure appropriate transparency, the Committee agreed that the Fiscal Council should be required to produce an annual report and accounts which shall be audited by the Northern Ireland Audit Office.

68. The Committee therefore recommended that in respect of competence, legislation should specify that the Fiscal Council for Northern Ireland should:
    - Require the board of the Fiscal Council to have appropriate competence in fiscal and economic scrutiny and particularly experience relating to an understanding of Northern Ireland public expenditure; and

- Require the board of the Fiscal Council to employ its own secretariat with an appropriate level of expertise such that reasonable efforts are made to minimise associated non-essential costs.
- Produce an annual report and accounts which shall be audited by the Northern Ireland Audit Office.

6. Credibility

69. The Committee noted advice from the OECD and the OBR in respect of the importance of an IFI establishing its credibility by publishing its own reports in a timely manner and without political interference. The Committee agreed that this was essential if the Fiscal Council was to be perceived as an impartial actor which was seeking to improve transparency in support of the public interest. Members noted that the relevant parts of the Scottish legislation enshrine the SFC's ability in this regard while requiring it to lay reports at the Scottish Parliament.

70. Members commented on the practice of delayed reporting in Northern Ireland and therefore suggested that the Fiscal Council be obliged to lay its reports within a specified reasonable timescale.

71. The Committee also noted advice from a number of witnesses indicating the importance of regular and impartial review of an IFI by an independent body. The Committee considered relevant extracts from OECD reports on the SFC and OBR etc. and noted the useful feedback and constructive criticism therein. The Committee also noted that the SFC legislation captures the importance of external review as a key support for that organisation's credibility. Members indicated that as Northern Ireland's development of an IFI is some years behind that of other jurisdictions and positive learnings could be shared, the formal processes of review should be supplemented with engagement with IFIs across these islands and in the rest of the OECD countries.

72. The Committee therefore recommended that in respect of credibility, legislation should specify that the Fiscal Council for Northern Ireland should:

- lay any report which it has prepared before the Assembly as soon as reasonably practicable and within 30 days of preparation and that it may publish reports in such manner as it considers appropriate;
- at least once in every 5 years, appoint a suitable and independent person or body subject to the approval of the Assembly to review and prepare a report on its performance of its functions during the period and it must arrange for the report to be laid before the Assembly; and
- should engage with other IFIs across these islands in order to share best practice and positive learnings.

7. Assembly Engagement

73. As indicated above, the Committee believes that current budget scrutiny arrangements are unsatisfactory and may lead to a perceived of a lack of transparency. Members have regularly complained about the inappropriate timing of budget debates which tend to take place after decisions have been made and thus prevent the Assembly from fulfilling its role of scrutiny and challenge. The Department has consistently contended (and with justification) that delays and timing issues often originate at Westminster or are owing to political disagreements in the Executive and are thus unavoidable.

74. Members accepted that the final envelope for public expenditure budgets for a given year is generally not known until near the end of the preceding calendar year and may also be subject to further changes before the end of the preceding financial year. However Members asserted that, with the exception of 2021-22, the levels of uncertainty in budgets are in percentage terms quite low. It should then be possible, as is the case in other jurisdictions, for the Fiscal Council to interrogate departmental assumptions and then generate a meaningful and timely assessment of public expenditure for scrutiny by the Assembly at an early stage of the budget process.

75. By doing this. the Committee hopes that a Fiscal Council for Northern Ireland would address some of the governance and transparency challenges facing the Executive's existing budget process. To that end, Members felt that legislation should specify timely engagement with the Assembly in respect of the budget process but should otherwise stop short of specifying the work programme of the Fiscal Council in order to avoid the suggestion of political interference.

76. The Committee noted that different jurisdictions appear to have approached this differently. The OBR charter rather than its legislation refers to engagement with Parliament. The Scottish legislation indicates that reports must be laid before Parliament but doesn't specify appearances before committees. The PBO legislation requires the PBO to furnish reports to committees as required.

77. The Committee felt strongly that the key takeaway from the Fiscal Council process should be an improvement to the budget process. The Committee therefore recommended that in respect of Assembly engagement, legislation should specify that the Fiscal Council for Northern Ireland should:
   - Produce an annual report on past Executive expenditure and including a multi-year forecast of Executive expenditure and income published in a manner and at a time which will inform elected representatives and public debate on the budget scrutiny process, regardless of delays to the Westminster budget process or deliberations at the Executive; and
   - Be required to appear before Assembly Committees particularly in respect of its annual multi-year budget and forecast report.

The Way Forward

78. The Committee believes that legislation should be brought forward at the earliest opportunity to establish an independent Fiscal Council for Northern Ireland as a body corporate with: an independent board (appointed in line with the Public Appointments process); a circumscribed multi-year budget and

appropriate level of secretariat support; powers to compel information from Ministers, departments etc. similar to those available to the Scottish Fiscal Commission; the discretion to report on (largely) any fiscal factors that it chooses relating to Executive (and non-Executive) income and the resources or expenditure deployed by the Executive; and a requirement to produce an annual authoritative multi-year expenditure budget analysis and forecast report. This report is to be laid in the Assembly and presented to the Finance Committee and debated in the Assembly in the early autumn regardless of whether the related Westminster or Executive processes are running late and which will illuminate the budget process for MLAs and the public and perhaps inform Executive decision-making in respect of final public expenditure plans.

79. Given the above, the Committee agreed that the format of the Fiscal Council for Northern Ireland should be similar to that in effect in Scotland, namely a standalone body corporate established in legislation.

80. The Committee also agreed that, further to the above, the Minister should clarify whether the relevant legislation will be brought forward in this mandate and whether the consent of the UK Government will be required for the related legislation.

Appendices

List of Appendices

Appendix 1 - Minutes of Proceedings (extracts)

- 9 September 2020
- 16 September 2020
- 23 September 2020
- 21 October 2020
- 4 November 2020
- 11 November 2020
- 2 December 2020
- 20 January 2021
- 27 January 2021
- 10 February 2021
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- 24 March 2021
- 14 April 2021
- 28 April 2021
- 5 May 2021
- 12 May 2021
- 19 May 2021
- 2 June 2021
- 9 June 2021
- 23 June 2021
- 29 June 2021
- 7 July 2021

Appendix 2 – Minutes of Evidence

- 5 May 2021 – OECD
- 5 May 2021 – IFS
- 12 May 2021 – NICVA and UUEPC
- 12 May 2021 – SFC
- 19 May 2021 – IFAC
- 19 May 2021 – PBO
- 9 June 2021 – OBR
- 9 June 2021 - NIFC

Appendix 3 – Written Submissions

- Welsh Parliament Finance Committee, 12 January 2021
- Dr Edward Cooke, 15 March 2021
- OECD, 5 May 2021
- SFC, 12 May 2021
- NICVA and UUEPC, 12 May 2021

- IFAC, 19 May 2021
- PBO, 19 May 2021
- NIFC, 2 June 2021
- Committee for Agriculture, Environment and Rural Affairs, 3 June 2021
- Committee for Infrastructure, 3 June 2021
- Committee for the Economy 4 June 2021, 10 June 2021
- Committee for Communities, 7 June 2021
- NIFC, 30 June 2021

Appendix 4 – Memoranda and Papers from the Department of Finance

- Update on the Establishment of a Fiscal Council/ToR, 21 September 2020
- Role and Remit of Independent Fiscal Institutions, 26 November 2020
- Establishment of Fiscal Council - Timescale, 5 February 2021
- Establishment of a Fiscal Council – Latest Position, 22 February 2021
- Written Ministerial Statement, 12 March 2021
- Fraser of Allander Institute Report, 7 June 2021
- Fiscal Council/Fiscal Commission Progress, 15 June 2021

Appendix 5 – Background Papers

OECD Evidence Session:

- Access to Information for IFIs
- OECD Review of SFC

IFS Evidence Session:

- Excerpt from the IFS paper 'The New Fiscal Framework: An Assessment'
- IFS submission 2019 Treasury Committee's Inquiry
- Excerpt - The Taxation of Land and Property

SFC Evidence Session:

- Scotland's Economic and Fiscal Forecasts January 2021 Summary
- Public Statement of Data Needs September 2020

NICVA and UUEPC Evidence Session:

- PwC: A Review of the Fiscal Powers of the Northern Ireland Assembly, 2013

IFAC Evidence Session:

- Non-Technical Summary December 2020
- Long-term Sustainability Report July 2020

PBO Evidence Session:

- Presentation: Demystifying Scrutiny of the Revised Estimates for Public Services
- Analysis of Voted Spending on Public Services at end-October 2020

OBR Evidence Session:

- Budget Responsibility and National Audit Act 2011
- HM Treasury: Charter for Budget Responsibility – Autumn 2016 Update
- Framework Document HMT and OBR
- OECD Review of OBR 2020
- MoU Welsh Government and OBR
- ToR Between Welsh Government and OBR
- Financial Framework Between Welsh Government and OBR
- Welsh Taxes Outlook December 2020

Appendix 6 – Research Papers

- Roles and Remits of Independent Fiscal Institutions: United Kingdom and Ireland. NIAR 259-20

Appendix 1

Minutes of Proceedings (Extracts)

9 SEPTEMBER 2020

Senate Chamber, Parliament Buildings, 2.00pm

Present:	Mr Paul Frew MLA (Deputy Chairperson) Mr Jim Allister MLA Mr Pat Catney MLA Mr Seán Lynch MLA Mr Maolíosa McHugh MLA Mr Jim Wells MLA

Present by teleconferencing:

	Ms Jemma Dolan MLA
Apologies:	Dr Steve Aiken OBE MLA (Chairperson) Mr Matthew O'Toole MLA
In Attendance:	Mr Keith McBride (Assembly Clerk) Mr Phil Pateman (Assistant Assembly Clerk) Ms Kate McCullough (Assistant Assembly Clerk) Mr Neil Sedgewick (Clerical Supervisor) Ms Heather Graham (Clerical Officer)

The meeting commenced at 12.33pm in public session, Chaired by Mr Paul Frew, Deputy Chairperson

12. Any Other Business

Fiscal Council

Agreed: To receive an update from the Department on the establishment of a Fiscal Council.

[EXTRACT]

16 SEPTEMBER 2020

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Maolíosa McHugh MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Present by teleconferencing:

Ms Seán Lynch MLA
Mr Colin Pigeon (RaISe Researcher) (for Agenda Item 8 only)

Apologies:

In Attendance: Mr Jim McManus (Assembly Clerk)
Mr Phil Pateman (Assistant Assembly Clerk)
Ms Kate McCullough (Assistant Assembly Clerk)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)
Ms Claire McCanny (Senior Assistant Bill Clerk) (for Agenda Item 1 only)

The meeting commenced at 12.33pm in closed session

5. Oral Evidence: Memorandum of Understanding (MoU) on the Budget Process Departmental Evidence Session

The official joined the meeting at 12.55pm

- Mr Jeff McGuinness, Head of Central Expenditure Division, Department of Finance

Jim Allister left the meeting at 13.02pm

Issues discussed included: draft Information Sharing Protocol; The relationship between the RHI recommendations, the Fiscal Council and the MoU; involving Departments to improve the budget process; the need for meaningful engagement in the financial process; the need for flexibility in any MoU.

Agreed: To ask the Department for the Terms of Reference of the Fiscal Council.

Agreed: To commission research on the role and responsibilities of bodies in other UK legislatures which have the similar function of a Fiscal Council.

The official left the meeting at 13.53pm

[EXTRACT]

23 SEPTEMBER 2020

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Seán Lynch MLA
Mr Maolíosa McHugh MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Apologies:

In Attendance: Mr Jim McManus (Assembly Clerk)
Mr Phil Pateman (Assistant Assembly Clerk)
Ms Kate McCullough (Assistant Assembly Clerk)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)
Ms Claire McCanny (Senior Assistant Bill Clerk) (for Agenda Item 5 only)

The meeting commenced at 12.31pm in open session

3. Matters Arising

The Committee noted the Department's response to the establishment of a Fiscal Council and Terms of Reference

4. Oral Evidence: Public Sector Reform – Public Sector Reform Division, Department of Finance

Official joined the meeting at 12.35pm

- Bill Pauley, Director
- Emer Morelli, Head of Public Sector Reform Division (PSRD)

Joining the meeting through teleconferencing:

- Helen Toner, Head of Business Consultancy Services

The oral evidence session was reported by Hansard.

Paul Frew joined the meeting at 13.06pm

Issues discussed included: OECD implementation and the need to achieve the final delivery; support for major and minor transformative programmes including pay policy, fiscal reform and the change to European directives; the growth of iLabs and the numerous recommendation implemented; COVID-19 and the impact of working from home/hubs through gathering relevant data and including wellbeing, the review of Arms-Length-Bodies for efficiency and managing a cultural shift.

[EXTRACT]

21 OCTOBER 2020

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Apologies:

In Attendance: Mr Jim McManus (Assembly Clerk)
Mr Phil Pateman (Assistant Assembly Clerk)
Ms Kate McCullough (Assistant Assembly Clerk)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced at 14.01pm in public session

4. The impact of the Chancellor's decision to cancel the UK Budget on the Assembly Budget for 2021-22: Minister of Finance

The Minister and official joined the meeting at 14.07pm

- Mr Conor Murphy MLA, Minister of Finance.
- Ms Joanne McBurney, Budget Director, Department of Finance.

The oral evidence session was reported by Hansard.

Issues discussed included: Comprehensive Spending Review and one-year budget; expected timeline for the UK Budget of late November, consultation and agreement on the Northern Ireland Budget 2021-2022; Treasury discussions on the flexibility of transferring capital to resource; the impact of Brexit including, the Northern Ireland Protocol and the Internal Market Bill; October Monitoring Round; State Aid; funding business and individuals not in mainstream funding programmes; SIB support to department's to manage loans from Financial Transaction Capital projects; the need for greater budget transparency; procedures for granting expenditure under sole authority of a Budget Act; and the development of the Procurement Board and Fiscal Council.

Agreed: To provide the Committee with a response on a range of issues.

The Minister and official left the meeting at 15.34pm

[EXTRACT]

4 NOVEMBER 2020

Senate Chamber, Parliament Buildings, 2.00pm

Present:	Dr Steve Aiken OBE MLA (Chairperson) Mr Paul Frew MLA (Deputy Chairperson) Mr Jim Allister MLA Mr Pat Catney MLA Ms Jemma Dolan MLA Mr Philip McGuigan MLA Mr Maolíosa McHugh MLA Mr Matthew O’Toole MLA Mr Jim Wells MLA
Apologies:	
In Attendance:	Mr Jim McManus (Assembly Clerk) Mr Phil Pateman (Assistant Assembly Clerk) Ms Kate McCullough (Assistant Assembly Clerk) Mr Neil Sedgewick (Clerical Supervisor) Ms Heather Graham (Clerical Officer) Ms Eileen Regan (Senior Researcher, RaISe) for (Agenda Item 4)

The meeting commenced at 14.03pm in public session

5. **Oral Evidence: Review of Financial Process, Department of Finance**

Officials joined the meeting at 15.52pm

- Mr Jeff McGuinness, Head of Central Expenditure Division, Department of Finance
- Ms Pamela Galloway, Central Expenditure Division, Department of Finance

This oral evidence session was reported by Hansard.

Issues discussed included: Phase I & II of the project review of the financial process; the timescale of the implementation extended to 2020/23; NDPB to be included in easily reconcilable future financial documents; the project team includes departments, the Audit Office and internal audit office; future dry run schedule for Estimates and Accounts from 2020-2023; addressing misalignments; engaging with Committees; understanding how best to present information; consolidation in a work plan which impacts on a Fiscal Council and other concepts.

Agreed: The Department to provide information on 'lessons learned' arising from the workshop following the dry run Estimates 2018/19.

Agreed: The Department to provide sight of the proposed amendment to the Government Resources and Accounts Act (Northern Ireland) 2001.

Agreed: The Department to provide a copy of the revised templates for Estimates and Accounts.

Agreed: The Department to provide a copy of the proposed amendments to the Government Resources and Accounts Act (Northern Ireland) 2001.

Agreed: To ask the Department to clarify if the Advisory Board referred to Clause 20 of the Government Resources and Accounts Act (Northern Ireland) 20201 was established and if ongoing, its relationship, if any to the establishment of a Fiscal Council

[EXTRACT]

11 NOVEMBER 2020

Senate Chamber, Parliament Buildings, 2.00pm

Present:	Dr Steve Aiken OBE MLA (Chairperson) Mr Paul Frew MLA (Deputy Chairperson) Mr Jim Allister MLA Mr Pat Catney MLA Ms Jemma Dolan MLA Mr Philip McGuigan MLA Mr Maolíosa McHugh MLA Mr Matthew O'Toole MLA Mr Jim Wells MLA
Apologies:	
In Attendance:	Mr Jim McManus (Assembly Clerk) Mr Phil Pateman (Assistant Assembly Clerk) Ms Kate McCullough (Assistant Assembly Clerk) Mr Neil Sedgewick (Clerical Supervisor) Ms Heather Graham (Clerical Officer) Mr Colin Pidgeon (Researcher, RaISe) through teleconferencing for (Agenda Item 6)

The meeting commenced at 14:02 in public session

6. RaISe Oral Presentation - Presentation Fiscal Council Research Paper

The Researcher joined the meeting at 14:51 by teleconferencing

- Mr Colin Pidgeon, Researcher, RaISe.

The Committee considered a presentation by Mr Pidgeon on the Roles and Responsibilities of Independent Fiscal Institutions: UK and Ireland.

Jim Wells left the meeting at 15:38

The Researcher left the meeting at 15:41

Agreed: To forward a RaISe research paper Roles and Remits of Independent Fiscal Institutions: United Kingdom and Ireland to the Department for information and to ask for a detailed response on the scrutiny points raised in the research.

Agreed: To write to the Chairpersons of the equivalent committees in Scotland and Wales seeking their views on the adequacy of the sub-contracting of the Welsh OBR and the Scottish Fiscal Commission.

[EXTRACT]

2 DECEMBER 2020

Senate Chamber, Parliament Buildings, 2.00pm

Present:	Dr Steve Aiken OBE MLA (Chairperson) Mr Paul Frew MLA (Deputy Chairperson) Mr Jim Allister MLA Mr Pat Catney MLA Ms Jemma Dolan MLA Mr Philip McGuigan MLA Mr Maolíosa McHugh MLA Mr Jim Wells MLA
Apologies:	Mr Matthew O'Toole MLA
In Attendance:	Mr Jim McManus (Assembly Clerk) Mr Phil Pateman (Assistant Assembly Clerk) Ms Kate McCullough (Assistant Assembly Clerk) Mr Neil Sedgewick (Clerical Supervisor) Ms Heather Graham (Clerical Officer) Mr Colin Pigeon (Researcher, RaISe - for agenda item 6 only) Mr Chris Rothwell (Researcher, RaISe - for agenda item 6 only)

The meeting commenced at 14:03 in public session

10. Correspondence

viii. The Committee noted the Departmental response regarding Role and Remit of Independent Fiscal Institutions.

[EXTRACT]

20 JANUARY 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present:	Dr Steve Aiken OBE MLA (Chairperson) Mr Paul Frew (Deputy Chairperson) Mr Jim Allister MLA Mr Pat Catney MLA Mr Matthew O’Toole MLA Mr Jim Wells MLA
Video-conference:	Ms Jemma Dolan MLA Mr Philip McGuigan MLA
Apologies:	Mr Maolíosa McHugh MLA
In Attendance:	Mr Peter McCallion (Assembly Clerk) Mr Phil Pateman (Assistant Assembly Clerk) Ms Kate McCullough (Assistant Assembly Clerk) Mr Neil Sedgewick (Clerical Supervisor) Ms Heather Graham (Clerical Officer) Mr Dan Hull (Senior Researcher, RaISe) - Agenda Item 6 only

The meeting commenced at 2:08pm in public session.

13. Correspondence

13.6 The Committee considered correspondence from the Welsh Parliament Finance Committee regarding the role and remits of independent Fiscal Institutions.

The Chairperson recorded his concerns in respect of the absence of detail on the establishment of the Fiscal Council and the detrimental impact this would have on scrutiny of the Draft Budget given the uncertainty regarding the relatively high level of unallocated funding.

Agreed: The Committee agreed to forward the Welsh Parliament Finance Committee’s response to RaISe for information.

[EXTRACT]

27 JANUARY 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Present by Video-conference:
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Mr Phil Pateman (Assistant Assembly Clerk)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced at 2:01pm in public session.

6. Oral Evidence Session – Department of Finance - Outcome of the January Monitoring Round

The following officials joined the meeting at 2:06pm.

- Jeff McGuinness – Head of Central Expenditure Division, Department of Finance; and
- Pamela Galloway, Central Expenditure Division, Department of Finance.

The oral evidence session was recorded by Hansard.

The Committee noted a response from the Minister of Finance on its budget queries and a tabled item relating to the ring-fencing of Covid allocations.

The Committee noted that the January Monitoring Round was one of approximately 10 allocations made during the 2020-21 financial year and that in excess of £340m of resource remained unallocated.

Members highlighted concerns regarding the pressure on departments to develop novel spending approaches in the remaining months of the present financial year and to develop new schemes which may permit Arm's Length

Bodies (ALBs) to carry over large sums into the 2021-22 financial year. Members indicated disquiet at the continuing absence of a Fiscal Council in order to provide oversight of these differing arrangements.

While recognising the importance of targeted and necessary expenditure for the benefit of the people of Northern Ireland in meeting societal need and achieving medium term policy objectives, the Chairperson called for caution and enhanced accountability for all novel schemes or new special purpose financial disbursement vehicles in order to ensure value for money.

Mr Wells joined the meeting at 2:33pm.
Mr O'Toole joined the meeting at 2:41pm.

9. Correspondence

9.3 The Committee considered correspondence from the Department of Finance on the Review of the Financial Process and the 2020-21 Spring Supplementary Estimates (SSE) 'dry run' process.

Agreed: The Committee agreed to write to Department of Finance to request that,- further to a previous undertaking – Part III Note G of the template should be amended in order to ensure explanations were provided when specific legislation did not provide authority for expenditure and instead authority was required from the Budget Act. The Committee also agreed to seek an update on the SSE 'dry run' process when complete and the associated booklet at its next iteration.

Agreed: The Committee also agreed to write to the Minister to seek the likely timescale for the establishment of the Fiscal Council and indicating Members' concerns in respect of the pressure on departments to develop novel spending approaches in the remaining months of the present financial year and to adopt new schemes to permit ALBs to carry over large sums into 2021-22, without the oversight of the Fiscal Council.

[EXTRACT]

10 FEBRUARY 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Present by Video-conference:
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Mr Phil Pateman (Senior Assistant Clerk)
Ms Kate McCullough (Assistant Assembly Clerk)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced at 2:01pm in public session.

6. Oral Evidence: Ulster University Economic Policy Centre (UUEPC) - 2021-22 Draft Budget

Witnesses joined the meeting at 2:15pm by video-conference.

- Gareth Hetherington – Director, UUEPC; and
- Richard Johnston – Deputy Director, UUEPC.

The oral evidence session was recorded by Hansard.

The Committee noted a written submission from the UUEPC on the draft Budget 2021-22 and tabled correspondence from the Minister of Finance relating to the establishment of the Fiscal Council.

Mr Allister left the meeting at 3:56pm.

*Mr Catney left the meeting at 4:*27pm.

Mr Wells left the meeting at 4:34pm.

15. Correspondence

Agreed: The Committee agreed to write to the Minister of Finance to request the Committee's participation in: the development of the Terms of Reference (ToR); the determination of the membership; and the decision as to whether (and the extent to which) the Fiscal Council for Northern Ireland will be established in legislation. It was further agreed that a draft letter be circulated to Members for approval prior to issue.

17 FEBRUARY 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Present by Video-conference:
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Mr Phil Pateman (Senior Assistant Clerk)
Ms Kate McCullough (Assistant Assembly Clerk)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced at 2:01pm in public session.

1. **Apologies**

There were no apologies.

The Committee noted that notice had been received from Jemma Dolan MLA to delegate authority to Maolíosa McHugh MLA and from Matthew O'Toole MLA to delegate authority to Pat Catney MLA to vote as required under Temporary Standing Order 115(6) on any issue in the event of them not being present for all or part of the proceedings.

2. **Chairperson's Business**

2.1 Informal Meeting

The Chairperson advised Members that the Chairperson and Deputy Chairperson had met informally with the Minister of Finance on 16 February 2021 regarding the establishment of the Fiscal Council and the Fiscal Commission. Members noted that the Fiscal Council may be established shortly with interim Terms of Reference and that the Committee's views will be sought as to their revision and in respect of the future legislative underpinning of the Fiscal Council. Members also noted that the Fiscal Commission when established will report before the next Assembly election.

Agreed: The Committee agreed to give further consideration to the Fiscal Council and Fiscal Commission once, as anticipated, a statement is made by the Minister of Finance.

Mr McHugh joined the meeting at 2:02pm.

Mr Frew joined the meeting at 2:14pm.

Mr O'Toole joined the meeting at 2:50pm.

[EXTRACT]

24 FEBRUARY 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Pat Catney MLA
Mr Jim Wells MLA

Present by Video-conference:
Mr Jim Allister MLA
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA

Apologies: Mr Matthew O'Toole MLA

In Attendance: Mr Peter McCallion (Assembly Clerk)
Mr Phil Pateman (Senior Assistant Assembly Clerk)
Ms Kate McCullough (Assistant Assembly Clerk)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)
Dr Rachel Keyes (Research Officer, RaISe) – agenda item 6 only
Mr Colin Pidgeon (Research Officer, RaISe) – agenda item 6 only
Mr Chris Rothwell (Researcher Officer, RaISe) – agenda item 6 only

The meeting commenced in open session at 2:03pm.

11. Forward Work Programme

The Committee considered the draft Forward Work Programme.

Agreed: The Committee agreed to seek oral briefings from the Department on its Business Plan; and from stakeholders on: business rates reform, fiscal governance matters and the fiscal balance.

[EXTRACT]

3 MARCH 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Pat Catney MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Present by Video-conference:
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Mr Phil Pateman (Senior Assistant Assembly Clerk)
Ms Kate McCullough (Assistant Assembly Clerk)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)
Mr Colin Pidgeon (Research Officer, RaISe) – agenda item 6 only
Mr Aidan Stennett (Researcher Officer, RaISe) – agenda item 7 only

The meeting commenced in open session at 2:02pm with the Deputy Chairperson assuming the role of acting Chairperson.

1. Apologies

Apologies were as indicated above.

The Committee noted that notice had been received from Jemma Dolan MLA to delegate authority to Maolíosa McHugh MLA to vote on her behalf under Temporary Standing Order 115(6) on any issue in the event of her not being present for all or part of the proceedings.

No other notices were received from Members to delegate their vote to another Member.

Dr Aiken reassumed the role of Chairperson at 2:13pm.

Ms Dolan left the meeting at 3:25pm.

10. Correspondence

10.11 The Committee noted an update on the establishment of the Fiscal Council and Fiscal Commission from the Minister of Finance.

[EXTRACT]

24 MARCH 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present:	Dr Steve Aiken OBE MLA (Chairperson) Mr Paul Frew MLA (Deputy Chairperson) Mr Jim Allister MLA Mr Pat Catney MLA Mr Matthew O'Toole MLA Mr Jim Wells MLA
Present by Video-conference:	Ms Jemma Dolan MLA Mr Philip McGuigan MLA Mr Maolíosa McHugh MLA
Apologies:	None
In Attendance:	Mr Peter McCallion (Assembly Clerk) Mr Phil Pateman (Senior Assistant Assembly Clerk) Ms Kate McCullough (Assistant Assembly Clerk) Mr Neil Sedgewick (Clerical Supervisor) Ms Heather Graham (Clerical Officer) Ms Shauna Mageean (EU Affairs Manager) (Agenda Item 7 only) Dr Dan Hull (Senior Research Officer, RaISe) (Agenda Item 8 only)

The meeting commenced in open session at 2:00pm.

3. Chairperson's Business

3.1 Ministerial Statements

The Committee noted that the Deputy Chairperson had met informally with the Minister in relation to an oral statement on business support measures on 15 March 2021.

Agreed: The Committee agreed that it was content for the Chairperson to meet informally with the chairperson of the Fiscal Commission on 30 March 2021.

Mr Wells joined the meeting at 2:01pm.

16. Correspondence

16.20 The Committee noted correspondence from a member of the public in respect of the role of the Fiscal Council in reviewing section 75 equality screening within the university sector in Northern Ireland.

17. Forward Work Programme

The Committee considered the draft Forward Work Programme.

Mr O’Toole indicated the importance of a consistent approach when giving consideration to matters relating to the Fiscal Council.

[EXTRACT]

14 APRIL 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Pat Catney MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Present by Video-conference:
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Mr Phil Pateman (Senior Assistant Assembly Clerk)
Ms Kate McCullough (Assistant Assembly Clerk)
Ms Angela McParland (Assistant Assembly Clerk)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced in open session at 2:00pm

3. Chairperson's Business

3.2 Fiscal Commission

The Chairperson updated the Committee on his agreed informal meeting with the Chairperson of the Fiscal Commission, on 30 March 2021. The Chairperson informed Members that it is anticipated that the Commission may engage formally with the Committee within the next few months and that the Commission's report is expected to be produced in February 2022.

Mr Maolíosa McHugh joined the meeting at 2.05pm.
Mr Matthew O'Toole joined the meeting at 2.29pm.

Mr Jim Allister left the meeting at 4.21pm.
Mr Paul Frew left the meeting at 4:59pm.
Mr Matthew O'Toole left the meeting at 5.03pm.

18. Correspondence

18.8 The Committee noted correspondence from the Committee for the Economy regarding the establishment of the Fiscal Council and Fiscal Commission.

18.9 The Committee noted correspondence from the Department of Finance regarding the establishment of the Fiscal Council and Fiscal Commission.

Mr Matthew O'Toole rejoined the meeting at 5.17pm.

19. Forward Work Programme

The Committee considered the draft Forward Work Programme.

Mr Philip McGuigan left the meeting at 5.30pm.

Agreed: The Committee agreed to write to the US Consul General with a view to obtaining evidence on budget scrutiny and the possible role of the Fiscal Council from the Congressional Budget Office.

[EXTRACT]

28 APRIL 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Jim Wells MLA

Present by Video-conference:
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA
Mr Matthew O'Toole MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Ms Angela McParland (Assistant Assembly Clerk)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced in open session at 2:01pm.

3. Chairperson's Business

3.3 Fiscal Council

The Chairperson suggested that the Committee should schedule a short closed session for next week's meeting in order to allow for consideration of its approach to evidence-taking and further engagement in respect of the development of an independent Fiscal Council for Northern Ireland.

Agreed: The Committee agreed to hold a closed session at next week's meeting, to enable discussion around its plans for further evidence taking and engagement, in respect of the development of an independent Fiscal Council for Northern Ireland.

Mr Paul Frew joined the meeting at 2.03pm.

[EXTRACT]

5 MAY 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Pat Catney MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Present by Video-conference:
Mr Jim Allister MLA
Ms Jemma Dolan MLA
Mr Maolíosa McHugh MLA

Apologies: Mr Philip McGuigan MLA

In Attendance: Mr Peter McCallion (Assembly Clerk)
Ms Angela McParland (Assistant Assembly Clerk)
Mr Stephen Magee (Clerical Supervisor)
Mr Neil Sedgewick (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced in open session at 2:00pm.

7. Oral Evidence: Organisation for Economic Co-operation and Development (OECD) – A Fiscal Council for Northern Ireland

The witness joined the meeting at 2:02pm.

Scott Cameron, Policy Analyst, OECD

Mr Jim Allister joined the meeting at 2.03pm

The Chairperson declared an interest as leader of the Ulster Unionist Party as that party has, in its current manifesto, indicated its support for an independent Fiscal Council for Northern Ireland

The Committee noted: a written submission from OECD; the 2019 OECD review of the Scottish Fiscal Commission; and a 2020 OECD briefing note 'Access to information for Independent Fiscal Institutions (IFIs)'.

The oral evidence session was reported by Hansard.

The Chairperson thanked the witness for his evidence.

Agreed: The Committee agreed to write to OECD seeking sight of examples of monthly monitoring statements and reports.

8. Oral Evidence: Institute for Fiscal Studies (IFS) – A Fiscal Council for Northern Ireland

The witness joined the meeting at 2:40pm.

David Philips, Associate Director, IFS

Mr Matthew O'Toole joined the meeting at 2.41pm
Mr Paul Frew joined the meeting at 2.48pm

The Committee noted: an excerpt from the IFS paper 'The New Fiscal Framework: An Assessment' that includes a discussion on the role of the Office of Budget Responsibility (OBR); and the IFS submission, from 2019, to the Treasury Committee's Inquiry on 'The impact of business rates on business'.

The oral evidence session was reported by Hansard.

The Chairperson thanked the witness for his evidence.

14. Forward Work Programme

14.1 Fiscal Council for Northern Ireland

Agreed: The Committee agreed to take evidence as planned, engage with the Fiscal Council in June; and seek to agree and publish its findings in respect of an independent Fiscal Council for Northern Ireland at that time.

[EXTRACT]

12 MAY 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Pat Catney MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Present by Video-conference:
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Ms Angela McParland (Assistant Assembly Clerk)
Mr Stephen Magee (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced in open session at 2:01pm.

6. Oral Evidence: Scottish Fiscal Commission (SFC) - Fiscal Council for Northern Ireland

The witnesses joined the meeting at 2:03pm.

Dame Susan Rice, Chairperson, SFC;
John Ireland, Chief Executive, SFC; and
Claire Murdoch, Head of Social Security and Public Funding, SFC.

The Committee noted: a written submission from SFC; the 2021 SFC forecast report; and the 2020 SFC data needs statement.

Mr Matthew O'Toole joined the meeting at 2.04pm
Mr Paul Frew joined the meeting at 2.17pm

The oral evidence session was reported by Hansard.

The Chairperson thanked the witnesses for their evidence.

Agreed: The Committee agreed to write to SFC suggesting continued engagement as the Committee develops its understanding of issues relating to the Fiscal Council for Northern Ireland. The Committee also agreed to seek further information on SFC's operating costs.

7. Oral Evidence: Northern Ireland Council for Voluntary Action (NICVA) and Ulster University (UU) – Fiscal Council for Northern Ireland

The witnesses joined the meeting at 3.03pm.

Seamus McAleavey, Chief Executive, NICVA; and
Dr Esmond Birnie, Senior Economist, UU.

The Committee noted: covering information from NICVA; an explanatory note from Dr Birnie; and a copy of the 2013 PricewaterhouseCoopers (PwC) report 'Fiscal powers: A review of the fiscal powers of the Northern Ireland Assembly'.

The oral evidence session was reported by Hansard.

The Chairperson thanked the witnesses for their evidence.

[EXTRACT]

19 MAY 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Paul Frew MLA (Deputy Chairperson)
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Present by Video-conference:
Mr Jim Allister MLA
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Ms Angela McParland (Assistant Assembly Clerk)
Mr Stephen Magee (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced in open session at 2:00pm.

6. Oral Evidence: Irish Fiscal Advisory Council - Fiscal Council for Northern Ireland

The witnesses joined the meeting at 2:04pm.

Sebastian Barnes, Chairperson, Irish Fiscal Advisory Council; and
Dr Eddie Casey, Chief Economist and Head of Secretariat, Irish Fiscal Advisory Council.

Mr Paul Frew joined the meeting at 2.06pm

The Committee noted: a written submission by the Irish Fiscal Advisory Council and other related published papers.

Mr Matthew O'Toole joined the meeting at 2.24pm

The oral evidence session was reported by Hansard.

The Chairperson thanked the witnesses for their evidence.

Agreed: The Committee agreed to write to the Irish Fiscal Advisory Council suggesting continued engagement as the Committee develops its understanding of issues relating to the Fiscal Council for Northern Ireland.

Ms Jemma Dolan left the meeting at 3.00pm

Agreed: The Committee agreed to write to all statutory committees seeking their views on the options for the development of a Fiscal Council for Northern Ireland.

8. Oral Evidence: Parliamentary Budget Office (PBO) of the Houses of the Oireachtas – Fiscal Council for Northern Ireland

The witnesses joined the meeting at 3.23pm.

Annette Connolly, Director, PBO, Houses of the Oireachtas; and
Barry Comerford, Deputy Director, PBO, Houses of the Oireachtas.

The Committee noted: a written submission by the PBO and other related published papers.

The oral evidence session was reported by Hansard.

Mr Allister left the meeting at 3:30pm
Ms Jemma Dolan rejoined the meeting at 3.40pm
Mr Jim Wells joined the meeting at 3.41pm

The Chairperson thanked the witnesses for their evidence.

Agreed: The Committee agreed to write and thank PBO suggesting continued engagement as the Committee develops its understanding of issues relating to the Fiscal Council for Northern Ireland. The Committee also agreed to seek sight of a recent Committee on Budgetary Oversight report including recommendations on budget scrutiny at the Oireachtas.

[EXTRACT]

2 JUNE 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Pat Catney MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Present by Video-conference:
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Mr Neal Flanagan (Assistant Assembly Clerk)
Mr Stephen Magee (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced in open session at 2:02pm.

3. Chairperson's Business

3.2 Legislative Programme
The Chairperson reminded Members that the Committee had previously sought and received clarity from the Department regarding its plans for primary legislation in the remainder of the mandate. The Chairperson noted that the Financial Reporting Bill has been introduced; a Legislative Consent Motion is expected to be laid in September; and AQWs refer to an Arm's Length Body Bill which is with the Executive for consideration.

Agreed: The Committee agreed to write to the Department to seek clarity on the rest of the legislative programme including the Social Value in Procurement Bill; the independent Fiscal Council Bill; and subordinate legislation on fire safety building regulations.

7. Oral Evidence: Department of Finance (DoF) – Budget (No.2) Bill and Main Estimates

The following officials joined the meeting at 2:38pm.

Joanne McBurney, Budget Director, DoF;
Barry Armstrong, Head of Supply Division, DoF; and

Roisin Kelly, Supply Officer, DoF.

The Committee noted a Departmental briefing paper on the Main Estimates and the Budget Bill and responses from other statutory committees on the 2021-22 Budget.

The oral evidence session was reported by Hansard.

The Chairperson thanked the officials for their evidence.

Agreed: The Committee agreed that the Chairperson should write to the Minister seeking an update on the progress of the Fiscal Council legislation; the work of the Fiscal Council in analysing the Executive's budget; and the work of the Fiscal Commission.

10. Correspondence

10.5 The Committee noted correspondence from Anne Connolly, Director of the Oireachtas Parliamentary Budget Office, offering future assistance to the Committee in respect of the development of a Fiscal Council for Northern Ireland.

10.9 The Committee considered a query from the Committee for Infrastructure following a CBI briefing and asking for the timescale for the establishment of the Fiscal Council and whether it will have powers to investigate or resolve planning issues.

Agreed: The Committee agreed to write to the Committee for Infrastructure informing it that an interim Fiscal Council has been established but it is unlikely that it will address planning issues in any regard.

[EXTRACT]

9 JUNE 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Jim Wells MLA

Present by Video-conference:
Mr Paul Frew MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Maolíosa McHugh MLA
Mr Matthew O'Toole MLA

Apologies: Mr Philip McGuigan MLA

In Attendance: Mr Peter McCallion (Assembly Clerk)
Ms Angela McParland (Assistant Assembly Clerk)
Mr Stephen Magee (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced in open session at 2:00pm.

6. Oral Evidence: Office for Budget Responsibility (OBR) — A Fiscal Council for Northern Ireland

The following witness joined the meeting at 2:04pm.

Richard Hughes, Chairperson, OBR.

Mr Maolíosa McHugh joined the meeting at 2.05pm

The Committee noted: extracts from the Budget Responsibility and National Audit Act 2011; copies of the OBR charter and HM Treasury framework document; an extract from the 2020 OECD review of the OBR; copies of the OBR Memorandum of Understanding, Terms of Reference and financial framework document with the Welsh Government; and a copy of the 2020 OBR report on Welsh Government tax revenues.

The oral evidence session was reported by Hansard.

Mr Paul Frew joined the meeting at 2.17pm

The Chairperson thanked the witness for his evidence.

Agreed: The Committee agreed to write to the OBR suggesting continued engagement as the Committee develops its understanding of issues relating to the Fiscal Council for Northern Ireland.

7. Oral Evidence: Northern Ireland Fiscal Council (NIFC) – A Fiscal Council for Northern Ireland

The following witness joined the meeting at 3:04pm.

Sir Robert Chote, Chairperson, NIFC;
Professor Alan Barrett, Council Member, NIFC;
Maureen O'Reilly, Council Member, NIFC; and
Dr Esmond Birnie, Council Member, NIFC.

The Committee noted a NIFC briefing paper.

The oral evidence session was reported by Hansard.

Dr Esmond Birnie left the meeting at 3.46pm.

The Chairperson thanked the witnesses for their evidence.

The Committee went into closed session at 4.14pm in order to consider written and oral submissions on a Fiscal Council for Northern Ireland and to consider some other business.

8. Committee Deliberations: A Fiscal Council for Northern Ireland

The Committee noted correspondence from the Committee for Agriculture, Environment and Rural Affairs; the Committee for Infrastructure; the Committee for Communities; and the Committee for the Economy.

The Committee also noted a tabled report on a Fiscal Council for Northern Ireland commissioned by the Department and produced by the Fraser of Allander Institute of the University of Strathclyde.

Mr Matthew O'Toole left the meeting at 4:26pm

Agreed: The Committee informally indicated its views on a Fiscal Council for Northern Ireland and agreed that the Clerk should draft a related report.

[EXTRACT]

23 June 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Keith Buchanan MLA (Deputy Chairperson)
Mr Matthew O'Toole MLA

Present by Video-conference:
Mr Jim Allister MLA
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Maolíosa McHugh MLA

Apologies: Mr Philip McGuigan MLA
Mr Jim Wells MLA

In Attendance: Mr Peter McCallion (Assembly Clerk)
Ms Angela McParland (Assistant Assembly Clerk)
Mr Stephen Magee (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced in open session at 2:03pm.

Proceedings went into closed session at 5.10pm in order to consider the Committee report on a Fiscal Council for Northern Ireland

9. Committee Deliberations: A Fiscal Council for Northern Ireland

The Committee noted tabled correspondence from the Minister, the Committee for the Economy, and the Scottish Fiscal Commission.

The Committee considered its draft report on the Fiscal Council.

Agreed: The Committee agreed that Members would write to the Clerk with suggested amendments to the draft report before close of play on 24 June 2021 and the Committee would then consider the revised report at its next meeting.

Agreed: The Committee agreed that the Clerk would informally share the draft report with the Northern Ireland Audit Office under the strict understanding that the report is in draft form only.

Agreed: The Committee agreed to write to the Northern Ireland Fiscal Council and the Northern Ireland Fiscal Commission seeking an update on their work programmes.

The Committee returned to open session at 5:16pm

[EXTRACT]

29 JUNE 2020

Senate Chamber, Parliament Buildings, 2.00pm

Present by Video-conference:

Dr Steve Aiken OBE MLA (Chairperson)
Mr Keith Buchanan MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA
Mr Matthew O'Toole MLA
Mr Jim Wells MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Ms Angela McParland (Assistant Assembly Clerk)
Mr Stephen Magee (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced in closed session at 12:04pm.

3. Committee Draft Report on an independent Fiscal Council for Northern Ireland

The Committee considered a second draft of the Committee Report entitled: 'An Independent Fiscal Council for Northern Ireland'.

Mr Jim Wells joined the meeting at 12:06pm
Mr Pat Catney joined the meeting at 12:10pm

Agreed: The Committee agreed amendments to its draft Report relating to: the Public Appointments process; the development of a macro-economic forecasting facility; and the reference to the balancing of budgets by the Executive.

Agreed: The Committee agreed to finalise the Report at the meeting on 7 July 2021, as amended.

Agreed: The Committee agreed that the finalised Report would be shared with the Minister and the Northern Ireland Fiscal Council and then be published immediately thereafter.

At the Chairperson's suggestion, the Committee recorded its thanks and appreciation to the Committee Clerk and the Committee Office team.

Mr Matthew O'Toole left the meeting at 12:28pm

[EXTRACT]

7 JULY 2021

Senate Chamber, Parliament Buildings, 2.00pm

Present: Dr Steve Aiken OBE MLA (Chairperson)
Mr Keith Buchanan MLA (Deputy Chairperson)
Mr Jim Wells MLA

Present by Video-conference:
Mr Jim Allister MLA
Mr Pat Catney MLA
Ms Jemma Dolan MLA
Mr Philip McGuigan MLA
Mr Maolíosa McHugh MLA
Mr Matthew O'Toole MLA

Apologies: None

In Attendance: Mr Peter McCallion (Assembly Clerk)
Ms Angela McParland (Assistant Assembly Clerk)
Mr Stephen Magee (Clerical Supervisor)
Ms Heather Graham (Clerical Officer)

The meeting commenced in open session at 2:01pm.

6. Committee Report: An Independent Fiscal Council for Northern Ireland

Members noted a response from the interim Northern Ireland Fiscal Council on its work programme indicating that it is developing a Memorandum of Understanding with the Department and that a report on the budget for 2021-22 will be produced during the budget consultation period.

The Committee considered its draft report on an independent Fiscal Council for Northern Ireland, as amended following the meeting on 29 June 2021.

Agreed: The Committee agreed that the Chairperson should approve the relevant excerpt from the minutes of 7 July 2021 and this should be added to the appendices of the report along with the relevant excerpt from the minutes of 29 June 2021 and the latest correspondence from the interim Northern Ireland Fiscal Council.

Agreed: The Committee agreed to make further clarifying modifications to recommendations in respect of the Public Appointments process and confirmatory committee hearings.

The Committee discussed but did not agree amendments relating to the development of Memoranda of Understanding between the Fiscal Council and the Department for Work and Pensions within the draft report.

Agreed: The Committee agreed the report as amended and was content that this was the full and final version of the report by the Committee and that it be published as such.

Agreed: The Committee agreed to share the report with the Minister and the interim Northern Ireland Fiscal Council and to provide a link to the report to witnesses who provided evidence and to statutory committees and the Audit Committee and the Public Accounts Committee and the Northern Ireland Audit Office.

The Chairperson recorded his thanks to the Clerk and the committee staff.

[EXTRACT]

APPENDIX 2

MINUTES OF EVIDENCE

5 May 2021

Members present for all or part of the proceedings:
Dr Steve Aiken (Chairperson)
Mr Jim Allister
Mr Pat Catney
Ms Jemma Dolan
Mr Maolíosa McHugh
Mr Jim Wells

Witnesses:
Mr Scott Cameron Organisation for Economic Co-operation and Development

The Chairperson (Dr Aiken): Hi, Scott. Can you hear us?

Mr Scott Cameron (Organisation for Economic Co-operation and Development): I can. Good afternoon.

The Chairperson (Dr Aiken): Excellent. The wonders of long-distance communications or whatever it happens to be and all the rest of it.

This is the first in a series of oral evidence sessions scheduled by the Committee to inform its deliberations on the future role of an independent fiscal council and any associated forthcoming legislation. Scott Cameron is a policy analyst for the Organisation for Economic Co-operation and Development (OECD). Scott, will you make an opening statement, please?

Mr Cameron: Absolutely. Good afternoon. Thanks for having me. I always appreciate the opportunity to talk about fiscal councils.

I spent seven years at the Canadian Office of the Parliamentary Budget Officer. I have helped to set up similar institutions in Europe and Asia. I am now coordinating the OECD network for independent fiscal institutions (IFIs). We have about 40 of those in our network, and we hope to welcome Northern Ireland's council in the near future; we have reserved a seat for it beside the Scottish Fiscal Commission. Our network promotes and monitors the implementation of the OECD principles for IFIs. I see that you have included those in the council's terms of reference; that is good. OECD members are expected to implement those principles when designing their fiscal councils. However, we recognise that every jurisdiction is unique and that you need to design the institution that works best for you.

One of our network's main activities is to conduct external reviews of fiscal councils. During those reviews, we have seen a common set of lessons emerge. There are issues that come up over and over again, and, if you can address them from the beginning, you will spare yourselves a real headache later. The first lesson — these are from my written submission — is that fiscal councils are usually small institutions; the secretariats may end up having only a handful of analysts. Even though you said that it will be, technically, a stand-alone body, there is a temptation to attach it to a larger organisation, such as an auditor general's office, that will provide shared services such as HR and IT. However, they really should be out on their own, like the Scottish Fiscal Commission, but, if you attach
it to a larger organisation, you should make sure that clear walls surround it to guarantee analytical and operational independence in order to protect both of them. A fiscal council tends to wade into more controversial policy commentary than other public bodies, and that can lead to tension and conflicts between the two, unless clear lines are drawn between them.

The second lesson is that the chair of the council should be at least a part-time position and, ideally, a full-time one. Northern Ireland is small; it has a small population and public sector. If you do not think that part-time is necessary, at least be very specific with the expected commitments so that the chair and the council members can clarify arrangements with their outside employers. You may call in a professor from a university for the council or as chair, telling them that it will be for only a few hours a week or a month even. However, it could end up being a lot more, and, if the university does not reduce a chair's other responsibilities, they might have a very unpleasant work-life balance. As you know, your temporary chair, Sir Robert Chote, was full-time at the Office for Budget Responsibility (OBR) and enjoyed a long impactful tenure. In the Republic of Ireland, where they have part-time chairs, they have struggled with that balance.

The third lesson is that the law should clearly define the council's role in serving the Assembly and designate specific points in the Budget cycle to do so. That might include appearing before the Finance Committee twice a year, in the spring and fall, to provide an opinion on the economy and public finances or to discuss the sustainability report. If that interaction is not explicit in law or in other rules of procedure, we find that Committees and councils do not interact as often as we would like.

Lesson 4 is that the legislation should explicitly grant the IFI the right to publish self-initiated works. If the council is confined to one assessment report or a sustainability report a year, what happens if an urgent issue comes up in the summer? Sometimes, the ability to publish self-initiated works is intended by the designers of the council, but they leave it as a grey area in law, and then the Government can challenge whether a certain report should come out. Be clear with that power, if you intend it.

Lesson 5 is that, on access to information, you should give the council a specific resolution in the event that a Department does not comply with an information request. The most common resolution mechanism is that the council can come to you, the Finance Committee, or the Speaker of the Assembly with a complaint, and then Assembly Members can use your powers to compel the Government to hand over the information. Moreover, be very specific in defining the circumstances in which the Government can decline an information request. For example, an information request from the United States Congressional Budget Office can be declined only if fulfilling a request would break another law. Then the onus is on the Government to point to which law that would contravene.

Lesson 6 is that the council needs a sustainable secretariat, and that means enough analysts to provide an ongoing institutional memory and analytical capacity to make the council's views coherent and consistent over time. Some councils are set up with the idea that council members would do the analysis themselves. That led to very personality- and opinion-driven assessments that changed over time and were not consistent when council members left. Therefore, the council should really be there for quality control and to be the public face of the secretariat's work.

Lesson 7 is that the council should have full ownership of its communications. The ability to communicate publicly is the key to councils' influence. Ministers do not necessarily care what an economist says unless it shows up in a headline on their desk in the morning. We have had small councils outsource their communications to contractors who did not really understand the work. We have had councils in large organisations with a communications office that would filter their voice. The council and secretariat really need their own voice.

That concludes the lessons. We have lots to cover on options for mandates, leadership appointment, resources, access to information all those areas. I hand back to the Chair, and we can get on with it.

The Chairperson (Dr Aiken): Thank you very much indeed. To us, the key is the first word: "independent". I do not know whether you have been following Northern Ireland's travails, including scandals and other issues, but this is one of the main things that we have been asking for. I must declare an interest, as I am the leader of the Ulster Unionist Party, but we have been asking for an independent fiscal council of some description for at least a decade so that we can have some degree of oversight of what we do. One of our biggest issues is the need for independence, and everything that you outlined in your seven points gives the reasons why we need it.

It is noteworthy that you talked about the size of Northern Ireland, yet our latest figures showed that we have a £13 billion budget. We may be small in numbers, with a population of about 1·8 million, but £13 billion is a sizeable budget. We also have to look at how it is managed.

There have been issues with the movement of powers to the regional Administrations, particularly the Scottish and Welsh models. You identified your seven key points, but has anything in particular that you have seen over the last couple of years stood out that we must make sure we get right at the outset? For instance, one of the questions at the minute is whether we should put the independent fiscal council on a statutory basis. That is the first question that we will need to ask. I would be delighted to hear your views on that.

Mr Cameron: Thanks for the questions. Right off the bat with your last issue, obviously, you do not have a constitution per se. That would be the strongest way to implement it and ensure its independence, but that is very rare, even for countries that have a constitution. Primary legislation is where we see it most often and where we recommend that it be created and outlined. Eighty-four per cent of councils are created by primary legislation. The use of a constitution to create councils is very rare and accounts for about 10%. Another 10% are legislative budget offices, such as parliamentary budget offices (PBOs), which may be created through standing orders or through the internal rules and procedures of the Parliament. Obviously, stand-alone legislation is what you would like.
The concerns that we saw in the early years were with budget disputes. Councils tend to be created during tumultuous times, such as, it sounds, you have. The global financial crisis is one such example,
as is where Governments face cutbacks generally or when there have been threats to budgets early on. If you can, you should also enshrine a budget guarantee in statutory legislation. That is difficult to do in statute. However, in the Republic of Ireland, for example, they gave it a baseline rate in legislation. Ideally, you would grow that with inflation over time to put a floor on the budget so that the Government cannot cut the budget and effectively silence it by reducing its resources.

Also on independence, in the early years we saw offices being set up within Ministries of Finance. I was there the first year of the OBR in the UK Treasury, when they stuck a piece of paper up on the door of the former macro team to say that it was now the OBR. Such arrangements can work. The offices are generally keen to be independent, and the analysts and the public servants are almost the most willing to start criticising how things are done and give the independent voice that they have always wanted to give. That can work. Ideally, however, we would not want to see it attached to a Ministry of Finance, especially in the early years when it needs to set the public perception of its independence.

The Chairperson (Dr Aiken): OK. Thanks.

Mr Wells: Do you have any experience of an office of budget responsibility or a fiscal council being set up in an Administration that has, basically, no tax-raising powers? The Northern Ireland Budget is very different from nearly every other that you will see. Apart from the regional rate and bits and pieces such as car tax, planning fees and things like that, we really do not have an awful lot of money coming in that is directly under our control. Can you have a proper fiscal council or OBR if you do not have control of both levers of the economy?

Mr Cameron: Where the Government have complete discretion over all their finances, there is a lot more work for a council to do, and it will have a bigger role to play. An office would have just as important a role to play in your situation because the fiscal envelope is fixed. That is the case whether or not there are explicit fiscal rules. I believe that you are like Scotland, in that you can borrow a little for capital and there are some rules for that.

The Chairperson (Dr Aiken): Yes.

Mr Cameron: It is important to have councils: they can check the Government's planning assumptions
to make sure that they are reasonable and that you do not run afoul of the rules or effective constraints so that, three quarters of the way through the year, you do not all of a sudden exhaust your
spending envelope and, because you cannot raise revenue but are bound by that, have to cut public services. There is very much a role for them. The role is up to you. They can simply be for checking the Government's assumptions, or, as they have done in Scotland, if you have concerns about the planning assumptions, you can bring some of them out of the Government's discretion and give them to the council.

Mr Wells: It would never happen here that we would go over budget or out of kilter with our allocation; that would be impossible. If the Finance Department were ever to make a solo run or was leading us into disaster, what powers do you recommend that the council, the office for budget responsibility or whatever we call it should have? What power would you give it to intervene in such a situation?

Mr Cameron: When councils were first discussed, particularly during the global financial crisis and in the EU framework, the academic idea was that you would take a lot of the control away from the Government and, by default, the Parliament and give it to the councils in the way that we have done for monetary policy. Democratically and fundamentally, that is the Government's prerogative. You are there to do the official oversight or scrutiny of the Government's plans. We recommend that the role of councils is not to take control away from you or the Government but to increase transparency and make sure that you get the right information to do your job, have the subject matter expertise to examine the Government's assumptions and bring that information and any causes for concern to you directly. That is why it is so important to have it ingrained in the legislation that a council should come to you to tell you its findings. Other than that, as I said, you could bring some of the assumptions for planning and the spending forecasts to the council to do. Governments are sometimes too optimistic about health spending; that is a problem in the Republic of Ireland. You could require the council to do some of the planning assumptions. However, as for having the teeth to make Governments change their plans halfway through the year, we do not see that in councils' remit. Hopefully, however, a council could bring such matters to your attention, and you could take action with whatever powers you have, which, unfortunately, are not often much for legislatures.

Mr Wells: Do the three dreaded letters "RHI" mean anything to you?

Mr Cameron: Is that the taxation and inflation mess that they have all over —?

Mr Wells: If only it were something as minor as that. RHI is the renewable heat incentive, which, basically, brought the Assembly down for three years. It created absolute chaos. It was a scheme that ran completely out of control and threatened, frankly, to bankrupt Northern Ireland. You are saying that, should there be a repeat of that type of scandal, you do not believe that an office for budget responsibility or a fiscal council would have a right to intervene and put the brakes on; all it could do would be to highlight it and provide information about it.

Mr Cameron: I am not familiar with any examples of where a council would have that control or authority. You could have legislation that says that, if the council gives an adverse opinion on the budget, the Government have to go back to the drawing board. You could have the council perform an endorsement function. It could scrutinise the Budget and could be required to endorse it before it comes to you for approval. That is an option. Hopefully, it could look at the RHI problem. It could not comment on a policy and say whether it was good, but it could comment on whether the Government have presented it accurately and transparently or whether they have misrepresented it. If it thinks that the Government have not done so, it could decline to endorse the Budget. Then, the Budget either goes out without with an endorsement, and people know that and you know that, or it has to go back to the drawing board, and the changes have to be fixed before the Budget comes to you.

Mr Wells: You have been generous with your time, but, finally, we are the same size as Estonia, as an example of population, although I think our Budget is bigger than theirs. At what size of an economy is it appropriate to have a full-time office for budget responsibility? From your experience, for instance, in Canada, do Nova Scotia and Newfoundland have their own regional offices? At what level do you pitch full-time staffing?

Mr Cameron: Nova Scotia does not have such a body yet, and, of course, it is quite small. Ontario, which is a big economy, has its own full-time parliamentary budget officer, and Quebec has just done so.

That is a really difficult question. Most of the European Union council members are not full-time and not even technically part-time, although many of them commit to it part-time. We are doing a review now. Essentially, this council requires a retired chair, and that is who is fulfilling it right now, because it is a lot of work and a lot of press and media engagement at the drop of a hat. Somebody with a fulltime job could not serve in that role. It is not fair to them or to the council. A lot of it depends on the mandate and what you want them to do. If, as your terms of reference say, it is two reports a year — an assessment report and a sustainability report — it may not be every year; it might be every couple of years. It depends on what you want this council to be, how much authority you want to give it, and its roles.

If you want it to do independent policy costing of a spending programme, it will be geared much more towards a full-time role. It depends on its relationship with the Government and how much the Government are willing to cooperate. If the Government open their books and say, "Come on in", you do not need a lot of staff or a full-time chair. You just need somebody to go in a couple of times a

year,
go through the books and sign off on them, but that never happens. Surveillance is a full-time job, and you need a strong secretariat with a strong head of secretariat who can replace the council members. It is really what you envision the office, the council and its mandate to be that will determine that.

Mr Allister: Thank you for your informative paper. I am interested in the background that you are looking for in members of a fiscal council. I ask that because the interim council that has been appointed seems to be comprised exclusively of economists, whereas I would have expected people with public expenditure experience to be key. Have you any view on that?

Mr Cameron: Yes, I can give you exact statistics. You are right that there are a lot of academic economists. Around Europe, 63% of council members are from universities, 34% from central banks and 30% from Ministries of Finance. That does not add up to 100% because they reflect past appointments. There are lots of ways that you can look at it. It is good to know how the sausage is made, so finding somebody from the Ministry of Finance who knows where the bodies are buried can be good. That is not necessary, and sometimes it is good to have alternative perspectives and bring new ideas and oversight into the council.

In relation to economics versus other social sciences versus practical experience, I think that you are right: economists are very over-represented on the councils. The Republic of Ireland has had that discussion. We talked to a lot of stakeholders who are starting to say, "Why not get some more diverse backgrounds: people who are into social welfare programmes or have experience with labour unions or representatives of Northern Ireland society?". You have to bring people in, and that will come down to the appointment and shortlist process. I can speak to that as well. Do I have a time limit on these responses?

The Chairperson (Dr Aiken): No.

Mr Cameron: Ultimately, whom you want on the council will be up to whomever appoints them. There are four aspects to the appointment process: a shortlisting and nomination phase; the selection from that shortlist phase; the appointment; and sometimes there is secondary approvement of the appointment. Usually, the council is appointed by the Executive, and secondary approvement is from the Committees or from the Parliament or Assembly, but the initial shortlisting and selection of candidates can be put in the hands of the Assembly.

We like to see open competitions for the nomination and shortlisting process. You can ask different stakeholders; some countries say that all kinds of stakeholders can appoint somebody to the boards. For example, the auditor general might appoint one of the chairs on the council, and the central bank might appoint one. The central bank's selection might get you more economists, but maybe the auditor
general's selection would get you an accountant, someone who really knows public-sector accounting is often missing in some of these places. Certainly, we are starting to represent more diverse interests on the councils.

Mr Allister: Is an express knowledge of public accounting practices not vital if you are going to mark the homework of the Department of Finance? We have a budgetary arrangement that is quite opaque. For example, the figures that you are given for various disciplines or Departments are so wide, without
any breakdown, that it is hard to know what to make of them. For example, we spend £2 billion on education, but there is no breakdown of how much of that is for preschool, primary or whatever. That, of course, suits Departments — they can shuffle it around as they want — but it does not do anything for transparency or accountability. You need people with some nous about public expenditure to be able to drill down and see why certain things are and are not provided for. Surely a function of a fiscal council is to visit the issue of efficiencies? In our current Budget, I read nothing about efficiencies. All of this underscores the point that you made that the primary necessity is for independence; there is no point in having nodding dogs on this. That takes you to the key issue of who appoints them. A fiscal council needs to be an effective machine and not just a rubber-stamping operation. How you get to be an effective machine rather than a mere rubber stamp or cover for government is surely the critical issue.

Mr Cameron: I can make a couple of points on that. The OECD principles say that the technical skills and expertise should be specified in legislation. Therefore, if you think, as you are drafting this, that, in

Northern Ireland's case, you need someone with a background in accounting, you could specify that at
least one council member has to have an accounting background. Speaking personally, I studied economics at university and grad school. In the first couple of years on the job, I got a lot of public accounting experience and did courses on it. I have found that the accounting experience is probably much more valuable to the role than some of the economics that I learned. It is very much *[Inaudible].* On your point about efficiencies, you can see business leaders appointed to the board, especially in small countries where the population of candidates from the economics sphere for the roles is not large. That could kind of hit that area. You could have industry representatives. The kind of background is up to you, but you should include in legislation specifically that they have to have expertise in public finance, economics or accounting, if you see fit.

Mr Allister: If you were on that council or chaired that council, what would be your first 100 days' objective?

Mr Cameron: That is a good one. Let me see; I have to be careful. That is a very personal question, but it is about a council establishing an independent identity for itself. Some leaders have said that, if you are put in prison, you should pick a fight and prove yourself strong right at the beginning. That is one approach, although I do not know whether it is a good one. Some have chosen to demonstrate their independence by coming in very strong at the beginning. That is an option. Others have been more about building relationships with the Government. You can maintain your independence and non-partisanship and all that good stuff while forming useful relationships with Governments.
You will have to work with Governments, and you will need information access and relationships with them. If you come in and pick fights, sometimes you can burn the bridges that you will need to do your job. Come in and get good talent to work for you, good staff. Set up the reports, and do a good job with them. The reports speak for themselves. Criticisms of the council can get politicised, especially early on. Someone might dismiss the analysis as partisan or not independent, but, if your reports are solid, you can say, "Point to the report and prove that this is partisan or not independent". If they cannot, the reports should speak for themselves. It is really about making sure that the analysis in the first 100 days or the first year is solid so that you build your reputation, which your office will coast on for the rest of the years.

Mr Allister: Thank you.

Mr Catney: Thanks very much, Scott. I am no expert on this. You used the words "who appoints". However, in Northern Ireland politics, I could change "appoints" to "anoints". How do you make sure that you have a person who is completely independent?

You said something about whether we can get that role. Is there a possibility? Are you familiar with our
Assembly? Can we hold that on the Floor of the Assembly?

Mr Cameron: I did not quite catch that last one.

Mr Catney: Is there a way that we can get ownership of it as a group of 90 rather than setting it into one Department or, for want of a better word, the Executive?

Mr Cameron: Yes, absolutely. There are models of councils, particularly the parliamentary budget offices, that have a much closer relationship with the legislature. If that is the service that you want and you want to be able to submit requests to the council and have it obligated to respond to you, you could set them up with a much closer relationship with the legislature or even attached to the secretariat of the legislature as long as, again, you have those walls of operational independence. If you are looking for a council that is more legislature- or Assembly-facing, you could specify that in the legislation. Another way, as you hinted at with the nomination and appointment process, is that, when you are legislating, you could have the shortlisting be approved or come at by an independent process. You could have an independent firm find candidates, and then you, the Assembly, approve them. I have seen models where opposition parties and Back-Benchers get to approve one council member. Really, it is about clarifying the expertise in the legislation so that you do not get a purely political appointment. They need a background of expertise. Even when Governments of the day get that appointment themselves, they have been good about appointing credible independent voices to the councils, even if it is against their interests. They know that it will make nasty headlines and that the Assembly will get very upset if they appoint an obvious partisan, so they are very good with it. You can specify in the legislation whether the Assembly gets final approval, whether you do the appointing yourselves or whether perhaps the Committee for Finance will have final sign-off on the appointees. When you are crafting legislation, keep that in mind. You can set up terms of reference when designing the legislation so that the Government do not craft it in the way they want to. I am not familiar with your current statistics on representation in the Assembly, but you will want to design the legislation to keep those points in mind.

Mr Catney: Thanks.

Mr McHugh: Fáilte romhat. You are welcome here this afternoon. Thank you for your presentation. Like you, I graduated in economics, and I taught accounts. Notwithstanding that, I find the Budget Bill, the Main Estimates and the like difficult to get my head around at times. Do you see a fiscal council having a relationship not just with Departments and the like but with the general public to help keep them informed, help educate them and help them be presented with information in language that they can understand?

Mr Cameron: That is a fantastic idea, as long as you empower it with the ability to self-initiate reports, or, explicitly in legislation, you can require it to do so. There are lots of options that we can go into or that I can submit later about those types of monitoring reports. I do not know whether the monthly financial statements are coming out right now in Northern Ireland, but the data is there. Even in cases in which the Government are publishing those monthly monitoring statistics, they might not be in a useful format or in a format that people such as you can wrap their head around or that the public can wrap their head around.

It is simple work. It is easier than building macroeconomic forecasting models, but it is equally important to be able to compile all that central revenue fund and expenditure data and put it in a format that you can come to terms with quickly. You do not have a lot of time. Even though you have expertise, you are busy. If the fiscal council can come out with a quarterly expenditure report and it is important for it to do that, you can require that by writing in the legislation that, four times a year, it has to give an update on the spending plans or the spending realisation. That is terrific.
If you give the fiscal council enough staff and a secretariat to do this work — it will all need to be reflected in the resources with which you provide it — as long as you give it power to self-initiate reports, it will probably on its own choose to do something like providing regular updates, as long as it has the resources to do so. If the fiscal council has only couple of staff, who have other obligations, they may not get around to it, but, if you require that report and can give the fiscal council the resources to do it, you should absolutely do that. It is a good idea to give it the power and the resources to do that of its own initiative and without enshrining it in legislation.

Mr McHugh: Go raibh maith agat. Thank you.

The Chairperson (Dr Aiken): Thank you very much indeed for your evidence. You mentioned that you have some examples of monthly monitoring statistics and monthly monitoring reports. Can you forward those to the Committee, please?

Mr Cameron: Absolutely. I would love to. That would be great.

The Chairperson (Dr Aiken): That is something that we would all appreciate, if we are able to get to a point at which we can do that.

Scott, thank you very much for your evidence. Can we please keep the links, dialogue and the rest of it open with the OECD? You have given us an awful lot of food for thought, and just keeping the line of
communication open would be very useful. Thanks very much for your time today. Keep safe. Cheers.

Mr Cameron: Thank you. It was a pleasure, and I will be happy to keep the dialogue going.

5 May 2021

Members present for all or part of the proceedings:
Dr Steve Aiken (Chairperson)
Mr Paul Frew (Deputy Chairperson)
Mr Jim Allister
Mr Pat Catney
Ms Jemma Dolan
Mr Maolíosa McHugh
Mr Matthew O'Toole
Mr Jim Wells

Witnesses:
Mr David Phillips Institute for Fiscal Studies

The Chairperson (Dr Aiken): The Committee will now have its second oral evidence session of today
on its consideration of the options for an independent fiscal council. I welcome, via StarLeaf, David Phillips. Hi, David.

Mr David Phillips (Institute for Fiscal Studies): Good afternoon.

The Chairperson (Dr Aiken): Excellent. The session is being recorded by Hansard. David, I invite you to make your opening statement, please.

Mr Phillips: Yes. The work of the Institute for Fiscal Studies (IFS) tends to focus more on fiscal rules and the fiscal outlook as opposed to fiscal institutions, but many of the recommendations that we made prior to the setting-up of the Office for Budget Responsibility (OBR) on the independence of forecasting and other kinds of data that need to be provided to show the judgements and assumptions made and the credibility of those judgements ended up being taken up by the OBR, so we have some experience in the field.

In today's session, I am happy to talk about my and our views on issues to do with the operation and remit of a fiscal council. I was also asked whether I could provide some information about business rates and business rate reform. I can happily talk about that as well.

The Chairperson (Dr Aiken): Delighted. *[Pause.]* Please continue.

Mr Phillips: I was waiting for some questions. I have not prepared a speech in advance. Usually, when I do these things for the Scottish Parliament, the Welsh Assembly etc, there is a list of questions. I had not been told to prepare a speech in advance. I am sorry if that was expected.

The Chairperson (Dr Aiken): That is fine. Are you ready for some questions?

Mr Phillips: Yes.

The Chairperson (Dr Aiken): What benefit would a new fiscal body bring to the governance of Northern Ireland Executive finances? Germane to that is this: Northern Ireland is a relatively small jurisdiction, with very limited tax-varying powers, so how could we assess and report on the sustainability of the Executive's finances? Should that be delivered by a sub-office of the Northern Ireland Audit Office (NIAO) or by a new research body? What do you think?

Mr Phillips: The greater the extent of demand-led spending and the greater the extent of revenues that are devolved to a territory, the greater the importance of an independent fiscal council. Those are typically the sorts of things for which, rather than working to a fixed budget in advance, the amount of spending will depend on, for example, the number of claimants of the benefits, while the revenues will depend on the performance of the economy and the tax bases. Those things are uncertain. In order to set Budgets, you need to produce forecasts, and you want those forecasts to be credible and independent. The first thing that I will say is that the resourcing that a fiscal council would need will very much depend on the range of powers and responsibilities that the Northern Ireland Assembly

has
for demand-led welfare spending and taxes.

As it stands, there are relatively few responsibilities in that area. Welfare spending is formally devolved, but the way in which it is devolved here is quite different from the Scottish model for its element of welfare. In Scotland, when welfare was devolved, the responsibility for funding that welfare was devolved as well, so, even if policy remains the same, the Scottish Government will bear the risks of costs going up or down more or less quickly than Governments in the rest of the UK. Northern Ireland funding for welfare is not like that. Northern Ireland bears the cost of policy deviations, but, for a common set of policies, the UK Treasury provides the amount that it costs to do that. There is no risk
in the Budget if the number of claimants goes up or down in a different way from numbers the rest of the UK. Although there are quite a lot of devolved powers on the welfare side in principle, the funding responsibilities are not there. The only real areas in which the fiscal councils in the UK — the OBR and the Scottish Fiscal Commission (SFC) — are involved are around the costs of any deviations from
welfare policy and how those might vary according to claimant numbers. On the revenue side, there are the business rates and regional domestic rates. In a UK context at least, the traditional remits of those fiscal councils concern relatively small amounts. That would probably suggest having a relatively
small and focused body for Northern Ireland.

The terms of reference are slightly different from, for example, the terms of reference for the Scottish Fiscal Commission. The terms of reference that are being set out for a fiscal council therefore relate very much not only to the annual assessment of the Executive's revenue streams but to sustainability and the implications of spending policy and efficiency measures. Getting to the bottom of what that will
mean exactly could be important. For example, at the moment, the Scottish Fiscal Commission does not do any sort of longer-term assessment of fiscal sustainability, spending outlook or revenues outlook. It is very much a medium-term forecaster. The OBR does a long-term fiscal sustainability report that looks at the outlook for health spending, pension spending, revenues and so on. I think that
it goes out 50 years. It is not clear to me whether that suggests having something along those lines for
the elements that are the responsibility of the Northern Ireland Executive, such as health and social care, education and potentially any devolved taxes, or whether the thinking is about doing something in the shorter term more about the medium-term sustainability of the plans. The discussion about the effectiveness of long-term efficiency measures suggests to me something shorter than the 50-year horizon that the OBR has when it looks at long-term sustainability.

It is an interesting question about the extent to which an independent institution that is involved in forecasting and long-term fiscal sustainability analysis should also be assessing the effectiveness of efficiency measures or whether that is something more for an audit office to do. For example, the National Audit Office (NAO) might do in the context of UK Departments.

The Chairperson (Dr Aiken): OK. Thanks.

Mr Catney: I will stay on that point. The Budget process here often runs late owing to delays. People can then blame that on the Westminster Government. In the event of the Westminster Government or the Executive failing to provide Budget information, might an independent fiscal council produce a kind
of shadow Budget that informs the Executive of decisions that are outstanding?

Mr Phillips: That is a really interesting question. This year's Scottish Budget was published at the very
end of January, which was before the UK Budget, although after the autumn statement and the 2020 spending round. The SFC made its own forecasts of Scottish revenues, even though those would potentially be affected by decisions on the income tax personal allowance, for example. It said, "We are going to assume that the income tax personal allowance follows standard indexation policy". In the

end, it was announced that, for subsequent years, there would be a freeze, but the SFC said that it could subsequently update its forecasts to take account of that.

Potentially more significant than what the Scottish Fiscal Commission did was what the Scottish Government did. When the Scottish Government set their Budget, they assumed that there would be £500 million of additional Barnett formula consequentials announced in the Budget for 2021-22. When they set their departmental budgets, they built those in, despite their not being yet announced. That would have been a problem if the Barnett consequentials had not then been announced, because of the balanced Budget rules within which devolved Governments operate. The combination of what the SFC did in its forecast based on default assumptions, which can be updated subsequently, and what the Scottish Government did by making their assumptions, which were then assessed by the SFC as to their reasonableness or not, could provide a guide to how the Northern Ireland Executive and any Northern Irish fiscal council could operate in such circumstances. I should add that one thing that will help deal with those circumstances is the financial flexibilities around borrowing. For example, if tax forecasts or block grant adjustment forecasts were to change once a Budget is set, there would be the ability to borrow to offset those rather than having to make in-year cuts. That could be also an important aspect of dealing with such situations.

Mr Catney: Thanks.

Mr O'Toole: Thanks for coming to give us evidence, David. You talked about fiscal forecasting. Can I ask about your views on economic forecasting? The OBR has a role under the Budget Responsibility and National Audit Act 2011 to do an economic and fiscal outlook (EFO), which is an economic forecast and a fiscal forecast. Do you think that it is important for economic forecasting to be integrated with fiscal forecasting?

Mr Phillips: To the extent that economic forecasts are determinants of the fiscal forecast, you will need to use some economic forecasts to determine what you expect to happen to, at the moment, business rates and domestic rates, as well as potentially further tax devolution or welfare devolution. You therefore need to have economic forecasts. The question of whether you need to have separate forecasts is an interesting one. I will explain in a second what you need to do on both the economic and fiscal side of things, but one option would be to use the OBR's economic forecasts and plug them into Northern Ireland's fiscal forecasts. That would mean that a common set of assumptions was being used around the performance of the economy.

On the one hand, the view might be that Northern Ireland-specific forecasts for the economy as well as for public finances could take account of specific developments in the Northern Irish economy that the OBR perhaps would not have done. More bespoke models could be built to take account of the economic variables that are most important for the taxes that are devolved. The OBR would not spend much time forecasting some of the smaller taxes. That might push you towards wanting to have separate forecasts. You need to have forecasts, and having your own might mean that they are more bespoke and pick out more specific things.

On the other hand, one of the things that we see in Scotland is that it is not just when there are differences in economic performance between Scotland and the rest of the UK that you can get divergences in revenues and a need for reconciliations, if, say, the Scottish Government get a bit more money than expected or pay back some money that had previously been forecast that they were going to receive. It is not just differences in performance that has driven that but differences in the economic and fiscal forecasts. If you have two forecasters making different assumptions about what will happen to the economy and to revenues, that adds another element of uncertainty where things may differ. In general, you would expect that, if the OBR forecasts a strong economy, other forecasters probably will, including Northern Irish forecasters. They will not all perfectly align, however. Having two different forecasters, with one doing the Northern Irish economic and fiscal forecasts and the OBR doing the UK ones that will matter for any block grant adjustments that operate in this new fiscal world, can result in more volatility. That would mean a need for more fiscal flexibility around borrowing, reserves or other things in order to address that.

There is a bit of a trade-off here. Do you think that having a bespoke forecast for Northern Ireland would be significantly better and that it is therefore worth taking on that additional risk of volatility, or do you think that it would be better to minimise the risk of volatility, even if the forecasts are a little bit out as a result of having one common set of forecasts?

Mr O'Toole: I am not sure that I completely follow you on the trade-off. Are you saying that our new fiscal council having stand-alone responsibility for producing a bespoke economic forecast for Northern Ireland would build in a degree of volatility, if it were mandated to —.

Mr Phillips: Yes. Let —.

Mr O'Toole: Sorry. Go on ahead.

Mr Phillips: Let me explain it. Let us assume that, if there is further fiscal devolution, as you know, it is likely that some additional tax revenues will be devolved to Northern Ireland, and there would then be a block grant adjustment. Some money would be taken off the block grant to reflect the tax revenue that had been devolved. In Scotland, for example, the Scottish Fiscal Commission does the forecasts for the tax revenues that are devolved, but it is the OBR forecasts that matter for determining the block grant adjustments and how they change over time.

The economy might evolve in exactly the same way in Scotland as it does in the rest of the UK but if, at the start of the year, the SFC is potentially a bit more bullish about the economy than the OBR, the SFC will forecast stronger growth in revenues, while the OBR will forecast that the equivalent revenues in the rest of the UK will not grow as strongly. The block grant adjustment will therefore not grow as much. Initially, in that scenario, the Scottish Government say, "The tax revenues are going to go up more than the block grant adjustment. We have got this extra money to spend". Come the end of the year, when they have finally calculated things, it turns out that, no, there was no different performance, only different expectations and different forecasts. Later on, that money that they thought that they had is an artefact of one forecast being more bullish than the other. Down the line, they will have to pay that money back to the UK Government, because, in the end, revenues did not grow more quickly in Scotland.

Mr O'Toole: OK. Although it is —.

Mr Phillips: When you have two different forecasters, you have a greater likelihood of different judgements being made than you do if you have one forecaster doing everything. Having two forecasters make different judgements on different sides of the Budget — the revenue side and the block grant adjustment side — adds a bit more noise and volatility, and you need borrowing powers and reserved powers in order to deal with that. If you are happy to do that, having the more bespoke forecasts might be considered to be a good thing. If, however, the idea of potentially having those errors and, down the line, having to pay money back is concerning, you could go down the Welsh route, which is to have the OBR do both sides of the forecasting: the revenue economic forecasts and the block grant forecasts. Scotland and Wales chose different routes.

Mr O'Toole: You may be aware that, for block grant adjustments, we have one of the most egregious examples in the UK. Owing to a forecast done, I presume, by the OBR a decade ago, we are paying out £2·5 million a year for a theoretically reduced long-haul air passenger duty rate. If you are not aware of it, David, please go away and do some work on it, because it is one of the most pathetic examples of forecasting around a bit of fiscal devolution.

There are various examples in the UK of fiscal advisory bodies. The other broad model, which does not exist in the UK, is the Congressional Budget Office (CBO). It has a much more expansive role as a highly specialised, non-partisan, expert body. At a time when US politics is hyper-partisan and very divided, that is a treasured position. I am interested in getting your thoughts on the CBO model and how it compares, favourably or otherwise, with the various UK models.

Mr Phillips: The Organisation for Economic Co-operation and Development (OECD) probably talked about this in its evidence session. There are two broad models of independent fiscal institution. There is the fiscal council model, such as the OBR, the Scottish Fiscal Commission and many others. Then there is the Parliamentary Budget Office (PBO) model, which tends to have a somewhat different role, focusing less on forecasting, long-run sustainability and costing of government policy and more on supporting the scrutiny and policy development function of Parliaments.

There is nothing stopping you from having a —

Mr O'Toole: Hybrid.

Mr Phillips: — hybrid model or having both of those options. When you are setting up a new body, having a relatively narrow remit, which is clearly apolitical, allows that body to establish itself and gain credibility, especially in a set-up where there is potentially constitutional or political friction around significant areas of policy. Over time, as that credibility is gained, you can think about adding functions that expanding its scope, and, although avoiding policy development and comment on particular policies, you can start to get closer to the more contentious political aspects. For example, the CBO and the Centraal Planbureau (CPB) in the Netherlands look at the policy platforms of different parties and the impacts that those have on distribution, employment and so on. Those things are inherently more controversial, even if they are done in a very impartial, independent and rigorous way.
My view is that there is nothing stopping any part of the UK, or any country at all, from having a hybrid model or having both sorts of models in place. I would start off, however, by being limited to areas in which you can build credibility and reputation. You can then think about expanding over time.

Mr O'Toole: Following on from that, I have one final point about whether you expand that into a Parliamentary Budget Office- or CBO-style thing. I am sure that the high-quality political parties in Northern Ireland would be more than happy to have their extremely high quality manifestos subjected to independent fiscal scrutiny. I am sure that they would add up pretty convincingly *[Laughter.]*

The Chairperson (Dr Aiken): Sorry. Those were just guffaws in the corner there.

Mr O'Toole: I was going to ask about independence. You talked about the constitutional issue. That is not the constitutional issue that we habitually worry about here in Northern Ireland but the constitutional issue of the institutional friction between a devolved Finance Ministry, which will always have an interest, and the UK-level Finance Ministry. If part of the role of the fiscal council will be to create a repository of independently trusted analysis and information that will smooth and regularise certain types of processes between a devolved Finance Ministry and the UK-level Finance Ministry that doles out the block grant, what should the legal character and independence of that organisation be? There is clearly a risk on both sides. On the one hand, it could look as though it is marking homework on behalf of the UK Government or that it is there to be an overseer of devolved institutions that should be independent; on the other hand, it could look as though it is simply ballast for the devolved Finance Ministry when it is making its argument. I am interested in your view of how you best ensure that it has independence from both sides, as it were. Primary legislation is obviously one part of that, but I would be interested to hear what you think. Do you think, for example, that the Scottish and Welsh systems have that? Is there any sense that the OBR's doing forecasting — having a fiscal advisory role — in Wales, for example, compromises its independence from Whitehall? Your thoughts on that would be interesting.

Mr Phillips: On that last point, my sense is that the Welsh Government took a practical decision about what they felt would not only be cost-effective but also limit some of the fiscal risks that arise from having two sets of forecasts that might differ so that you need some sort of reconciliation, down the line, between them. It was to save resources — not necessarily financial resources but, potentially, concerns about human resources. There is also this volatility point. A decision was taken in Wales that, at least for a period, the OBR would be a suitable forecaster. For a short while, they were doing internal forecasts which had then been vetted by Bangor University. That was another model that they considered: government forecasts, but with a peer review. Some independent fiscal institutions actually operate on that basis. Rather than producing the official forecasts, they operate as a peer reviewer of government forecasts. That is another model.

In Scotland, the SFC has done a remarkably good job in a very contentious area, but that is partly because of its narrow remit. The remit is extended to look at medium-term forecasts on what will happen to revenues and spending on these demand-led welfare measures, what are the policy costings of all this, and — a pretty soft touch — is the Government's policy on capital and resource borrowing sustainable. If it had been a broader remit, also considering things like the effectiveness of long-term efficiency measures or the medium- to long-term sustainability of the Budget, that would have become more politically contentious. You could see that becoming a battleground between the Opposition parties and the Government around effectiveness issues. You could see the sustainability issue becoming a battleground between the Scottish Government and the UK Government around issues such as how we are going to address the long-term rising costs of health, social care and other

issues and, "Oh, look. They're not giving us enough money to pay for these things". Whilst that sort of work is really important, if I were starting off trying to get credibility and independence for a new body, I am not sure that I would immediately jump into those somewhat more controversial areas.
I have answered part of your question. On the second bit about who it reports to and how it avoids being seen as a stooge of either party, part of that is starting off with a focused remit which is as apolitical as possible to try to build that credibility. Part of it is making sure that the body is —. I do not think that the body can be directly accountable to two Parliaments, but it should interact with two Parliaments. It should be willing and able to give evidence to both the UK Treasury Select Committee and other subject Committees and the Northern Ireland Assembly Committees. There should be agreements between the fiscal council and not only Northern Irish institutions, in terms of accessing data, but also UK institutions, where it needs data from UK Departments, like HMRC and so forth. There will need to be memorandums of understanding and so on for a lot of UK Departments as well as for the Northern Ireland Assembly. I also caution that many of the things that you want done here on the effectiveness of long-term efficiency measures and the medium-term sustainability of the Northern Ireland Budget — I am not sure that a fiscal council is the right body to look at those matters, at least in the first instance. Instead, the Northern Ireland Audit Office or equivalent, or the Northern Ireland Executive themselves, could look at those. The Scottish Government have a financial strategy that is moving in the direction of medium-term sustainability and fiscal risks. That becomes somewhat more political, so perhaps having some of this done by the Government is the correct —.

The Chairperson (Dr Aiken): Thanks, David. I am conscious that time is running on and we have two other people to come in.

Mr Allister: I have a practical question, if you can give us a brief answer. The last year has been unusual, but the various Treasury handouts and the COVID Barnett consequentials resulted in splurges of expenditure, particularly towards the end of the financial year. The imperative seemed to be to get the money spent, without too much scrutiny of the return. What difference would a fiscal council have made?

Mr Phillips: In that context, the fiscal council would have no role in determining the UK Government's funding for the Northern Ireland Executive, so it would not affect —.

Mr Allister: No, I am interested in the Executive's spending of the money, not the gifting of it to them.

Mr Phillips: Right. In general, a fiscal council would not comment on the use of funding for particular policies, as that starts to impinge on policy and gets it into more political grounds. The useful role of a fiscal council is less in spending control or in giving a critique of spending; that is more a role for an audit-office-type body or a Parliament, actually. A fiscal council can play a useful role in making sure that there is a public understanding of what is happening in the funding situation. One thing that the Scottish Fiscal Commission did very well was to put out information about how much funding the Scottish Government had, when it was received, how much was being carried forward into the next year and how it was being allocated. A fiscal council can serve a role as an information body, both for the public and for the Parliaments, but that does not really address that particular concern.

I will add that your concern is probably lesser in the devolved countries, given that the Treasury gave additional flexibility to the devolved Governments to carry forward funding that did not exist in England.
For example, health spending had a substantially smaller splurge in the devolved regions, particularly towards the end of the year, because some of the Budget could be carried forward, and that could not happen in England, where it was lost. The short answer is that a fiscal council would not solve that problem, but it could play an information role.

Mr Allister: OK. Thank you.

Mr McHugh: Just quickly, I know that it appeared to be funny earlier on, but would it not actually be a good thing if the fiscal council had a role in the costing of party political manifestos and the like? Parties would be forced to use accurate information when talking about the policies that they intend to implement in the event of being elected.

Mr Phillips: There can be real benefits from that approach. You are right; it is important that parties are subject to scrutiny on their plans, both in terms of overall affordability and in terms of the impacts that they say they will achieve on distribution or the economy and so on and so forth. I can definitely see the benefits of that. The prime example of that is the CPB in the Netherlands. Since the 1980s, they have been —. It is all on a voluntary basis, I should say. Basically all the parties now submit their manifestos to CPB, which produces a report that looks at the impact on revenue, spending, jobs, distribution and so on and so forth.

There can be some drawbacks to that approach. The first one comes back to the point that, when an institution is new and working in a potentially divisive landscape, politically or otherwise, actually getting into that area can sap some of its political capital. That can be a risk. The second issue is that there needs to be a very, very clear understanding of the uncertainties that are involved in some of this. I work at the IFS, which does some of this type of analysis of UK policies, and I am not sure that we always get across, as well as we could, the uncertainties about some of this stuff. Using the CPB model — the Dutch model — a manifesto will come out, and the CPB will analyse it and put a figure of 20,000 jobs on it. Another manifesto might have 25,000 jobs. However, in economic analysis, the range of uncertainty with those figures is quite a lot greater than the 5,000 difference in jobs. The point is that, if a body went down the route of doing comprehensive analyses of party manifestos, it would need to be clear about the uncertainties and the limits of its knowledge. Maybe it could start off by looking at a smaller set of things, like costs and basic distribution analysis, and then, over time, as it embedded and built its expertise and understanding about these issues, start to do more complicated analyses, making sure that it explains the uncertainties. There can be — as an economist, maybe I should not say this — almost too much focus on some of the quantitative estimates when actually some of this stuff is the subject of quite wide uncertainty and confidence intervals. That is something to bear in mind.

The Chairperson (Dr Aiken): Thanks very much for your evidence, David. Thank you for coming along; it was informative and very useful.

Mr Phillips: Thanks very much.

12 May 2021

Members present for all or part of the proceedings:
Dr Steve Aiken (Chairperson)
Mr Paul Frew (Deputy Chairperson)
Mr Jim Allister
Mr Pat Catney
Ms Jemma Dolan
Mr Philip McGuigan
Mr Maolíosa McHugh
Mr Matthew O'Toole
Mr Jim Wells

Witnesses:
Mr Seamus McAleavey Northern Ireland Council for Voluntary Action
Dr Esmond Birnie Ulster University Economic Policy Centre

The Chairperson (Dr Aiken): The evidence session is with the Northern Ireland Council for Voluntary Action (NICVA) and Ulster University and is about fiscal powers for Northern Ireland. We will receive oral evidence from Seamus McAleavey, whom we all know, and Dr Esmond Birnie, whom we also know.

I do not know who wants to go first, but it is over to you.

Mr Seamus McAleavey (Northern Ireland Council for Voluntary Action): I will give a brief introduction to set the context and then pass over to Esmond. We commissioned this piece of work from PricewaterhouseCoopers (PwC). Esmond was the author of the report. It is part of a wider range of research reports that we carried out, which were generally commissioned from other experts. Quite often, we were trying to find policy differences that might improve the situation with the economy in Northern Ireland. We quite often did not have a fixed view prior to the reports being published and were not trying to find the evidence to prove something. Instead, we were very much about trying to inform ourselves, in the voluntary and community sector, and the debate at large in Northern Ireland. You will remember that back then the focus was on the devolution of corporation tax powers and whether we should reduce the rate of corporation tax. We, like everyone else, were taxed thinking about the issue. Our attitude in general was that we were willing to explore anything that might make a reasonable difference. The main thing for us was trying to get the evidence before making decisions for or against something. That is why we commissioned the work. I pass over to Esmond.

Dr Esmond Birnie (Ulster University Economic Policy Centre): Thank you very much, Seamus, and thank you, Chair, for having us, as it were.

I will make some remarks by way of context. There are three main arguments for saying that Stormont should either use to a greater extent the fiscal powers that it has or think about extending those powers. First, there is an accountability argument. In other words, there should be a stronger connection between decisions about spending more money on a type of policy and how you raise the revenue for that. Secondly, there is an argument about incentives. Taxes and charges can be raised or lowered, according to whether you want to encourage or discourage a type of behaviour or type of economic or social action that you think is good or bad for society. The third reason for considering fiscal powers and their use is that the likelihood post-COVID — the rest of the decade, in other words — is that the growth of the block grant coming into Northern Ireland, which makes up the bulk of the funding for the Assembly and the Executive, will be limited at the UK-wide level and hence in the Barnett consequentials and the read across to Northern Ireland. Therefore, to some extent, you will have to be more reliant on Northern Ireland's own fiscal resources.

I am not arguing, and nor did the report in 2013, that fiscal powers are some sort of miracle cure for the economy. Instead, I argue that they might be helpful in giving more options and levers to policymakers. It is not about an agenda of cutting all taxes or indeed the reverse, which is increasing all taxes. You need to look at it on a tax-by-tax, case-by-case or charge-by-charge basis. Nothing in the report in any way denies the importance of value for money; in other words, getting as much effectiveness and efficiency out of our spending.

I will make a few other remarks before I shut up and we move to the questions and answers. There are comparisons with Scotland and Wales, and you had a session earlier with the Scottish Fiscal Commission. It is interesting that back in 1999, which is when the current period of devolution began, the two other devolved Assemblies in the UK had weaker or more limited fiscal powers than the Northern Ireland Assembly. They have since leapfrogged the Assembly and now have a wider range of powers. Scotland controls land and buildings transaction tax, landfill tax and most of the issues around earned income tax. In Wales, the powers are broadly similar but are less extensive for income tax.

I will mention three broad principles for fiscal devolution. First, you should attempt to keep your tax base as wide as possible so that you can keep the rates of each tax as low as possible. I say that because the record of devolution in Northern Ireland hitherto demonstrates that the Assembly has gone in the opposite direction by, for example, extending wider reliefs such as with non-domestic rating. The second broad principle is that, if you wish to promote accountability, you will be thinking about the devolution of the bigger taxes. In a moment, I will say that there are certain problems with devolving two of the three really big taxes. The third and last broad point goes back to question of using taxes and charges to either incentivise or disincentivise behaviour. There is a lot of scope for doing that at the devolved level. The Assembly has already moved into that territory with, for example, the plastic bag tax. There will be more environmental-related taxing in the future. There is no doubt about that.

I will say a little bit about which particular taxes and charges might get the greatest attention. I am going to start with domestic water charges. Why? I start there because that is feasible — it certainly could be done — and the amount of revenue that is being foregone — up to £280 million per annum — is by far the largest area of revenue raising that Stormont is excluding itself from. It is often said that
we should not have domestic water charges because they would be damaging to low-income households, but there would be ways of managing that through, for example, means-testing, as was proposed in the Hillyard report in 2007. Furthermore, the current position is itself inequitable, because £280 million is taken out of the block grant to subsidise Northern Ireland Water to cover its operations. That is money that is not available for schools, the health service, employment and industrial generation and so forth, which are all areas where increased investment would probably benefit lowerincome groups. The status quo is the inequitable situation rather than a move to domestic water charges. It is also sometimes argued that we already pay for our water through our rates. That is an unconvincing argument, because, if you look at the combination of council tax and water charges in Great Britain, you see that the totality is much higher than the average level of rates in Northern Ireland.

That leads on to looking at domestic rates. Our level of rates in Northern Ireland is approximately half the level in England and Wales. Bearing in mind that Wales has very similar socio-economic characteristics to Northern Ireland, that is a situation that is hard to either explain or defend. In fact, that points to the wider issue of super parity, because, in so many regards, charging in Northern Ireland is at a much lower level than it is for our counterparts in Great Britain.

I keep talking about big taxes in terms of the total amount of revenue raised. The three biggest taxes, going back to the Scottish Fiscal Commission's discussion earlier, apportioned in Northern Ireland are income tax, value added tax and national insurance contributions. It would be very difficult, in fact it would probably be impossible, to devolve powers over national insurance contributions and value added tax. I can explain that if you wish, but, for national insurance, it is basically to do with the integration of Northern Ireland's welfare system with the rest of the UK. With respect to VAT, Northern Ireland is still subject to European Union single market competition law, which excludes subregional variations in value added tax.

It is feasible to devolve income tax powers, because it has already happened in Scotland and Wales, but the Assembly has to ask itself very carefully what it would do with that power in advance of pushing for it, because there are options, dilemmas and trade-offs. If you were aiming for a greater equality of outcome, you would presumably wish to raise the 40% and 45% rates of tax, as has been done in Scotland by one percentage point. However, there is some evidence, based on the American and UK experiences, that, if you raise the top rates of income tax, the additional amounts of revenue raised can be disappointing, because high-income earners have various means of changing their behaviour to avoid paying much of the extra tax. At the subregional level, the most extreme behaviour that could be adopted is moving from Northern Ireland to Great Britain or the Republic of Ireland in order to enjoy a lower top rate of tax. An alternative approach to income tax might be to cut the higher rates, if you favour the promotion of entrepreneurship, but that leads to a dilemma: do you raise or lower the top rate? If the Assembly is aiming to raise revenues from income tax, serious consideration would have to be given to increasing the amount of income tax paid by people who currently pay the basic rate of 20%. That may well be a strategy that you do not wish to adopt, but it is interesting to note that it has been adopted by the Scottish Government, to some extent.

There is an argument for the devolution of air passenger duty (APD) in its entirety. At the moment, only long-haul flights are included. Of course, we have not had any long-haul flights for several years. There are negative environmental considerations. APD was never a well-designed tax from the point of view of reducing carbon.

Stamp duty could be devolved. It has been devolved in Wales and Scotland, but you need to think carefully about the consequences. If you cut the duty in order to promote purchases by lower-income and first-time buyers, for example, which might seem to be highly desirable, you might fuel an increased level of demand in the property market, and prices would rise and the benefits would be compensated out. There would not be any benefits or not many.

Landfill tax could also be devolved. You could raise the amount paid per ton in order to discourage landfill. You would need to think about the possible negative consequences of an incentivisation towards the illegal export of waste to the Republic of Ireland.

I will finish with corporation tax. It is interesting, because, since 2016, the Assembly has had the power
to cut it and to vary from the UK average rate. That power has not been used. It is subject to having an
overall fiscal balance and sustainability. The plans announced by Chancellor Sunak in the UK's March Budget to raise the UK rate to 25% puts a new perspective on the issue, as do the proposals to raise the United States federal corporation tax rate to 28%. There may be an argument for Northern Ireland not following or tracking the increase in the UK rate in 2023, but there would be a cost to that in the block grant.

Thanks very much. I have spoken for too long. There is a need for public debate in all those areas. That is why the creation of the fiscal commission — led by Paul Johnson — to consider them is very welcome. It will be the first time that Northern Ireland will have an independent and comprehensive consideration of the issues, and the role of the Committee is strategic and vital in the context of such a
debate.

The Chairperson (Dr Aiken): Seamus and Esmond, as usual, that was excellent evidence. Thanks very much indeed. I have a couple of questions before I open it up to the team. Before we start to look at revenue-raising requirements, how would you assess our ability to spend efficiently the money that we have, if you were to mark our homework?

Dr Birnie: I will start, but I am sure that Seamus will have a view. That is not the issue that you asked me to talk about and which the report covers. There are questions of concern: I do not think that that can be denied. It was interesting that, in the session with the Scottish Fiscal Commission, the Committee — it may have been you, Chair — referred to that 2016 OECD report on governance in Northern Ireland. The OECD attempted to address some of those issues. As you said, it is not entirely clear to what extent change was brought into effect after 2016. The renewable heat incentive (RHI) inquiry has come to light since then.

There are issues of effectiveness and efficiency of public spending to consider, but, allowing for that, there is an argument for fiscal variation. If Stormont had to raise its own revenues to a greater extent, that might incentivise more care in the use of the money that it had.

Mr McAleavey: I will follow that. There is an issue of annual budgets in Northern Ireland that we have seen over the last six years in particular. For a variety of reasons, we have not prioritised our spending very well. I am concerned that we degraded all services equally. When things were tight under the pressure of austerity, it would have been much better if we had had a strong set of priorities to focus on.

I support Esmond's point about the discipline that is added when you have to raise the income as well as spend it. That interested us as we were doing this work. The discipline that goes with that is important. As politicians, you know that, for your manifestos, you have to think hard about the balance between how much money you are going to try to raise from the population and how you want to spend it. If you get either end of the equation badly wrong, you can find that you have difficulty with the electorate. We support that idea. A lot more could be done on public spending priorities in Northern Ireland.

The Chairperson (Dr Aiken): The next question is about Northern Ireland Water. Many of us looked at — I looked at it when I was Deputy Chairperson of the Economy Committee — how governmentowned companies (Go-cos) were set up in the rest of the UK. Northern Ireland Water, under its infrastructure, is supposed to be a Go-co, but it is not. For a variety of reasons, it is a strange hybrid. It was explained to us that Northern Ireland Water could not go down the Welsh Water mutualisation route for a model because of its structure and how its relationship was going. How is that interrelated with discussion about domestic water charges? Has Northern Ireland Water already been given the flexibility that it needs in order to address the significant waste water problem, or are we being forced down that route to try to achieve that?

Mr McAleavey: I will start on that one. When that debate was taking place, we in NICVA and voluntary and community organisations got heavily involved and explored that. We probably shifted our position during the discussion. We opposed the privatisation of Northern Ireland Water but favoured the mutual option. The Welsh Water option was favoured. We recognise the point that you are getting at, Chair. Sewage disposal and the production of water in Northern Ireland needed a major investment, and, with the best will in the world, they did not get it.

Esmond referred to work carried out by Paddy Hillyard that we took part in. We were concerned that, for people on low incomes, it was not simply an equation for water that prevented them paying anything else; they were getting big losses in other areas because of the subsidy that had to be put into it.

We think that a lot more careful, informed debate in that area was important then, and that it is important now, because this is about where you set priorities in Northern Ireland to do the best job for people.

The Chairperson (Dr Aiken): I have a final question before I hand over to the team. Esmond, you mentioned issues relating to VAT rules. Am I correct that, because we are seen as an EU region, due to our wonderful protocol, we are not in a position to vary VAT, even if we want to? How can we explain that?

Dr Birnie: That is my understanding. I have pursued that question with various authorities that are considered experts. The answer that I have received is that one aspect of Northern Ireland de facto remaining within the single market and within the competition rules and so forth established by the European Court of Justice over the years is that, by implication, the situation that existed prior to Brexit still applies.

The Chairperson (Dr Aiken): Will there also be implications for competition on any variations in corporation tax?

Dr Birnie: I am glad that you raised that, because the same point arises there. Again, I have asked that question of authorities, as it were, who should know the answer. They have come back to say that the situation prior to Brexit still applies. We are still subject to the Azores judgement. That was a ruling from the European Court of Justice from some years back that, if a subregion within the European

Union reduces a tax rate relative to its national rate, which in this case is corporation tax, the central Government, which in our case is the UK Government, have to deduct an equivalent to that revenue loss from the fiscal transfer to the region. In other words, if corporation tax were to be reduced in Northern Ireland, the London Government would have to deduct a block grant adjustment.

Of course, it could be argued, and may well be the case, that the Treasury would have a role in this even without the protocol or the Azores judgement being in place. I think that the Treasury would take a very strong view that its fiscal generosity to Northern Ireland will not be unbounded. Therefore, if Northern Ireland opts to have a lower corporation tax rate than the UK in 2023, sticking to the current 19%, when, according to Chancellor Sunak, it will be 25%, the Treasury may take the view that there has to be a quid pro quo. That would mean that there would be a reduction of x amount to compensate for that, be that £150 million or £200 million; it would have to be worked out precisely.

The Chairperson (Dr Aiken): Do you have any good news, Esmond?

Dr Birnie: I am sure that something will come to light *[Laughter]* but those are the realities. We need to bear those points in mind.

The Chairperson (Dr Aiken): Matthew, do you want to come in with a very short question before I go to Jim?

Mr O'Toole: So that I am clear, does the point about the protocol relate to only a theoretical differentiation? The assumption, Dr Birnie, is that the Azores judgement will continue to apply to Northern Ireland under the protocol. That has to be confirmed. Also, as you said, that would require action from the UK Government. Speaking as a former Treasury official, I see little cultural evidence that the UK Government will suddenly waive the principle of the block grant adjustment for devolved taxation, as you said. There would need to be both devolution of VAT to Northern Ireland and a judgement made to lower the rate or, for the sake of argument, to increase it. The UK Government, specifically the Treasury, would have to say that their new approach was to not have a block grant adjustment and instead to allow devolved regions to do that. That is the only point at which the protocol could stop that happening.

Dr Birnie: I agree with the logic of what Mr O'Toole said, but, on occasion, the Treasury has extended a bit of forbearance to Northern Ireland, and I suppose that, in theory, it might do something. What I am saying — I have checked this with a reputable source — is that the implication for the protocol is that the Azores judgement still applies to Northern Ireland. Even if the Treasury and the UK Government wish to be generous, their hands will be tied. As Mr O'Toole said, they may not wish to be very generous in any case, but they will not have the scope to do that.

The Chairperson (Dr Aiken): Jim.

Mr Wells: Esmond, welcome back. There is an oil painting here — oh, sorry.

Mr Allister: No, go ahead. It is all right.

The Chairperson (Dr Aiken): No, Jim, you go first.

Mr Wells: There is an oil painting on the wall here of the Members of the Assembly in 2000, and you are still on it along with me. I think that I am the only person in the Chamber who can remember you walking the corridors of this institution.

Mr O'Toole: I would say that you are no oil painting, Jim, but that would be unfair. *[Laughter.]*

Mr Wells: I walked into that one.

Esmond, I have been following your stellar career ever since you left this institution. You certainly have the ability to articulate complex economic issues in a very clear way that ordinary folk like me can understand, but you still have not cracked the holy grail. I want you to tell me whether this has happened in Scotland or Wales: what is to stop the UK Treasury, if we get extra fiscal powers, from saying, "They're getting these powers. They're going to raise an extra £300 million from water charging", which is not, perhaps, a popular way to raise money, I can assure you, and the Treasury simply deducts that from the block grant because it will assume that it is extra money arising in the Northern Ireland exchequer, as it were?

Why should we inflict pain on our community when we do not get extra money? It is simply taken off what we would have got anyway. In your analysis of the situation in Wales and Scotland, is there any evidence of that having happened?

Dr Birnie: Thank you very much, Jim, if I may. You are flattering me with those remarks.

That is a good question, but the example of water charges is fairly clear-cut. The Assembly and the Executive could make an excellent case to the Treasury, which, I suspect, the Treasury would accept, that, if water charges were introduced to Northern Ireland, that would bring us into line with the situation in England, Scotland and Wales, where charges are paid. Therefore, I would be very confident that the Executive would win that battle with the Treasury. I do not see that as being an argument against going down that route. You have to be careful about that lest, if you impose higher taxes in the region, as you say, the Treasury, with another hand, simply takes it away.

As to your question about whether this has happened in Scotland and Wales, you could probably have
put that question to the previous set of witnesses. I do not know whether you asked that of the Scottish Fiscal Commission. In principle, when a tax is devolved, and when it has been devolved in the case of Wales and Scotland, the deduction is made. It is worked out. That is a difficult process, and there will be a bit of controversy, and economists and economic modellers will come up with different answers. There will have to be an element of political agreement, but, eventually, agreement would be reached between the devolved Administration and the Treasury, and a sum would be deducted.

When you devolve a tax, the hope is always that the economy in the region will prosper in such a way that the revenues raised will exceed the deduction. That raises an interesting question of whether that always is the case. There is some evidence in the case of Scotland — for example, in the policies that it has pursued for devolving income tax — that it has not gained that much extra revenue because the tax base in Scotland did not grow as rapidly as perhaps they had hoped. There is an element of risk in such policies, and we need to be aware of that.

Mr Wells: May I suggest, Esmond, that you return to this Building and take up the role of junior Minister to sell water charging to the community? I think that you would find that quite a challenging role. In 2007, we suggested it, and it was very interesting going round the doors during that election campaign when there was only a hint of water charging coming in, never mind it actually happening, and I have never seen such opposition to any policy in my very long time here.

Dr Birnie: You may be right that this will be an unpopular policy. It will require an element of political courage to move in that direction, but Northern Ireland is seriously out of line with the rest of the UK in this regard. As I was trying to explain in my opening remarks, the status quo is inequitable because it involves the deduction of up to £280 million from the amount of money that Stormont has available from its funds. That has to be diverted into running Northern Ireland Water, covering what would otherwise be its operating loss. That is money that is not available to improve schools, the health service, industrial development, employment creation and transport improvement.

That status quo disproportionately impacts lower-income groups, whereas not having water charges benefits all households across Northern Ireland — that is true — but it benefits average and above average income households. In effect, they receive a subsidy that arguably, in social terms, cannot be justified and is out of line, as I said, with policy and practice elsewhere.

Mr Allister: Thanks, Esmond. Just remind me: what is the estimated income tax take in Northern Ireland?

Dr Birnie: The figure is approximately £3 billion in 2018-19, according to HMRC. You discussed the issue of apportioning revenues across the UK in the previous evidence session. The most up-to-date figure that I have is £2·9 billion. It is the second-largest source of tax. VAT at that time was £3·4 billion, and National Insurance contributions were £2·7 billion. There will have been some variations since 2018-19. Presumably, the next year, it increased, but, last year, with the COVID recession, it will
have fallen quite dramatically. I think that it is in order of £3 billion per annum.

Mr Allister: What is the approximate estimate of the running costs of Northern Ireland?

Dr Birnie: What do you mean by that? Do you mean the administrative costs of the devolved Departments, or do you mean the costs of the *[Inaudible.]*

Mr Allister: No, I mean the entirety of spend vis-à-vis Northern Ireland.

Dr Birnie: I have not seen an estimate or certainly not an official figure. Sometimes, figures are published by Departments of what they deem to be their administrative costs, but I do not have up-todate figures like that to hand. Indeed, I am not absolutely certain how far they have been published in recent years. A global sum figure for how much money it costs to administer central government in Northern Ireland — you might wish to include local government, arm's-length bodies and public agencies — would, no doubt, be a considerable figure of hundreds of millions of pounds, but I do not have an actual sum.

Mr Allister: Do we know how much the block grant is, for example?

Dr Birnie: Yes, we do. DEL, which is the cash to Departments where they have discretion about spending, is in the order of £12 billion per annum.

Mr Allister: And the annually managed expenditure (AME)?

Dr Birnie: It is roughly the same. It is about another £12 billion. That is mostly taken up with benefits and pensions, and I think that student loans are in there as well.

The Chairperson (Dr Aiken): Jim, just to cut through, the last set of figures that we saw that had been peer-reviewed indicated that it costs £23 billion to run Northern Ireland plc with AME and DEL.

Mr Allister: That is before you get to contributions to national services.

The Chairperson (Dr Aiken): Yes.

Mr Allister: It is heading towards £30 billion a year, presumably, to keep Northern Ireland afloat.

Dr Birnie: I am not sure, Mr Allister, what you mean by the word "afloat", but the total level of expenditure is made up of DEL, AME, and the further category of so-called non-identifiable spending, which is the apportioned-out benefit that Northern Ireland is deemed to get from UK central spending such as defence spending, the interest payment on national debt and various central services such as overseas aid and overseas representation. For 2018-19, that total expenditure was of the order of £27 billion to £28 billion. Obviously, in the most recent year, 2020-21, the financial year that has just passed, the figure will be well above £30 billion because of the additional COVID spending. We know that Northern Ireland received Barnett consequentials of over £3 billion and additional AME money because of COVID, so you are talking about well above £30 billion for the totality of spending.
Sorry, I misunderstood your initial question, Mr Allister. I thought that you were asking how much it costs to administer the various Departments. That is a very interesting question and a very hard one to
answer.

Mr Allister: We got there. The approximate figures are £30 billion, and, of that, in income tax, we raise 10%.

Dr Birnie: Yes, but, of course, bear in mind the fact that there are other forms of taxation as well.

Mr Allister: Yes. I said income tax. At the end of the day, all of that accumulates to a significant subvention. Yes?

Dr Birnie: Yes, there is a significant, as you term it, subvention, or, as the Office for National Statistics
(ONS) calls it, a fiscal transfer. The most recent figure for 2018-19 was £9·4 billion. That included the so-called non-identifiable spending that I talked about earlier. If you removed that, that would take maybe £3 billion off the amount, but it would still be a considerable sum of money and a considerable sum of money per person or per family.

Mr Allister: If we follow the Scottish example of transferring social security to Stormont, have we any idea what the resulting administration costs would be? At the moment, they are simply paid by Westminster.

Dr Birnie: There would be considerable administrative costs. I have not seen an estimate for the figure. The situation with social security is very interesting because, strictly speaking, it is a devolved matter, but, by and large, with the notable exception over the recent set of years of the welfare reform mitigation measures, Northern Ireland traditionally, at least until very recently, adopts step-by-step parity with the UK or GB position. Of course, when welfare reform is introduced — for example, with respect to the so-called sole occupancy room or bedroom tax and some other issues such as the household absolute cap or limit — Northern Ireland has deviated from that. To an extent, we have begun to use that devolved social security power, albeit to a limited extent.

Mr Allister: Of course, the result of that was a reduction in the block grant.

Dr Birnie: Strictly speaking, it is not a reduction in the block grant; it is part of the block grant. It is a bit
like the argument about Northern Ireland Water and not having domestic water charges. You, as the Assembly or the Executive, ultimately have the absolute right, as it were, to decide how to divide up and use the block grant. As an economist, I am trying to argue that, in the case of water charges, because we do not have charges, some of that funding has been pre-empted in a certain direction. Whether you agree or disagree with that, a similar sort of logic applies in the case of the welfare mitigation measures. A certain sum now has to be spent on those measures, and, obviously, that money cannot be spent on other things, such as education, health, industrial promotion or whatever. Ultimately, that is a policy decision, and it is one that the Executive have taken.

Mr Allister: A fiscal commission looking at extra fiscal powers for Northern Ireland will be in the context of the figures that I have discussed with you, and what it comes down to is that the only option that you have put forward and articulated is that we introduce water charges for consumers.

Dr Birnie: It is not the only option that I said was feasible. You could look at stamp duty, landfill tax and air passenger duty, and I think that the case for corporation tax may be becoming stronger again than it was several years ago.

It is important to hold in mind two points that may seem in contradiction, but they are not. First, we have to recognise that Northern Ireland has this large subvention, as you called it, or transfer from the UK Exchequer, and that will remain the case. Alongside that, we can still strive for the situation where, at the margin, when Stormont is thinking about other policymaking decisions and spending an extra £100 million or £200 million on a policy, there is some connection, to a greater extent that hitherto, between that decision to raise spending and raising the revenue regionally to fully or partly pay for that. There would be benefits to strengthening that connection. It goes back to the point about accountability and trying to deal with the "free money" mindset or mentality, if I may call it that, evidenced in the renewable heat incentive inquiry.

Mr Allister: All that flexibility under the protocol is restrained by the Azores judgment.

Dr Birnie: It is restrained, but there still may be a case for devolving a tax, if you have confidence. That involves an element of risk. However, in making decisions about the economy, calculated risks sometimes have to be taken. For example, you might feel that varying corporation tax compared with the UK average would cause a sufficient boost to the Northern Ireland economy. Indeed, in some sense, in the revenues collected, you would gain back the deduction and more, but it is a risk. As I said, the Scottish experience of devolving income tax has not been all that favourable. Sometimes, taking on extra tax-raising powers can turn out badly for the devolved Administration.

Mr Allister: Thank you.

Mr McGuigan: Thank you to Dr Birnie and Seamus for the presentation. I want to follow on from Esmond's last point about the experience of Scotland. He indicates that Scotland's experience of devolving income tax was not that positive, but it has ensured a fair tax system. Although Scotland may not have raised more revenue, it has instigated a fair tax system. Hopefully, he agrees with that. Secondly, on his point about corporation tax, we have the option of keeping the rate at 19%, rather than following the UK, which is to return to a rate of 25%. Has any work been done on the additional revenue that could be raised were we not to follow the UK's suit?

Dr Birnie: OK. Thank you very much, Mr McGuigan. It is certainly true that the Scottish system of income tax has become, to use the technical language, more "progressive". Many people who had paid 20% income tax now pay 21%, and those who had paid 40% now pay 41%. In the rest of the UK, those who had paid 45% now pay 46%. The point of income at which you start to pay 41%, as it now is in Scotland, is, at around £44,000, considerably lower than in the rest of the UK, where it starts at around £50,000. How you judge that is in the eye of the beholder. It has moved in a progressive direction and towards greater equality of outcome. Of course, if you are, say, a school principal in Edinburgh and earn £50,000 per annum, the monthly income tax that you pay is now roughly £100 higher than that paid by your counterparts in England or Northern Ireland. The extra income tax from people who are higher up the income scale is appreciable. You can judge that to be good or bad, depending on your political preferences.

On the corporation tax point — maybe the Committee will have that debate in the future — we need to ask whether Northern Ireland wishes to stick at the current 19% when GB goes up to 25%. In other words, does Northern Ireland wish to create a six percentage point divergence? How much would be deducted by the Treasury? You are back to the Azores question, which applies in some shape or form, whether through the protocol or through lack of Treasury forbearance. We do not know how much the deduction might be because the question has not yet been asked, and the calculations have not been made, but I suspect that it might be considerable and possibly between £150 million and £300 million per annum.

Finally — again, this work has not been done yet — you have to ask what impact a 19% rate here, compared with 25% in England, Scotland and Wales, would have on the Northern Ireland economy: for example, on the promotion of inward investment or the development of indigenous companies. I am sorry that I cannot give you a definite answer. The work has not yet been done because the Chancellor announced the change only in March. In a sense, policymakers in Belfast have to work out what position they should adopt in light of that situation and in light of changes that are happening in America and, no doubt, in other parts of the world.

There are big changes in the OECD's approach to corporate taxation and, at a global level, to how digital companies are taxed. Many things are fluid. That is likely to have a big impact on the Republic of Ireland's 12·5% rate in the future. Northern Ireland is a small region, and we need to be fleet-footed and think about how we position ourselves in that broader, shifting international tax context.

Mr McGuigan: OK, fair enough. You mentioned some taxes that are unlikely to be devolved. Scotland and Wales, as you said, have devolved stamp duty, landfill tax and income tax. Are there likely to be particular barriers to those three taxes, for example, being devolved to the North? If so, what are they?

Dr Birnie: There are not necessarily any very strong practical impediments. I am thinking back to Mr Allister's question about administrative costs. The issue of administering taxes has to be factored into the equation when you work out whether devolved taxes are worthwhile. If Northern Ireland devolved stamp duty or landfill tax, there would be an administrative cost. It might be several million pounds per annum. The Scottish experience suggests that having those taxes devolved and administering them in the region can cost in that order of magnitude. You need to ask whether you wish to pay for that. You would be collecting revenue but paying for the admin, whereas, at the moment, it all comes out of HMRC and the central costs of running the UK Government.

Another thing to bear in mind is the stamp duty threshold — at least, the threshold as it was prior to COVID. At the moment, we are in the unusual situation of having a stamp duty holiday, COVID measures and so forth. Hopefully, with improved public health, stamp duty will probably return in the summer. Obviously, it is not good news in that sense, but the improvement in public health is, of course, good news. The threshold was £125,000. House prices in Northern Ireland are, on average, lower than the UK average. The most recent figure from Land and Property Services (LPS) suggests that, at the end of last year, the average house price in Northern Ireland was about £147,000. I think that I put the figure in the written note that I sent. We are not very far above £125,000 in any case. The benefit from raising the threshold in Northern Ireland might be quite small because so many houses in Northern Ireland already sell at below the threshold or not much above it. Therefore, in practice, prior to March 2020, most house purchasers in Northern Ireland were not paying a huge amount of stamp duty, although there are obvious exceptions at the top end of the market.

Mr McGuigan: You talked about the positive example of the plastic bag tax: it changes people's behaviour and raises additional revenue. There are likely to be further environmental and healthy lifestyle taxes. Do you have any sense of potential taxes along those lines, where they have worked or problems that they may encounter?

Dr Birnie: That is a fascinating question. There is scope, and, to some degree, certainly at the UKwide level, let alone what happens at the Northern Ireland devolved level, certain changes will be necessary. The point is often made that very considerable revenue — I think that, in total, it amounts to nearly £40 billion per annum — is raised in the UK from taxation on vehicles, be it vehicle excise duty or, of course, the considerable duty paid every time you buy a litre of petrol or diesel. If we are moving to a situation where fossil fuel-based cars and lorries will, over the next decade, 15 years or 20 years, gradually be phased out, that revenue stream will gradually trickle away. Indeed, it might, if other policies move with reasonable speed, start to decline quite rapidly. As we move to less carbonbased transport — electric vehicles etc — the challenge will be how to tax that. Again, this goes back to Mr Wells's question about how much political courage you want to have. At some point, we need to think about road pricing policies. In other words, at the moment, we charge people for the amount of petrol that they put into their car, and there is annual car tax, be it £100, £300 or whatever, depending on the car. Instead, it seems fairer — we probably have to move down this route — to use microchips in the bonnet, cameras and so on so that people are charged according to the number of miles that they drive and hence the amount of pollution or congestion that they add. That is the agenda in the long run. Politically, it is challenging, but it is entirely feasible. It has been done in other parts of the world. The technology exists, so it can be done, and, arguably, it will have to be done as fossil fuel usage, particularly in transport, declines.

Mr McGuigan: That was very interesting. Thank you.

The Chairperson (Dr Aiken): I have put LPS off until just after 4.00 pm. I have given extra time because this is important.

Mr O'Toole: Thanks for your evidence. Esmond's, in particular, has been very useful and thorough. The ex-Treasury official in me is nodding along when you talk about revenue-raising possibilities; the politician in me is telling me to stop nodding.

I agree that the fiscal commission is a good thing. On Monday, we debated the regional rates order in the Assembly. It is clear that that is, basically, the only revenue source that is used and managed actively by the Executive. Locally, together, the regional and district rates total over £1 billion of revenue. I strongly agree that there is lots of potential for additional fiscal devolution. However, given that we do not yet know what will happen to the structural nature of commercial property generally or how economic behaviour has shifted, are you concerned that the one area of substantive revenue raising that we have might already be at risk?

Dr Birnie: Thank you, Mr O'Toole. You are, of course, right that there has been a huge shock to the commercial property market. There are a lot of unknowns, and that creates an element of uncertainty. It is worrisome because, as you say, the regional rate is one of the few existing tax and charge-varying powers that Stormont exercises.

In my opening comments, I mentioned the extent to which there are reliefs from non-domestic rates in Northern Ireland. Those reliefs are considerable. In 2015 and 2019, the Department of Finance, or its predecessor, reckoned that they came to over £200 million per annum. Some of that is a revenue loss to councils; some a loss to Stormont. Those reliefs need to be looked at. There is a tension. I am not convinced that it is right that Northern Ireland has a much stronger relief for empty property than England, Scotland and Wales, for example. Given the shock that we have had over the past year, before hitting the economy with another tax impost, as it were, you might wish to see where things settle when it emerges from COVID. In the long run, it is hard to justify the extent of reliefs. In fact, they have been extended during devolution. That is contrary to wise taxation policy, which aims to widen the base but reduce the average rate at which every tax is paid to avoid an excessive impact

on
the efficiency and cost structure of businesses.

Mr O'Toole: I know that you will be involved in the fiscal council, so you might not comment on this, but, if there were to be further devolution of tax powers, in whatever area, would there be a case for having some mechanism to do a proper horizon forecast of the potential revenue raised and the economic impact of it? In conjunction with the Office for Budget Responsibility (OBR), the Treasury forecasts receipts on every tax that is levied. Should we have the power to do that here, or could we just get the OBR to do it?

Dr Birnie: The Committee has invited the fiscal council to appear before it on 9 June or thereabouts, so you will have a chance to ask that question of it then. *[Laughter.]* I will not pre-empt the answer now. This is an important question, but who should do the forecasts? At the moment, a number of university, independent and commercially based forecasting models of the Northern Ireland economy, to varying extents, may or may not be able to forecast revenues from a certain tax. The question that then arises is this: do we rely on that in future, or, as you say, do we go down the route of the OBR in London or, more recently, the Scottish Fiscal Commission — it has just given evidence — which does that for Scotland? We will return to that question on another day. Sorry.

Mr O'Toole: I agree very strongly with the case for at least examining areas of further fiscal devolution. I am also strongly critical of one notable area of fiscal devolution that was mentioned earlier, which is APD. It is, effectively, now a subsidy, not just for non-existent flights but for flights that,
with the best will in the world, appear very unlikely to return to Northern Ireland, given the state of global aviation. The block grant adjustment that was constructed at that time came from a forecast of forgone revenue, which, presumably, came from, bluntly, the Treasury. It was in the Treasury's interests not necessarily to take a maximalist approach but not to skimp when it came to the forecast of forgone revenue, and that has worked in its favour. That is a statement rather than a question. Is that an unfair depiction of what has happened?

Dr Birnie: I would not necessarily say that the Treasury's behaviour was malign —

Mr O'Toole: No, I do not think that at all.

Dr Birnie: — or unreasonable. At that time, it was hard to forecast the commercial robustness of continental airlines and, in particular, their Belfast routes. Subsequently, Norwegian operated a route to Boston for a number of years. It illustrates the point that there will always be risks. In that case, the risk came down badly for Northern Ireland, but I would not necessarily blame anybody for that. The deduction is somewhere between £2 million and £3 million per annum.

There remains the question of whether, with the remainder of flights that we have — air traffic is still very low; hopefully, we will have those flights as we open up post COVID — we should move towards a blanket devolution of the entirety of APD.

Mr O'Toole: Including short-haul APD.

Dr Birnie: Obviously, the strong view from the tourism sector and some parts of the broader business community will be that the catalytic effects on the economy could be considerable. You have to weigh that against the carbon produced by air travel. As I said — various evidence backs up this point — APD was never a genuine environmental tax. It was not well designed, and it is possible, with intellectual consistency, to argue that, yes, we could devolve, reduce or, indeed, scrap it, but there should be some broader system of taxing or charging for carbon in the round.

Mr O'Toole: This is, I promise, my final question, and it is on the subject of borrowing. Clearly, there is
a significant subvention/fiscal transfer to Northern Ireland. In a sense, at the moment, that applies to most developed countries. Very few countries currently raise what they spend, and they are borrowing. We have not used our reinvestment and reform initiative (RRI) borrowing headroom for a while. Do you think that we should do more of that, and are you satisfied with the way that we used it in the past? Has it actually been used for investment rather than for slightly less value-added things?

Dr Birnie: There are some very good and deep questions there. They are hard to answer. I have not seen data that would allow one to examine how much of the money that was borrowed through RRI was funding capital as opposed to resource spending. I suspect that it has been something of a mix. Therefore, has it fulfilled the name on the tin: reinvestment and reform? It has to an extent but maybe not as much as was hoped for in 2002-03 when the then Chancellor, Gordon Brown, introduced it, or gave that power to the Executive.

Importantly, the Executive need to get some sense of the totality of debt that the public sector in Northern Ireland has, and by that I mean not just Departments but various public agencies and local government. The Executive have not done that hitherto, and, if they have, it has not been in the public domain. How big is that debt? How big is the annual interest charge, the unitary charges or whatever? They might also want to look at payments relating to past public-private partnerships (PPPs) and PFIs in order to get some sense of how much debt has been carried. They might then want to move on to consider whether the debt is still at a sustainable level and whether should we borrow more. It is hard to answer those questions because we lack that data. We know that Scotland and Wales have borrowing powers as well. Stormont's borrowing powers are not out of line with those of Wales on a per head of population basis; they may actually be greater. Scotland, according to some definitions, probably has a higher borrowing headroom or capacity, although not all of it has been used hitherto.

Mr O'Toole: Thank you.

Mr Catney: Thanks very much, Dr Birnie. I had a little bar on Donegall Quay back in the early 70s, and I saw the vast revenue that was going into the Harbour Commissioners. That has not been mentioned in your thoughts or as part of your brief. Should the Executive be looking at that because they seem to have very good trading terms in order to be able to amass that amount of wealth?
My second question goes back to Mr Allister's about the amount of money that is involved. Scotland and Wales earn something between 20% and 30%. We in Northern Ireland are at 9%. Mr Allister asked about the intervention and how much it involved. In the small businesses that I have sold in my lifetime, I had corporation tax to pay as well as the profits that were made on them. Has a study been done in Northern Ireland of the total tax lift from the Six Counties that goes across the water and of what is subtracted from that in order to find out what it takes to run the place? Your figure was £2 billion or £3 billion. Does that take into account all the revenue that is lifted collectively in Northern Ireland and amassed into that pot, which then leaves and goes across the water, regardless of what comes back to us through Barnett?

Dr Birnie: I will deal with the bit at the end. The Office for National Statistics (ONS), the UK statistics agency, which is independent of government, uses apportioning techniques. It tries to capture or represent all the tax that is collected in Northern Ireland. Some of it is an estimate that is based on the share of the population and shares of other types of economic activity. When I say that the levels of income tax is £2·9 billion and VAT is £3 billion-plus, I mean that there is some uncertainty, plus or minus, about those admittedly big figures, but I think that they are probably broadly correct. Hence, in turn, the figure for the fiscal transfer, which is the £9·4 billion in 2018-19, is also broadly correct, albeit that it includes the non-identifiable spending on UK national debt, overseas aid, overseas representation and a Northern Ireland share, as it were, of UK general defence spending.
In your question, you mentioned the Harbour Commissioners. Were you talking about Belfast harbour, or which port were you talking about?

Mr Catney: I was talking about the Belfast Harbour Commissioners and the amount of money and wealth that was accumulated.

Dr Birnie: Right. There is a question about the so-called reserves of various public bodies and agencies across Northern Ireland, not just those of the various ports and the Harbour Commissioners, and it would maybe be unfair to single them out.

The NICVA report was really about tax variation. However, there is a legitimate question about whether Stormont — I mean the Executive and Northern Ireland's central Government — could say to various public agencies across Northern Ireland, such as further education colleges, universities — I am an employee of a university — and the Harbour Commissioners etc, "To the extent that you have reserves, instead of us providing you with a grant from Stormont, you should make do with running down your reserves". That is a hugely debatable and controversial area. Of course, there will be varying estimates and views of how big those various public bodies' reserves are and, indeed, in some cases, whether they really have net reserves at all because of the level of debt and so forth. Therefore, to what extent is it meaningful to talk about their reserves?

About 10 years ago, there was a proposal to fund a certain level of public expenditure that was based on extracting a certain amount of reserves from the Belfast Harbour Commissioners. Rightly or wrongly, that did not happen. We are obviously in a different economic position now. I am sure that they will speak for themselves, but those in Belfast Harbour and their counterparts in the other Northern Ireland ports and harbours will probably argue that this is a very difficult time for them given the COVID-related recession and the impact on Great Britain to Northern Ireland trade. They would probably argue that this is not a good time to ask them to surrender their reserves.

It is an interesting question. I do not have the data to say to what extent there is scope for Stormont to reduce the call on its block grant by requiring those various public bodies to, as it were, operate off reserve rather than from cash that comes as a grant from the Northern Ireland regional government.

Mr Catney: And the last—.

The Chairperson (Dr Aiken): Just a short question. We are running over time a wee bit.

Mr Catney: I understand, Chair. I will try to be as quick as I can, but I waited quite a long time to get in. Thank you. *[Laughter.]* The corporation —.

The Chairperson (Dr Aiken): That is me told off. *[Laughter.]*

Mr Wells: Resign. Resign *[Laughter.]*

Mr Catney: No, there have been enough resignations. *[Laughter.]* The 12·5 % to 13% rate of corporation tax in the South of Ireland makes it nearly impossible for Northern Ireland on this island. It is competing with both jurisdictions in order to try to have stable business that can compete with our Southern counterparts. Why would we even look at trying to increase that rate? The talk should be about trying to lower it rather than to increase it. Do you agree? What is the point in the British Government trying to raise that rate to 25%? That would put us in a position where we would find it nearly impossible to attract inward investment or to compete.

Dr Birnie: I would not put it as strongly as saying that it would make it impossible, because there is a range of factors that make an area attractive to inward investors. Those include your availability of skilled labour, the wage rates and other labour costs that have to be paid, your transport infrastructure and whether you have ready access to research and development facilities. To some extent, certainly in the past and, no doubt, in the future, Northern Ireland, obviously, has had to play to its own particular strengths and to say to inward investors, "You could go to Dublin, Dundalk or Cork and get very low corporation tax, but, equally, if you come to Belfast, you will find that we have certain strengths as well". In some areas of the economy, that has worked quite well. In the last 15 or so years, the greater Belfast area in particular has had an extremely high rate of inward investment from US-based service sector companies.

However, there would be a widening gap in corporation tax if we went up to 25% and the Southern Irish rate remained at 12·5%. Remember that that is the nominal quoted rate, but the practical rate that some very big companies in particular in the Republic are actually paying is much, much lower. We have seen that from the experience of, for example, Apple and the controversy about its tax payment, or lack of tax payment. The rate that is paid is sometimes far below the nominal quoted 12·5%. That makes life harder for Invest Northern Ireland and for businesses that are operating here and competing. I certainly cannot argue with that. I do not know whether it makes life impossible, but it makes it harder.

Mr McHugh: Tá fáilte romhaibh, a Esmond agus a Sheamuis. You are both very welcome. Our main focus today was on assessing the transfer of powers to Northern Ireland, looking at our ability to raise funds and taking responsibility for the distribution of the same funds. When you look at the Northern Irish economy at the time of partition, you see that it was a net contributor to the British economy. It is now the opposite. You talked about the intervention that we depend on each and every year. Whilst one does not have those figures exactly one way or the other and there is still a lot of dispute about the exact amount of moneys that are raised in this economy, there is no doubt about one thing, which is that we are totally dependent.

We are not functioning that well as an economy. Irrespective of whether we have the ability to raise some of our own taxes, which I think is welcome in itself, it still will not address the central issue, and that is the creation of wealth in the Northern Irish economy. It is the very reason why house prices and everything else are much lower than in other places. Basically, the wealth is not here to create that kind of demand for houses or whatever it might be to be at a higher price.

Esmond, you alluded to other advantages that we might have in the Northern Irish economy, including our labour force being well enough educated, but that is exactly what we are competing on with the Republic at present. It has exactly the same qualities, but, over and above everything else, it is still part of the single market. It is now to our advantage that we will be part of that single market as well. I will come back to my point that, when it comes to different instruments for raising taxation, are those not totally and absolutely dependent, first and foremost, on the creation of wealth?

Dr Birnie: Thank you very much, Mr McHugh. You make an excellent point about the emphasis on creating wealth. I certainly endorse that. That creates very real dilemmas — they are what we call "trade-offs" — where there are two things that you want to achieve, but, if you go for one, you get less of the other, and, if you go for the other, you get less of the first thing. It is all very well devolving income tax to Stormont. You might say, "Let us go down the Scottish route of pushing up the 40% rate to 41% or 42% and the 45% rate to 46%, 47%, 48% or whatever". However, we have a limited number of entrepreneurs, and, if you do that, arguably, you will discourage any growth in entrepreneurship. I cannot say to you, "You are the politicians, you stood for election, you have been elected, you have mandates, and those mandates, to varying degrees, will reflect either a wish for greater equality or a wish for greater growth and efficiency". Somehow or other, you have to balance that, and it will be difficult in the case of income tax, for example.

Mr McHugh: If I may come back on that point, what, in your opinion, hampers the growth and development of the economy for the North of Ireland in particular in comparison with the Republic?

Dr Birnie: Again, that is a very interesting question. It would take many sessions to get to the heart of that. I have long felt that, for decades, the key strategic weakness of the Northern Ireland economy is that we have a relatively low level of productivity; that is, output per worker. That means that, in turn, we cannot pay wages that are as high as those in other parts of the UK, Britain and Ireland or Europe. It also means that our businesses tend to be less competitive and expand less rapidly. Why do we have a low level of productivity? There are many explanations for that. Some of it is to do with our industrial training system. We probably do not have enough apprentices who are trained in technical and vocational skills. There are also questions about the capacity and capability of our management. About a decade ago, a very interesting survey was conducted using a method that was developed by McKinsey and Company consultants. It showed that management capacity in Northern Ireland was lagging behind that of a wide range of other global economies. Fundamentally, those are the issues. At the start, I said that fiscal devolution will not be a miracle cure. It might help a little bit. For example, incentivising air travel through cutting APD might encourage new ideas and inward investment to be brought in. Cutting corporation tax might have some effect when it comes to bringing in new companies, but fundamentally, we need to address the training system and the capacity, experience and skills set of senior managers.

Mr McHugh: It might be unfair of me to ask you to give an answer to this one, but, having looked at the likes of the North of Ireland, I believe that addressing those issues in isolation will not allow us to really get to the core of the matter. In order to realise our full potential, even with regard to how we could contribute to the economy of the whole island, it demands a much wider debate on everyone's part. It is central to what is happening in the north-west now, in particular, and it should be widened for the whole island.

Dr Birnie: By all means, Northern Ireland firms should, where appropriate, collaborate with their counterparts south of the border. However, on other occasions, they will be competing. Similarly, we need to develop to their full potential the links that, undoubtedly, exist between businesses here and in Great Britain. Some of this is politically blind, as it were. We need to strengthen our capacity to compete and collaborate, North/South and east-west.

Mr McHugh: I agree. Go raibh maith agat.

The Chairperson (Dr Aiken): Seamus and Esmond, thank you very much indeed for a comprehensive evidence session. Seamus, sorry we did not get much time to talk to you. Esmond, I understand that we will talk to you again fairly soon. We are looking forward to that.

Mr McAleavey: Thank you, Chair. It is much better to talk to the expert. *[Laughter.]*

12 May 2021

Members present for all or part of the proceedings:
Dr Steve Aiken (Chairperson)
Mr Paul Frew (Deputy Chairperson)
Mr Jim Allister
Mr Pat Catney
Ms Jemma Dolan
Mr Philip McGuigan
Mr Maolíosa McHugh
Mr Matthew O'Toole
Mr Jim Wells

Witnesses:
Mr John Ireland Scottish Fiscal Commission
Ms Claire Murdoch Scottish Fiscal Commission
Dame Susan Rice Scottish Fiscal Commission

The Chairperson (Dr Aiken): Are you happy that we call you Dame Susan, or does Susan work?

Dame Susan Rice (Scottish Fiscal Commission): Sorry, I lost your voice briefly. Are you asking me to say a few words at the beginning?

The Chairperson (Dr Aiken): Yes, please.

Dame Susan Rice: Thank you very much indeed. Good afternoon. Thank you all for inviting the Scottish Fiscal Commission to give some evidence today. I am joined by two of my colleagues: John Ireland, who is chief executive of the commission; and Claire Murdoch, who has a very senior role in the commission. Claire has worked for the commission for five years now, and, like me, was involved in our transition from a non-statutory body to our current statutory status. Amongst the three of us, we have a lot of history as well as the current. We are more than happy to answer any questions that you have about our experiences of setting up and working as an independent fiscal institution or fiscal council in Scotland, but I thought that it would be useful if I first drew out a few points around our origins, our key working relationships and our independence.

The Scottish Fiscal Commission was formed in 2014, when new tax powers were first devolved to the Scottish Government. Back then, we comprised three commissioners — two colleagues and myself as
chair — all part-time, unpaid and with no support at all, a bit like the three musketeers. We were responsible for judging whether the Scottish Government's forecasts of receipts from the then newly developed taxes were reasonable. That was our parameter: reasonableness. It was a job of scrutiny.

n April 2017, a year after the Scottish Government had agreed their new fiscal framework and the Scotland Act 2016 had been passed, the remit and responsibilities of our commission changed profoundly. We became Scotland's official fiscal and economic forecaster, an independent statutory body, responsible for producing the central forecasts ourselves, rather than simply vetting the Government's forecasts. Our work now is to forecast the Scottish economy, devolved tax revenues and the newly expanded suite of devolved social security payments. In addition, we have to assess the reasonableness of the Scottish Government's borrowing plans. To do that, we now take a broader look at the Scottish Government's funding and how that changes over the course of a year. We have also expanded. We are now four commissioners, still part-time, but we are paid to some extent and are supported by 22 brilliant staff. I am afraid we do not have any pigeons on our payroll, however, *[Laughter]* so *[Inaudible owing to poor sound quality]* today. We took a look back; that was funny. We took an early decision that the forecasts would be produced in-house by our own analysts — there
was a reason for that — and that the models would be owned and maintained within the commission. We share copies of our models with the Scottish Government's analysts so that they can provide advice to Ministers on the same basis as we prepare our forecasts. However, ultimately, as

commissioners, we four are personally responsible for the forecasts. We sign off the forecast judgements. We are in the room when the Government challenge us on the forecast. We sign the forecast document. That contrasts, for instance, with the approach taken by our colleagues in London at the Office for Budget Responsibility (OBR), who commission their fiscal forecasts from relevant UK Departments. Scotland is one of a very few subnational countries in the world with an independent fiscal forecaster, so we are conscious of others looking in at us and, especially, of how our role dovetails with the OBR's in London.

The OBR plays a comprehensive, UK-wide role that includes a broader remit on expenditure than ours, as well as on issues such as fiscal sustainability, where the UK Government's borrowing powers are obviously much wider than those of the Scottish Government. The OBR takes a top-down view of the UK and its regions. Our commission draws on new data sources in order to take a bottom-up view of Scotland. Although we work closely with the OBR, we are firmly independent of it, as we are of the Scottish and UK Governments. We can reach different conclusions and judgements to the OBR in producing our Scottish forecasts.

I turn finally to independence — not Scottish independence, but with a lower case "i". I must emphasise that. We are not looking at political independence, because that is a matter on which the commission must be and is strictly impartial. I refer to the independence of the work of the Scottish Fiscal Commission as an organisation and the actual outputs we publish. A key objective of the commission has been to establish its independence from government and ensure that it is seen as credible. We have always acted independently, but perception also matters greatly. When our mission was first mooted and I was asked to become chair in 2014, I was helpfully steered towards the Organisation for Economic Co-operation and Development's (OECD) 22 principles for independent fiscal institutions. The principles have remained on my desk ever since — actually in the desk drawer but very close at hand. Independence is key to the commission's operation, efficacy and credibility. The 22 principles define and guide an institution such as ours to demonstrate and exemplify its independence.

Back in 2019, after two years of operation as a statutory body, we were pleased to receive an endorsement of our independence. In its peer review of the commission, the OECD credited us with having quickly developed a reputation for delivering independent and credible forecasts, reflecting, in part, the quality of our modelling, which had been subjected to their technical assessment. It also credits us with having enriched the fiscal debate in Scotland.

The OECD principles also informed our founding legislation, which includes several guarantors of independence. Those include clear rules on the appointment of commissioners and on Parliament's involvement; a right of access to information that may be held by the Scottish Government and its agencies that we may require to produce our reports; and the power to produce reports on the resources that are available to the Scottish Government whenever we want to produce them. The legislation has served us well in establishing an effective fiscal council, and we were encouraged that the OECD reviewers agreed, saying that it could act as a model for others wishing to establish fiscal councils.

I could say a lot more about the experience of the last seven years, but I will leave it there. My colleagues and I are happy to answer any questions.

The Chairperson (Dr Aiken): Thank you very much, and thank you for your written briefing as well. I have a couple of questions.

First, when you talked about modelling, you said that you all agreed to use a similar modelling process. How difficult was it to get Departments to buy into that? Of course, in Northern Ireland we have a five-party coalition, and there would not necessarily be that full political buy-in from some Departments. How easy was it for you to achieve agreement between everybody to work on the same modelling?

Dame Susan Rice: Let me be clear that my answer responds to the question that you have asked. In the commission, we have created our own models to use for all the payments and benefits and the economic and fiscal forecasting. Those are our models. We share the basis for those models, and we put a huge amount of information about them on our website. I talked about independence but not about transparency. We are also very transparent. We share the models, which develop and change over time, with the analysts within government so that they know the basis on which we are looking.

Along the way, they often use their own models to do a lot of the work as they consider policy options and as different parties consider policy options. One of the important points in our legislation is that we do not do costings or look at the potential policies of all the parties. We only become involved when an official policy is presented to Parliament. That may be part of the answer.

How did we get all the parties to agree? Way back when, our sense was that there was a concurrence in the Scottish Parliament that, after it had done a lot of the research that you are doing, looking around at other examples, all the parties were behind our coming into being. Over time, we developed a way of working, and we talked to them and worked with them. We have not had party-particular challenges that have been sustained over that period.

The Chairperson (Dr Aiken): My next question is about one of the biggest problems that we anticipate. As a Committee, we have great difficulty getting evidence, data and reports on time. How easy have you found getting information out of government so that you can do the business of monitoring and oversight? I really like the way you talk about transparency. In Northern Ireland, we probably see just the very top level of the Budgets, and particularly the outcomes. We never get to see the detail behind that. What degree of — I hate using the word, and I apologise for it — granularity are you getting on the economic and budgetary detail coming from government?

Dame Susan Rice: I will say very little and turn to my colleagues. This evolves over time. That is one important point. Over time, we learn what we need. We work closely with colleagues in the Scottish Government. From the very start, we developed a protocol for working with them. We have a protocol with individual agencies or teams and with some of the UK agencies. Some have been easy to put together, and others have been more challenging. They take time, and they take relationship-building, but we seem to get there.

You have been involved in a lot of those protocols, Claire. Do you want to say something?

Ms Claire Murdoch (Scottish Fiscal Commission): In working with the Scottish Government to get the data that we have, because we have a key role at fiscal events — when the Budget happens, we are producing the forecasts, and we have to assess the Government's borrowing plans — we have a timetable with the Government that is agreed by both parties. There is a process in there that sets out when we will request information and when we will get it. We put that in place, and we have in the legislation a statutory right of access, although we have not had to test that so far because we have received what we needed.

Your question about the level of granularity that we get is an interesting one. The focus of our work is generally on producing the tax and social security forecasts, but, over the past five years, we have developed our work, looking at the whole Scottish Budget. Some of the challenges that you alluded to have been challenges in Scotland to do with the level of transparency around the Budget. Because we are playing a role here, we are now starting to ask the questions and getting more information. We are putting it out there. In part of our report, we have developed what we call a "fiscal overview chapter" where we look at the Budget as a whole. Over the past year, we have developed fiscal updates where we are looking at the Scottish Budget and how it is changing.

We have been able to get the information that we need to do our job. Our job has evolved, and what the Parliament has asked us for has evolved. What you would potentially get out of a fiscal council depends on what you ask it to do and whether you gave it the right of access to that information. If you want it to be able to look at more granular information and publish it, you need to put it in the legislation or make it clear that that is the role of the fiscal council.

The Chairperson (Dr Aiken): Claire and Susan, you have probably already answered the final question that I am going to ask before I hand over to the rest of the Committee. How important is it to be on a statutory basis and have legislation that is supportive of you?

Dame Susan Rice: Very. The legislation has to be really thoughtful. It is not good enough just to be there by way of statute. What our role is and is not is clearly defined, because that stops us being pulled into political debates that we should not be pulled into if we want to remain independent. The wording and the concepts behind the statute are really important. John and Claire, I believe that you will agree with that notion.

Mr John Ireland (Scottish Fiscal Commission): Yes. I will perhaps add one thing that is sort of relevant to the first question as well. Claire mentioned one important part of the legislation, which is the statutory right of access to information. Another part that is really important is the statutory requirement on the Government to use our forecasts in setting the Budget. The fact that they have to use our forecasts gives us a lot of weight, and it means that they have a vested interest in understanding our models, because part of the forecast is the effect of any policy measures and any variations in taxation or in social security payments. Their Ministers will have to use our estimates of those costs, so they have an incentive to use our models so that they can advise Ministers on our likely estimates. That part of the legislation is also tremendously important. It is really what gives us bite, I think, on the process.

The Chairperson (Dr Aiken): Apologies: I am not familiar with the enabling legislation that set up your council. You say that there is a statutory requirement to use your forecasts: was that in from the beginning?

Mr Ireland: Yes, it has been in the legislation from the beginning. It appeared in the legislation late in the legislative process, at stage 3 of the passage of the Bill, as part of the negotiations between the Scottish Government and the Treasury on the fiscal framework.

The Chairperson (Dr Aiken): Thanks very much indeed.

Mr O'Toole: Thanks, all, very much for coming and giving us evidence. It is really critical, and your experience is really useful to us. On the point that you were just talking about, the Fiscal Commission was established in June 2014 — I was working in the Treasury at the time, so I remember it — but you were not established in legislation until the Scottish Fiscal Commission Act 2016. Is that right? There was about a two-year interregnum where you did not have a statutory footing?

Dame Susan Rice: It was in April 2017, so it was closer to three years. The legislation passed in 2016.

Mr O'Toole: It did not come into force until 2017?

Dame Susan Rice: Yes.

Mr O'Toole: What differences did you observe once the legislation had passed and you were on a statutory footing? Did it just give you a greater sense of confidence, or did it change the way in which devolved Departments interacted with you?

Dame Susan Rice: Being on a statutory footing made us begin to think about what the requirements under that statute would be. To begin with, there were three devolved taxes, and our job was to make a pronouncement about the reasonableness of the Scottish Government's forecasts for those taxes. It was a relatively simple remit by comparison with what we do now. The statute that came into effect in April 2017 added a good bit to the remit. It was not only about being on a statutory basis but about what the statute required us to do. That led us to understand that we needed to appoint staff. We needed to have a team of highly qualified technical analysts and experts to create the models. It led to a lot of steps.

Claire, you are nodding. You were there at that transition and very much part of the negotiations on it.

Ms Murdoch: I was part of the team that supported Susan in the non-statutory role. At that point, we were scrutinising the Scottish Government's forecasts. We got full support from the Scottish Government. They were transparent about things that we asked for. We did not have any difficulties. It is difficult to say whether that was because we were about to become a statutory body, but support from the Government was there. You can operate as a non-statutory body, provided that the Government support that. The reason for being on a statutory footing is, effectively, to force that Government and any future Governments to continue to make sure that the commission has a role or can act independently.

Mr O'Toole: It is interesting that you do both a full economic forecast and a fiscal forecast. Why is it better to do an economic forecast than just a fiscal forecast? What is the advantage of that?

Dame Susan Rice: I will give you my answer, and then I will turn to John to will give you a better answer. Until our inception and the time that we got going on this, for the most part there had only been two-year economic forecasts in Scotland. We were required to do a five-year forecast, and we were filling a gap that needed to be filled. That was of benefit to the Government and to the Parliament. In addition, we have responsibility for part of income tax — non-savings, non-dividend income tax — paid by Scottish designated taxpayers. That forecast depends on some elements of our economic forecast, so it just made sense to fulfil that remit. It was also very helpful that we were doing the economic forecast.

Mr Ireland: I will add one more thing. It is a feature of the fiscal framework that, in the event of a Scotland-specific economic shock — in other words, the Scottish economy performing less well than the UK as a whole — there are additional borrowing powers that the Scottish Government can access.

The test for that is partly done on data, but it is also done on our forward-looking forecasts. If you have a glance at our latest forecast reports, you will see that that shock was triggered for the first time in January. We use the economic forecasts in forecasting income tax and other tax receipts. It is part of the fiscal framework for the Scottish-specific economic shock and, as Susan said, we got a lot of coverage of our work on the basis of our forecasts initially. That helped us to raise our profile as an institution.

Mr O'Toole: Is it fair to say that the Scottish Fiscal Commission has a relatively maximalist approach or remit under the framework to do the Scottish equivalent of the OBR's economic and fiscal outlook (EFO), a full economic and fiscal forecast, as opposed to a relatively narrow judgement on spending plans?

Mr Ireland: It is a little bit more limited than the OBR because we do not produce, for example, forecasts of government expenditure in aggregate. We only produce social security payment forecasts, devolved taxes forecasts, income tax forecasts and full economic forecasts. Our remit is narrower than the OBR's.

Mr O'Toole: OK. I want to go back to the economic forecast point, and then, if I may, Chair, one final one after this — actually, two final ones. I will be quick. When it comes to the economic forecasting point, has there been any reaction from the economic policymaking firmament in Scotland? For example, do they welcome the fact that there is now an official independent economic forecaster enshrined in legislation? This is not to in any way demean or undermine the work of academics, banks or whoever, but has the fact that an officially mandated, independent economic forecast exists been welcomed?

Mr Ireland: You can see the welcome for that in our news coverage. If you do a simple look back at where the coverage comes from, you see that our economic forecasts get quoted an awful lot. You can see it in the real preference of people. If they want to find an economic forecast for Scotland, they tend to go to us, because we produce those forecasts on a five-year basis, which is a longer term than most other people in Scotland provide forecasts for. We do ours on a pretty regular basis as well.

Mr O'Toole: Do you do forecast evaluations?

Dame Susan Rice: Yes.

Mr Ireland: Yes. We all simultaneously say yes.

Mr O'Toole: My next question is an obvious one: how well do you do? *[Laughter.]*

The Chairperson (Dr Aiken): Spoken as an ex-Treasury official.

Mr O'Toole: Obviously 2020 was a difficult year, but how have you broadly done from your perspective?

Dame Susan Rice: I will let my colleagues give you the detail, but I just want to say one thing. In talking to a lot of our key stakeholders, who are very interested in our work but do not necessarily have a strict economics background, it took quite a while for them to understand that "forecast error" is a technical term in economic forecasting, and it does not mean that we did not add two plus two correctly. I will just share that with you, and you can share it among your parliamentary colleagues. With our forecast evaluations, we go through painstakingly all the differences and all the reasons. We discuss those at Committee in Parliament, and we are challenged about them. We then use those differences to refine and improve the forecasts in the future. We have not yet evaluated the most recent forecasts, because they are quite recent and we need a few months to do that. Probably in early autumn, we will have something back on the more recent forecasts. For a more granular answer to that, I will pass over to John or Claire.

Mr Ireland: I will say a little bit to begin with, and Claire can pick up on it as well. It is quite a difficult question to answer, because we have not been doing forecasts for that long, so we have a relatively small number of forecasts under our belt. We have also had a fair number of data problems as well. Also, we are forecasting some very new stuff; Claire can perhaps add something on social security payments there. It is fair to say that, when things settled down, we were roughly within the same sorts of limits as the OBR forecasts. There have been particular issues around income tax, because we were forecasting for a while without having proper out-turn data on Scotland, so we were making an estimate of the out-turns from an imperfect survey. HMRC did not produce any out-turn data for a year or so, and that caused more difficulties. In broad terms, we are getting towards OBR tolerance. Perhaps Claire should add a little bit there on social security.

Mr O'Toole: This is my final question; I will keep it limited. You are the obvious example for us of a subnational fiscal institution in the UK, so we are obviously going to look to you. Has the Department of Finance here asked for your input in developing its plans for our independent fiscal institutions? If it has not asked you, what are the top tips that you would give it? What is absolutely essential for a subnational independent fiscal institution to be successful in the context of a devolved UK?

Dame Susan Rice: I had a conversation with someone from the Civil Service in Northern Ireland who has been involved in pulling this together, so *[Inaudible owing to poor sound quality.]* Claire, I do not know whether you were contacted as well. The answer is yes; they have done. Do you both want to go with your one or two tips? I know what mine are. Claire, what would your couple of tips be?

Ms Murdoch: Be clear about what you want the organisation to do in the legislation. I would also make sure that the organisation has the power to comment on any fiscal matter. That is one of the things that has given us the most scope to expand our work into areas that we, the Finance Committee and the Scottish Parliament have subsequently thought are important for us to look at. That is my top tip.

Mr Ireland: Claire has said everything that I would say.

Dame Susan Rice: I agree with that. Above all, as you shape your legislation, you should think very carefully about the unintended consequences of any statements in that legislation in relation *[Inaudible owing to poor sound quality.]*

The Chairperson (Dr Aiken): Susan, we need to hear this. You just froze out there.

Dame Susan Rice: Uh-oh. I will give you an example: funding. Fiscal councils elsewhere in the world have had their funding played with because they had annual funding promises. It is very hard for assemblies and parliaments to give multi-year funding promises, but we found a way to get at least a three-year look ahead for our funding needs. That gives us more freedom to speak up now; we know that we will not be put out of business tomorrow because the budget will not be taken away. You can enshrine such things in legislation so that it is smoother when you get going.

Mr Allister: Thanks for your evidence. It is pretty clear that the catalyst for the appointment of the Scottish commission was the transfer of tax-raising powers to Edinburgh. Does it therefore follow that, without at least significant tax-raising powers, there is a limited, if any, role for a fiscal commission?

Dame Susan Rice: It can be what you make of it. The OECD has a network of fiscal councils and commissions around the world. One gets to observe and know them and interact with them over time. So many of them are different. There was no model like ours when we were formed. That is true of others as well. If you value an independent, dispassionate, evidence-based view of any aspect of your Budget-setting process, there is a place and a role for a fiscal council.

Mr Allister: But is the key component or work of a fiscal council/commission not to assess how the taxes raised are being efficiently, or otherwise, spent? If you are not raising taxes, how do you do that?

Ms Murdoch: I will add a little bit about our work. The primary role that we are playing is looking at tax and social security forecasting, but we have also been expanding our work on public funding. One of the challenges that we had here, when we first started producing our forecast, was that people said, "OK, that's great, but what does it mean for the whole Scottish Budget? How does it fit in?". Part of our role here has been trying to explain how the Scottish Government are funded, what is coming from the UK, what is variable, and how much certainty the Scottish Government can have about that funding. That has played into our commentary on the Scottish Government's choices in terms of how they use reserves and what they do about borrowing. That is not about us saying that the Scottish Government should do this or that; it is about adding transparency to the decisions that the Government make and being clear about what is happening so that parliamentarians such as you can challenge the Government on those questions.

Mr Allister: Do you distinguish between a fiscal council and a fiscal commission? We have been given both, neither of them yet on a statutory basis, and yet we have no tax-raising powers. Do you make a distinction between the two?

Ms Murdoch: Internationally, "council" is the more common word for an independent fiscal institution. Internationally, we would be known as a "fiscal council". It is just that the name of our organisation is the Scottish Fiscal Commission. The fiscal commission that you have in Northern Ireland is similar to what we had in Scotland, in the Smith commission, which played quite a different role. We are not playing the fiscal commission role in Northern Ireland. It is rather the fiscal council role, albeit with a different remit.

Dame Susan Rice: One is forming, and the other is then carrying out.

Mr Allister: Yes. Analysing the tax take is more academic than real, here. However, I understand from reading some of your material that you have had difficulties in coming to a view on the VAT take in Scotland. Can you say a word to us about that?

Mr Ireland: Perhaps I can answer that. There is no data on how much VAT is collected in Scotland, so in order for receipts from tax to be part of the Scottish Government's Budget, there had to be some sort of assignment model, which HMRC built. In a sense, it then became a political issue between the Scottish Government and the Treasury, about whether they would actually assign the revenue from that model to the Scottish Budget. It was decided not to do that until the fiscal framework review. The difficulty was, basically, that it is a tax which was assigned without any data, or any hope of getting real data, so it would have to be model-driven.

Mr Allister: Is that just at an impasse now?

Mr Ireland: That is a question for both the Treasury and the Scottish Government to decide.

Mr Allister: Yes. Scotland was also given social security powers, but, of course, with that, came the cost to Scotland of administering social security. Is that not correct?

Dame Susan Rice: Yes.

Mr Allister: Whereas, in Northern Ireland, we do not have social security powers, but it also means that we do not have to pick up any of what must be the very substantial administrative costs. Is that correct?

Dame Susan Rice: Yes.

Mr Allister: So can you give us an indication of the administrative costs of social security in Scotland?

Dame Susan Rice: Herein lies one of those constraints around our remit. It is very important, as I said
before, that these are clear. We do not, for instance, forecast how much Social Security Scotland, the new agency *[Inaudible owing to poor sound quality]* that kind of thing. That is not the job. The job is to help the Parliament understand, through forecasting, the likely cost of the individual benefits that are devolved. So it is not the cost of social security as a whole, it is of the actual benefits in relation to the recipients.

Mr Allister: However, in Scotland, you have to bear the administration costs of social security. Can you identify what they are?

Ms Murdoch: That is a question for the Scottish Government. We only look, as Susan said, at the benefit payments, whereas the Scottish Government manages their administration costs themselves, effectively because those are not so demand-led, in comparison to the payments that go out the door. There was some provision in the fiscal framework for the Scottish Government to receive some money
from Treasury, although I suspect it does not cover the full amount.

I am afraid that the Scottish Government would need to tell you the cost of administering their system. It is not a question that we can answer.

Mr Allister: What does the Scottish Fiscal Commission or council cost?

Dame Susan Rice: John, you are the budget holder, I cannot *[Inaudible.]*

Mr Ireland: I do not have the exact figure to hand, but it is just a little bit short of £2 million a year.

Mr Allister: Thank you.

Mr Ireland: I can certainly send the Clerk the exact figure, if that would be helpful.

Mr Wells: You can always rely on clever Jim to ask some really tough questions, and those certainly were tough. I do not think that my questions will be anything like that.

You are bound to be asked the question about the economic impact of Scotland becoming independent. I noticed that you got your retaliation in quickly and said that you take no position whatsoever, pro- or anti-independence. Your staff must have been asked to do projections on the likely impact of any decision on the Scottish Budget. Is that taboo as far as your staff and your remit are concerned?

Dame Susan Rice: That is a complicated area. As I said, our remit is to do policy costings on policies that are going through Parliament *[Inaudible owing to poor sound quality]* of costings and speculative *[Inaudible owing to poor sound quality.]* But we have been discussing, as and when conversations may develop *[Inaudible owing to poor sound quality]* where we might have a role. We are looking at that space, but, up till now, that is not within what we have been told that we can do.

Mr Wells: If it is not even possible to identify the VAT that would be apportioned to the Scottish Budget, are there not severe limitations placed on you about projecting the overall impact of an independent Scotland?

Dame Susan Rice: Right now, we are not forecasting the overall economic impact of an independent Scotland. Elements may develop over time in relation to that, which may be brought forward as potential policy, and we may need to think about them.

One of the things that we try to do is to enrich the debate to the extent that we can on important matters. There may be areas that we would explore, but our remit is not for everything in Scotland. It is, maybe, important to say that. For instance, we do not have anything to do with the cost of the NHS in Scotland; that is completely separate from our remit. We are not looking at absolutely everything all the time, but, increasingly, as Claire said, we are looking overall at what goes into the Scottish Budget, and how that plays out over a year and what changes happen are very important, as was shown during the past year with all the extra COVID-related funding.

Mr Wells: Here, health service funding makes up 51% of the entire block grant. I am sure that it must also be, by far, the largest element of expenditure in Scotland. Of course, health is devolved in Scotland. How on earth can any of your projections be viable or valid if you are not allowed to take into account the biggest single expenditure line in the entire Budget?

Dame Susan Rice: Maybe I am not explaining it properly. We forecast in, if you will, certain buckets of taxes, benefits and so forth. We do not forecast the overall piece. That is not within what we do. We are constrained by the legislation that put us into statute and that tells us what we can do. That is the power that will lie in your hands as you put your body together and give it some powers.

John, you could, maybe, explain it better than I can.

Mr Ireland: Perhaps I will take it from a slightly different perspective. When the Scottish Government set a Budget or, perhaps, when they think about their medium-term financial strategy, as they did in January, they think about the next five years under the current constitutional settlement. They will think about the likely size of the block grant and use OBR forecasts to help them do that. We provide them with income tax and other tax forecasts and social security payment forecasts. As the Scottish Budget has to balance, all the arithmetic works out very straightforwardly. We come in at the very end and look at the implied borrowing or the extent to which they can move small amounts of money between fiscal years and borrow small amounts. We judge the reasonableness of that.

In a sense, you have to think about how the Budget works under the current constitutional arrangements and our place in that. Thinking about independence and its impact on the health budget does not impact on how the Budget is currently set.

Mr Wells: If we were to set up a similar body, health spend would have to be the centre and core of it, because it is such a major part of what we do. Finally, if, as a result of your work, you were convinced that the Minister of Finance in Scotland was doing something reckless or completely out of any sensible understanding of budgetary control, what can you do?

Dame Susan Rice: When our reports are near publication and at any other time, we can be called to give evidence to parliamentary Committees such as the Finance and Constitution Committee, the Social Security Committee and, occasionally, we have spoken to the Economic, Energy and Fair Work Committee as well. In a sense, parliamentarians own that space and know what is going on and are informed. They can speak to us, and we dispassionately use evidence to share the information that we can. Our job is not to judge the performance of a given Minister or Department; we do not operate in that space. However, literally everything we do is public and on record.

Mr Wells: For instance, I will take an arbitrary example; if there was a renewable heating scheme in Scotland that was, clearly, rapidly running out of control and was going to build up a £600 million debit — this is all mythical, of course — that would have to be borne by the Scottish taxpayer. Are you saying that all you can do is give evidence to the Economy Committee? You have no power to intervene; you can just give evidence to the appropriate Committee at Holyrood.

Dame Susan Rice: We would not intervene as the policy was being developed to say, "We do not think that is a good idea. Do it this way". Let me backtrack for a moment; John said something a minute ago that was very important. By law, the Scottish Government have to have a balanced Budget, and therefore that is a constraint on it. The Government have some borrowing powers, and we need to comment on those powers. There are routes to make comments about something that might topple the castle, as it were, if it was extreme. There are ways to do that. Claire or John?

Ms Murdoch: The main role that a fiscal council can play is to be a voice if there are risks to the budget. We have not highlighted any risks in the way that you have mentioned. However, there are certain aspects to the fiscal framework that will have fiscal consequences for the Scottish Government, and we have highlighted those. When we do a press release at Budget time, we can get news coverage. A fiscal council is a fiscal watchdog. It is the bark of the fiscal watchdog that can play quite an important role in signalling any issues. After that, it is up to the public, the media and parliamentarians to make the Government change policy. The fiscal council is there to raise awareness of those issues rather than to dictate what happens.

Mr Catney: I just have a few points. Susan, earlier you mentioned that you have rules for the appointment of commissioners. How do the rules work to ensure independence? The follow-on question is on the governance benefits a fiscal council might have for the Executive and Northern Ireland. Additionally, the legislation that established the Scottish Fiscal Commission ensures that it fulfils its functions. What do you think Northern Ireland should copy from the Scottish Fiscal Commission legislation, bearing in mind that the thread running through my question is: how can ordinary Assembly Members have a say and control who is appointed?

Dame Susan Rice: I have the — what is the word? I do not know — badge of being the first individual
under the Scottish Parliament whose appointment was made through a Minister by a public appointments commission, and then, my appointment and that of my two initial fellow commissioners and everyone since was made by the Scottish Parliament.

From the very start, and I have to say that it was right from the very beginning, even before we went on statute, there were times when I would tell people that, "We answer to the Parliament of Scotland", because it had to approve our appointments. It debated. It is very odd to be personally debated by parliamentarians. However, that was done. A new commissioner has to have a hearing, if you will, in front of the Finance Committee, and they will be asked questions about their background and whatever questions the individuals want to ask them. Then, in addition, the Parliament approves the appointments. Therefore, the appointments are recommended through the ministerial route and are, ultimately, approved by Parliament. That gives you a lot of say on that.

Of course, there are restraints. We would not have people who are sitting in government coming to do this job. There are various obvious restraints. That rule of the Scottish Parliament's approving our appointments and taking that process seriously through interview and debate on the Chamber Floor is the way in which it has taken hold of that. Does that answer your question?

Mr Catney: I could not hear some of it very well, simply because of the sound, but I understand what you are saying. I think that I get what you were saying there. Which legislation on the establishment of the Scottish Fiscal Commission is most important in ensuring that you can fulfil your functions? Which is the most important and should be copied for a fiscal council for Northern Ireland? Which of those rules and benefits that were set out from the start should we copy, bearing in mind what I have said; that, as an ordinary Member, I feel that I would have no part to play in that and would not be able to check it? I do not know what it is like in Scotland, but, here, it is difficult to get documents when we try to get into the meat of something. You have already stated how you put it out at the start and the powers that you have to fulfil your functions. How can we police that? Can it be policed by ordinary Assembly Members, not necessarily just by the Executive? That is what I am trying to get at.

Dame Susan Rice: *[Inaudible owing to poor sound quality]* perhaps, Claire could respond. You are asking an important question; absolutely. The idea is that the commissioners, who, as I said in my opening comments, are, ultimately, responsible for the forecasts that are published — we have personal responsibility for those forecasts — *[Inaudible owing to poor sound quality]* , and we report to the Parliament. Therefore, we are held personally accountable by the Parliament. That accountability is carried out through evidence sessions at the various Committees. If we are asked, we go. It is not as though we can say that we do not feel like it. Absolutely; the Parliament is the body to whom we owe our allegiance and, in that sense, it is really the people of Scotland. That is what helps us to keep independence. John or Claire, that is one element that you might come at slightly differently.

Ms Murdoch: With regard to legislation, there are things that help a fiscal council to play an important role. One part of our legislation is that we are a key part of the Budget process, because our forecasts have to be used. There may be other ways to do that that would be more appropriate in Northern Ireland, but, because the Government are required to use our forecasts, we are required to be part of the Budget process, which means that we must have the information in order for the Budget process to take place. That gives us more power, influence or opportunity to ask for it. Another one is the statutory right of access to information, which is incredibly important, and a fiscal council absolutely should have that. That is a key OECD principle. Another one is giving the fiscal council the power to comment on anything. You need to be clear in the legislation what its role is and also give it scope to comment on other things. Another one is that we are also required to publish all our reports, and that includes our forecast accuracy reports, our main forecasts and any other papers, and we are required to lay them in Parliament, so Parliament absolutely gets access to everything that we publish. Those are the key things from our legislation.

Susan set out our appointments process. In some other countries, some members of fiscal councils are directly appointed by Parliament and some are directly appointed by the Executive. There are different ways internationally and different models for how you appoint council members that may be more appropriate in the Northern Irish context. John, do you want to add anything?

Mr Ireland: I would add something that is not part of the statute but is part of the operation of the Scottish Parliament. When we go to give evidence to the Finance Committee, I do not think that any of us looks forward to it. The quality of the questions is pretty high, and there have certainly been times when I felt very uncomfortable. It is also down to how the Assembly and the members of the Finance Committee interrogate a fiscal council. If you make its life uncomfortable by asking tough questions, that is a really important part of the process.

The Chairperson (Dr Aiken): OK. Thanks very much indeed for that. Maolíosa.

Mr McHugh: I think that my question has been answered. Hello, can you hear me, Chair?

The Chairperson (Dr Aiken): Yes, we can, Maolíosa. Can you hear us?

Mr McHugh: Yes, I can. I intended to ask which aspect of the legislation to establish the fiscal council you regard as vital in the case of Northern Ireland.

The Chairperson (Dr Aiken): Thanks very much, Maolíosa.

Before you go, Susan, thank you very much indeed for your evidence. I have three short questions. I will not prolong them, because you can tell by the questions that are being asked of you that you have done a lot of really good work that we need to mirror.

The first question is this: how important is it for the likes of OECD to check your homework, for want of better terminology? We have an issue in Northern Ireland with public-sector reform. OECD made a recommendation for that but has not been invited back to check the progress. First of all, how important is that external validation?

Secondly, I looked at your data set. One of our Departments in Northern Ireland has a great deal of difficulty getting information out of HMRC, but it seems, from your data tables, that a lot of your issues with HMRC have been resolved, with the exception of the VAT issue. All the other things seem to have been resolved and are not highlighted as particular issues. Can you give a short answer on that?
The final one is this: what extra capacity could you have to shadow a nascent Northern Ireland fiscal council and to provide that support once whatever we set up here gets up and running and manages to deliver?

Dame Susan Rice: Those are three good questions, and I will give very quick answers. I think — we all share this view — that it is important for any body, especially a body so closely aligned to the public interest, to be vetted. Built into our legislation — it horrified me in the beginning — was that we would have an external peer review after two years of operating under statute. I thought, "Oh my goodness, we are barely up and running". I thought that it was terrific that that happened after two years, because it was early enough. We could see the comments and what had been recommended, and we could shift and adjust if we wanted to. These reviews can be done in various ways, but our experience and, increasingly, the experience of many fiscal councils is that the OECD has a reputation, an expertise, the people resources and the intellectual resources to carry out these reviews. It is not that we have to have OECD do it, but, in our judgement — we looked further afield — we felt that it was the best body to do that review for us. It brings along peers from other councils, so that is very helpful in vetting what we do and also making suggestions. It is a good learning time for everybody, so review is really important.

That is number one. Number two has gone right out of my head. What was the second question?

The Chairperson (Dr Aiken): The second question was about HMRC. One of our Departments has complained about not getting data from HMRC, but, when I look at your data in the tables, I see that you seem to have managed to do that quite effectively.

Dame Susan Rice: We have been in operation for seven years now. We have worked with the UK agencies that have to provide us with data for several years. Sometimes, it is hard for them to do that, because they are now doing a different run of data and may be looking at things differently. They may be working to a timetable that is different from that of a subnational fiscal council or institution. They need to adapt, and we need to work with them. That is about building relationships, explaining what you need and when you need it, and understanding the challenges that they face. It is also about being pretty open. I was public about one agency — not HMRC — at our Finance Committee when we
really had difficulties with getting data. That is just about working through the issues. It does not happen automatically; you have to work at it. I suggest that the sensible way to work at it is to say, "Here is what we need. What can you do? Where is the gap, and how can we bridge that gap?". That is what I would do. Was there anything else on that?

The Chairperson (Dr Aiken): The final question was this: could you shadow our organisation? Do you have the capacity to do that?

Dame Susan Rice: *[Inaudible owing to poor sound quality.]*

The Chairperson (Dr Aiken): Sorry, I did not pick that up, Susan.

Dame Susan Rice: Can you hear me? I am just turning to John, as the chief executive, to see whether he has a view on that.

Mr Ireland: We are in a position to be helpful and friendly. We are not resourced to formally shadow people, but we have received a lot of help in the past from bodies such as the OBR, and we see it as part of our function to repay that debt. We have some capacity, but not enough to do anything formal.

The Chairperson (Dr Aiken): Thank you very much, Susan, John and Claire. Would you be happy to continue a dialogue with us as this journey develops? I am looking around the Committee, and I think that we would be very interested to keep on communicating. There are lots of ideas that we will need to continue to explore as we, hopefully, bring this to fruition.

Dame Susan Rice: I know that I speak for my colleagues when I say that the answer is that we will absolutely do that. It is in your interests and all our interests that you get set up in the best way possible. We are very happy to continue an engagement.

The Chairperson (Dr Aiken): Thank you very much. I apologise for the poor communications. Be safe. Thank you everybody.

19 May 2021

Members present for all or part of the proceedings:
Dr Steve Aiken (Chairperson)
Mr Paul Frew (Deputy Chairperson)
Mr Jim Allister
Mr Pat Catney
Ms Jemma Dolan
Mr Philip McGuigan
Mr Maolíosa McHugh
Mr Matthew O'Toole

Witnesses:
Mr Sebastian Barnes Irish Fiscal Advisory Council
Dr Eddie Casey Irish Fiscal Advisory Council

The Chairperson (Dr Aiken): From the Irish Fiscal Advisory Council (IFAC), I welcome, via StarLeaf, Sebastian Barnes, the chairperson, and Dr Eddie Casey, the chief economist and head of secretariat. The session will be reported by Hansard. Sebastian, are you going to speak first?

Mr Sebastian Barnes (Irish Fiscal Advisory Council): Yes.

The Chairperson (Dr Aiken): First, apologies. I have just been to the dentist, so, if I sound a bit slurred or burbled, it is not because I have been indulging in County Antrim's finest Bushmills. That is just in case you wonder why I am sounding less loquacious than usual. My questions might be briefer than usual as well. I can already feel that that is beginning to happen with my tooth. Please, Sebastian, it is over to you.

Mr Barnes: Thank you. I have no excuse if I am unclear. Good afternoon, and thank you for the opportunity to share with you some of our experience on the Irish Fiscal Advisory Council. As you said, Chair, I am the chairperson of the council, and I am joined by Dr Eddie Casey, the council's chief economist and head of secretariat.

The council was set up almost 10 years ago. Our mandate has four parts: to assess and endorse the Government's macroeconomic forecasts; to assess the budgetary projections; to assess compliance with the fiscal rules; and to assess the overall fiscal stance. We publish two main reports covering those issues each year, together with a wide range of contributions to the public debate and a report on long-term sustainability. Our policy environment is very different from that of the powers devolved to the Assembly and the Executive Committee. Nonetheless, our experience is relevant. A recent indepth review of the council by the OECD found that:

The OECD focused on two main achievements. First, the council has helped to push the frontier of fiscal analysis, developing new analysis, methods, data and tools, which help to provide better information to make decisions. Secondly, the council's reports and outreach activities improve the awareness of fiscal issues more generally in Ireland among the wider the public, policymakers and stakeholders, including, of course, parliamentarians. Those achievements rest on a clear mandate, the
availability of adequate resources and staff and the independence of our council. The OECD principles
provide useful guidance, and it is encouraging that they contribute to your thinking in Northern Ireland. Let me finish my opening statement by sharing two lessons that I draw from our experience. First, it is very important to have a clear sense of what problems you expect the council to help to resolve. In the
context of the Irish Republic, the risk of accentuating a boom and bust cycle, and a volatile economy means that improving macroeconomic analysis of performance has been a key part of our work. At the
same time, improving medium-term planning and encouraging more public saving in good times is a

central objective for economic policy in Ireland and something to which we have contributed by providing strong analysis and a voice for those longer-term fiscal concerns. The council is working towards that objective.

The second lesson is that the effectiveness of the council depends critically on other people. On a day-to-day level, information from the Government is essential to our work and is absolutely critical to what we do. However, ultimately, the council's advice is effective only if it is listened to. The media and politicians have generally been receptive to the council's work, but the record on following the council's advice is, to be honest, mixed.

I hope that this experience is helpful to you, and we stand ready to answer your questions.

The Chairperson (Dr Aiken): Thank you. Eddie, are you going to say a couple of words?

Dr Eddie Casey (Irish Fiscal Advisory Council): No. I think that the opening statement is just for Sebastian.

The Chairperson (Dr Aiken): Thanks very much indeed. I will start off with a couple of questions. Bearing in mind that, when Ireland was under the troika, it had to have its homework marked twice a year, did the necessity of having that discipline process help in the council' work? When people realised that they had to present data in a way that was easily understood by the ECB and the IMF, did that help you, or did you have to encourage Departments and the rest of it to get properly involved?

Mr Barnes: One way to look at it is that we are involved in two processes. There is the European Commission process that was going on back in the troika days in a very intensive way and that continues today, and there is the council process. On the whole, those are mutually reinforcing as processes. Once the troika monitoring was scaled down, we saw that fiscal policy loosened up a little at that point. It shows that having those two processes can be complementary. In the more recent period since that has happened, it has become more balanced. Obviously, the troika has a lot of leverage because it decides whether to disburse the loans. That part of those two tracks is relatively important.

As the troika ended, we switched back the other way. On the whole, the domestic Irish Fiscal Advisory Council view has generally been more stringent than the view of the European Commission. Which of those views is listened to more is subject to debate. The external view is helpful, but, together, the domestic and external view are very complementary. The two things that we bring as a fiscal council are that we have a much better understanding of what is going on in Ireland than the troika or the Commission, as they are looking from the outside. We also have a much bigger impact on the debate in Ireland. The troika and the Commission are viewed as outside bodies that are imposing a view. We can really engage with stakeholders. We can talk in the media and have a presence that those other institutions cannot.

The Chairperson (Dr Aiken): We have already heard evidence, and we were particularly struck by the evidence that we heard from the Scots last week about the modelling that they created being used across government. If we all model in the same way, it is easier to see trends, to have checks and balances and controls and to have a detailed understanding so that the likes of legislators understand the process. Do you use the same models that government uses, or is there a reluctance to usesimilar modelling? Do you think, because of Ireland's economy definitely being larger than Northern Ireland's and on a similar scale to Scotland, that you want, to a degree, to use similar modelling, or did you have to do that from scratch?

Mr Barnes: That is an excellent question. There is an element of both. On the one hand, one of the reasons that we are here is to create challenge. We are careful not to use exactly the same assumptions as the Department of Finance and coming to exactly the same results as it does. That would be pretty pointless, so we are careful about that. For example, when we do our forecasts, we deliberately do not look at what the Department of Finance has done, so that we keep taking an independent look at it and do not get caught up in groupthink. Part of the mandate with a council like ours, the role of which is to assess someone else's projections, is to challenge and to look at them and say, "What could be wrong with this? What are the weaknesses? What bits could come unstuck?". That independence is important, but you are right that, in an economy that is not huge and in which there are not a huge number of economists looking at those things, people naturally tend to use the same models a bit. I do not know whether this is the same as the Scottish experience, but our experience is that a lot of the modelling work that we have done has really pushed the frontiers of how the Irish economy is modelled. For example, a concept that is used a lot in fiscal policy is the notion of an output gap, which is the difference between what the economy produces and what it can potentially produce: "Are we in a recession or are we booming?". Basically, the council laid out a new approach. We thought that it was important to do that, because we thought that what was being done was not very good. That approach is now used by the Department of Finance. There is a lot of modelling about the multinational sector in which we have really pushed the boundaries of what is done. It is a bit of a mixture of the two, but it comes from the fact that we do not slavishly follow the same models and that we come from a somewhat critical perspective. That is what you would expect from a body like a council.

The Chairperson (Dr Aiken): My final question is on criticality and the importance of independence. I know, from living and working in Dublin and moving in business circles for some time, that you have managed to annoy a few Departments, so obviously you are doing the right thing at the right time. How important is that degree of independence? Do you feel that you are sufficiently far away from the — I will use the word very carefully — golden circle of Dublin to have that degree of independence?

Mr Barnes: Yes. Our independence is one of our achievements. I do not think that anyone has seriously questioned whether we are independent. That reflects a couple of things. There are two big pillars. The first is the appointments process. There is now an official appointments process, but there were also very clear criteria in the legislation that, to be appointed to the council, people had to have relevant qualifications and a strong background in these kinds of issues. There has also always been a strong international component to the council, which has been very helpful. As you can tell, I am not Irish. We always had a strong international contingent that breaks that link a bit. That is the appointment part. The second part is the budget. Our budget is independent of the Government. It is not on the main budget round. There is a special budget account that is used for the diplomatic service and the judiciary. We were added to that; the council insisted on it. That has drawbacks in other respects, but it means that the Government cannot come to us and say, "We do not like what you said, so we are going to cut your budget". That gives us a high degree of protection, which is very important. If you look around the world, you see that quite a lot of fiscal councils have been threatened in various ways by Governments when they have said things that they did not like. What that does is to put us in a position where we really speak truth to power. When the Government have done things well, we are happy to welcome that, and when we think that they have made mistakes, we are prepared to say that publicly, while anticipating that they may not necessarily be happy with what we say about them.

The Chairperson (Dr Aiken): I have just one final question, because I know that other people are looking in. Has the OECD come back to do an audit of what you have been doing and how you managed it? Who has been marking your homework? How have you been able to ensure that you are still following best practice?

Mr Barnes: That is a good question. Maybe Eddie will want to answer that.

Dr Casey: Yes. We had exactly that homework correction exercise last year. It was a fairly intense audit — we call it a "review" — by the OECD. It looks through everything, really: how we are set up, what our staffing and resources are, what our output looks like, and the impact that we have had in the media and on public debate. Therefore, it went through a broad range of terms of reference. Its

conclusions are publicly available, along with the full review. Sebastian referred to them in the opening
statement. Broadly, they were very positive, in that the OECD felt that we have had a strong impact on
public discourse and advancing how those things are looked at in the Department and more generally.

Mr McHugh: Tá fáilte romhaibh uilig. You are very welcome. The Irish Fiscal Advisory Council was established 10 years ago, at the time of the banks' collapse. Do you believe that, if the council had been in place prior to that, you might have been in a position to sound the alarm or, at an earlier stage,
help the Government to avoid that crisis?

Mr Barnes: I hope so. If we had been around and had not done that, it would have been a failure of our institution. What we could have done to help to signal that would have been, partly, to develop the analysis. There were issues. I worked as an economist on Ireland at the time. The Department of Finance in Ireland did not know things like how much VAT was coming from the new build of houses. It turned out that it was a huge amount. When housing sales stopped, that was a major squeeze and loss of revenue. I think that the council, at that point, would definitely have said, "You need to do the work to find out how much that is and understand the risks". I think that we would have done that. I cannot guarantee that it would have worked, because, as I said, it depends a lot on the willingness of the political system to hear that message. However, I think that it definitely would have helped. Back before the COVID crisis, there was some risk of overheating in the Irish economy. One comment that we have seen lately was that at least people had been warned that there were problems this time around, whether or not they took action.

Mr McHugh: Yes. You mentioned some of the issues in your introduction, one of which was that it depends very much on the information that you get from government. What is your process for acquiring data from government? Do you always get the data that you ask for? Is legislation required in order for government to release to you the information that you need to ensure the accuracy of your predictions?

Mr Barnes: That is a good point, and it was brought up in the OECD review. Of course, the council gets all sorts of information from the Government. Often, it is very detailed. We do not have a legal right to that information. Fortunately, cooperation has been quite good. We have a memorandum of understanding that covers some aspects of information around forecasting. That is, obviously, voluntary and non-binding on the two parties. Most of the time, we get the information that we want. The two limits are that, first, it often takes us a huge amount of effort and time — it would be much nicer if we got information faster — and, secondly, sometimes the Government simply do not have the information that we ask for, which is a different problem.

The OECD review asked that the Government consider giving us a right to information. We looked at the UK legislation for the Office for Budget Responsibility (OBR), and our view was that it would be perfect for us. It would probably be perfect for almost anyone. I suggest that, in setting up arrangements in Northern Ireland, you look at the OBR legislation because I am sure that that would perfectly cover the needs of Northern Ireland.

Mr McHugh: That sounds like good advice. Go raibh míle maith agat. Thank you.

Mr Allister: A couple of points, if I may. When we look at the need for a fiscal council in the Irish Republic and in Northern Ireland, we are largely comparing apples with oranges because the Republic, insofar as you can be a sovereign country in the EU, is a sovereign jurisdiction. You raise your own taxes and have to balance that with your spending and borrowing, so there is an obvious role for a fiscal council. In our situation, we, as a devolved region, depend on a block grant, and there is not the same balancing exercise to be performed. In your view, what could a fiscal council in Northern Ireland usefully do?

Mr Barnes: I go back to the point that I made at the beginning. It is important to think about what problem the council can overcome. The council can bring independence, analytical power and a commitment to transparency. By comparison with government officials, we are often able to articulate things in public in a much clearer way than the Government decide to do.

You are right that the situations are very different. We are not in a particularly good position to know the exact context of Northern Ireland. If you look around the world, you will see fiscal councils or bodies that do many different things. Some are much more active on the expenditure side, looking at how government spending is costed and its efficiency and that kind of thing. Those areas may be more relevant. In the Irish context, it is not a big issue, but it may be for you.

Mr Allister: One is aware that there is something of a looming controversy about corporate taxation. Has the fiscal council in the South been involved in that, or is it likely to be?

Mr Barnes: Our council was set up to deal with the macroeconomic instability that has plagued the Republic for a long time, and, hopefully, we are contributing to reducing that. We have looked at corporation tax in the context of our budgetary and economic forecast. We have done a lot to raise people's understanding of the risks associated with reliance on corporation tax.

Last year, almost 20% — Eddie can correct me — of revenue came from corporation tax.

Dr Casey: That is right.

Mr Barnes: Most of that is paid by a small number of multinational firms. That leaves public finances very vulnerable because, against that, it is being used to finance hospitals and schools and other things that, on the other side, need permanent funding. We have been very vocal in advocating for that. We suggested that public funding needs to be weaned off that source and that another source of revenue needs to be found to replace it. In the meantime, that funding should be put into something like a rainy day fund because it is unlikely to be there forever.

We have been very active on that side. We take the tax rates and the tax regime as given. That is a political choice for the Government. Conditional on their choices, we have been active in explaining to people what the consequences are. We realise that the consequences are probably bigger, in terms of the economic side effects, than most people thought. That is where a fiscal council can provide analysis. It is for politicians to choose, but we can help people to understand what is at stake.

Mr Allister: In your 10 years of existence, what has been your biggest achievement and your biggest failure?

Mr Barnes: The question on failure is probably easier to answer. The Government have taken a lot of our advice, but they have not taken our advice on some things. In our view, fiscal policy should have been a bit tighter in the last few years than it has been. There was a big run-up in health spending that was essentially financed by corporation tax. That was not a good idea. The failure is that we did as much as we felt that we could, but we were ultimately not as strong as the political pressures that were pushing the other way for the spend.

We have two successes. One is on the technical side. For example, there was the massive change of bringing in a proper measure of where the economy stands and whether or not it is overheating. That was a big change, and it gives policymakers a clear road map of where things are going. The other success relates to debate. When I hear politicians or journalists talking about things, I can hear that they are talking about them in the language and using the ideas that we have developed. There is much greater awareness of the challenges. Unfortunately, that does not always feed through into decisions, but there is an awareness of those things that did not exist before. It is much harder for Ministers to make bad choices when they know that a lot of people are watching them who understand what the weaknesses are and understand what they are saying.

Mr Allister: This is my final question. Is there any relationship between the work of what is now called the Shared Island unit and the fiscal council?

Mr Barnes: No.

Mr Allister: You have not been asked to do any work on that.

Mr Barnes: No.

Mr Allister: Thank you.

Mr Catney: I thank Sebastian, the chairperson, and Dr Casey for giving their time to us today. I have one simple question. Northern Ireland's Executive Budget process often runs late, owing to delays and
disputes with the Westminster Government, or owing to the occasional political dispute here in the North. Thus, fixing key dates for the publication of Budget reports from an independent fiscal council may be problematic. How does the IFAC get around that problem?

Mr Barnes: To be honest, that is a weakness in our set-up, and it is very hard to do anything about it. Let me explain. The Budget has to be made before 15 October. Various processes of parliamentary debate take place in the following weeks. In parallel to that, we work on a report that looks at the Budget. Unfortunately, it takes a lot of time to produce that report, because we need to get a lot of information from the Department of Finance. The budgetary documentation does not tell us enough to assess properly what the Budget says, so essentially the politicians have more or less debated and voted on the Budget before our report comes out. That is a long-standing problem, which we partly addressed by putting out a flash release a few days after the Budget, giving our preliminary, high-level assessment of things, in which we have to say, "A lot of these figures are preliminary, because we have not got the information from the Government". In this case, you probably do not want to follow our practice but to learn the opposite lesson. The UK does this much better with the OBR. It is important that the fiscal council be provided with confidential information ahead of the Budget and during the process. That is the first thing.

The second thing is that the quality of Budget documentation should be much higher. It should be possible for experts such as us to read the Budget and find almost everything that we need there. Instead, we go through a process with the Department of Finance in Dublin in which we have to keep asking it to explain how it has calculated things and from where it got the numbers.

If you have those two things, your fiscal council could play a much more active role in the Budget process than we can. We feel that we come in a bit afterwards and say: "This is what was wrong with it", and, in some ways, it is a little bit late by then, and we are really looking forward to the next year. The fiscal council should not be part of the process but it should be able to get information in real time so that it has the information that it needs when the Budget comes out. The Budget documentation should also be much more transparent. That is what I suggest that you do.

Mr Catney: OK. That seems like quite a lot. What do you see as the easiest way for us to get that? That could be held back from us. It could be stopped. It looks like that information is held back from you. Is there a way of writing that in?

Mr Barnes: You would have to look at how the legislation is written to write that into the process. An agreement, maybe not in legislation but made at the beginning, about exact timings and what is to be shared would also help.

The OECD suggested that the IFAC draw up a list of the standard things that it needs, and we will follow that up. We do not have that at the moment, so we always make ad hoc requests. One of the things that makes the fiscal council exciting is that there is always something that you did not anticipate, which would probably not fall within the scope of that suggestion, but perhaps you will at least get 90% of what you need.

We have always applied the principle that we do not want to get information in private. We want what we get to be on the record and usable. We do not want to be in a position where there is some kind of special side room where the fiscal council talks to the Government. That is sometimes necessary, for example, as in the proposal, where the fiscal council would have to keep information confidential ahead of Budget day or ahead of decisions, but, basically, things should be in the public domain for the council and anyone else to assess.

Mr Catney: Thank you.

Mr McGuigan: Thank you. This has been very interesting. In a previous answer, you said that one Department was not aware of the levels of VAT in relation to the housing market. Maolíosa asked whether you could have steered away the *[Inaudible owing to poor sound quality]* VAT in the South had you been in place. Are the policies of previous Irish Governments that, for example, led to the creation of an unsustainable housing bubble something that you can comment on, or could do if that were to happen again? Can you publish reports at your own discretion? Can you pick and choose a topic that you deem appropriate to commission research and report on?

Mr Barnes: We can publish whatever we like. We have a mandate. That is really important because it gives us credibility. In public debate, lots of people have an opinion about public finances, but having the mandate and the resources to back up what we say means that our voice has a lot of authority. We realise, obviously, that we should not overuse that and that it should be used only in the area of our mandate. We have the freedom to do that. For example, we see the long-term report on an ageing population that we did last year as coming under our assessment of the fiscal stance, because we think that we cannot do that without understanding the long term, but we do not have a specific mandate to do that.

In general, we have taken the view, which is the only sensible view that you can take, that we focus on the issues that are most closely related to our mandate. There are other areas that we are reluctant to, but occasionally will, get into. We view anything that relates to choices about how the Government spend their money or how they raise taxation as being outside the scope of the council. Our thing is to make sure that the public finances add up and that economic management is sound.

We have, however, raised issues on specific things in some cases. For example, a couple years ago, public investment in Ireland was very weak. Normally, we would not take a view on the right level of public investment, but we said, "Look, this is really, really weak, and, if you do this, it is hard to see how public services can continue to be delivered and how the economy will grow". We took a view on an issue about fiscal choices beyond the Budget.

There are also issues on taxation, and, for example, we have not said what we think should be done about the housing market. It is still a live issue in Ireland. We have said that there is a problem. If housing costs rise a lot, it makes Ireland much less competitive, and that needs to be addressed in some way. We did not take a view on how to address that, because it is beyond our expertise to do so, but we sometimes get into those more detailed policy choices.

Mr McGuigan: OK. Thank you. The composition of the fiscal council is part-time. Are the current staff arrangements sufficient to carry out your functions?

Mr Barnes: That came up in the OECD review. We have a secretariat of six staff — very good young economists — and we have a part-time council with five members, and, as chair, I am part-time as well. The OECD recommendation was to reinforce the chair's position, because, to be honest, it is a stretch to do the chair's job in the allocated time. We have asked for more resources in order to cover the chair's position being full-time. We also asked for, essentially, one extra economist position because we struggle to do the long-term report, again, with the resources that we have. To be honest, it is a little bit tight.

It is quite a good model. One of the things the OECD said is that, relative to other countries, we have a budget that is probably fairly typical but that our output is much higher. That is because the hybrid model of having the benefits of council members who are doing other things and who bring all sorts of experience mixing with the economists is a really good one. At the moment, that is being done on a bit of a tight budget. It is not really sustainable. The concern was that it would be very difficult to find a replacement chair, for example, because it is a very hard responsibility to take on given the fees that are paid to the council member and the amount of time that they can take. It is not too far off and is a good model, but it is a concern that the OECD highlighted and one that we are raising with the Department of Finance.

Mr Frew: Thanks very much, Sebastian. This has been a very interesting session. My questions will teeter around independence, and you explained that, rightly, so far. Explain to me again in a bit more detail how your budget is fixed. You talked about the judiciary too, so I take it that it is lumped in with that type of thing. Explain to me how that actually works so that I understand how there is no government interference either way in your budget.

Mr Barnes: Our budget is in a thing called the central fund, which is the special fund that also covers the judiciary and the foreign service. That means that it is not part of the annual Budget round. When politicians sit down and vote on the Budget, they are not voting on our budget because it is already factored in through the central fund. Our funding had an initial amount, and then it was indexed to inflation, so, every year, it rises a bit. After 10 years, we have noticed that our staff costs rise quite a lot more than inflation, so, essentially, in real terms, our budget has shrunk by quite a bit.

The OECD report mentioned that. We have proposed to the Department of Finance that it implement the OECD recommendations, which would basically mean indexing our budget to a mix of 60% publicsector wages in Ireland and 40% inflation. That would more accurately reflect our cost mix. The recommendations also suggest having a review process, which would probably be linked to our review process. The OECD review that we did this year was part of the cycle that we have of reviewing our performance every five years, because we need someone independent to do that. At that time, the review group should always be asked whether the budget is still fit for purpose. At that point, it might be necessary to adjust it as well.

Mr Frew: I have the OECD report in front of me, and you are quite right about your detail on it and what it asks. I have an issue with this because I am very much for transparency, openness and independence for a body like yours. That is what appeals to me about the matter. However, I also know that, up here in Northern Ireland, we have several examples that I could give you, and I will pick one. The Consumer Council does a lot of good work on behalf of consumers in Northern Ireland, but its budgets are still determined by the Department. You could argue that it is not independent and that, if the Department took a pick, it could really turn the screw on the Consumer Council or other bodies to really, if you like, cajole, scare or silence them. I am not saying that that is happening, but it could happen because of the way that the budget is set up.

I read the report that you are referring to. Is it not fair to say that you guys in the Fiscal Council down there have hit your budget ceiling? That is implied in the report. That means that you, as a body, are looking to your Ministers to do something, and that could imply that, with that reliance, you lose independence. The part of the executive summary on staffing talks about the fact that you need the prior consent of the Minister for Finance for finance for the grading structures. Do you see how you could very quickly lose independence or at least have a reliance on the Minister for Finance? How do you combat that?

Mr Barnes: That is a very good point. It is right that there is a recommendation in the OECD review to remove that restriction on the grading. In practice, we have never had any problems with that; it is a bureaucratic thing. You are right that it would be good if one of the recommendations of your review was to remove that, precisely for the reasons that you said.

I think that the arrangement of us being on the central fund for the budget is basically the right approach. Unfortunately, it was badly implemented by just being linked to price inflation and not to something that more accurately reflected our cost mix. The combination of wage and price inflation that was recommended by the review process, which was essentially initiated by the independent review, is as good as it gets. That would give us a lot of freedom. Right now, it puts us in a slightly delicate position. We are asking Finance to raise the ceiling, and we need that to happen, but I assure you that that has no impact on the analysis that we are presenting at the moment.

That is basically the best that you can do. Of course, there is always a worry. Legislation is what it is. The Government are the Government, and they can always come along and pass a piece of legislation that will close down the Fiscal Council tomorrow. You are never completely free from that risk, but if you make it difficult to do that, you raise the bar, which makes that much less likely to happen. Ultimately, the real protection is in the political system as a whole. We have a report coming out next week. If the Minister for Finance were to not like that and to say that he will close down the council, that would cause an almighty amount of trouble politically. The ultimate protection is the support of all stakeholders, so that is parliamentarians across the political spectrum, the public and key stakeholders. Setting the bar to have it in the special fund and in this indexation makes it difficult for them to close it down. It is a very good arrangement, if it is implemented properly.

Mr Frew: I will ask about your point about the fiscal cycle of the Government down in the Republic. It seems to be, and these are my words, that you are always marking the Government's homework because of the delay in getting the information that you require. It strikes me that a better position would be one whereby you would actually be informing the Budget at an earlier stage if you obtained the information sooner. Does it feel like you are always marking the Government's homework?

Mr Barnes: It feels a little bit like that, for the reasons that I said. For example, the Budget comes out in mid-October and is debated over the following number of weeks. Usually, our report is ready by the time that debate is more or less over. We work very hard during that period and reduce the delays, but we rely on other information, and it takes time to do stuff. You are right that, in a way, that feels a little bit unsatisfactory.

It is more of an ongoing cycle, however. We also produce a report in the spring. That is about to come out. That is partly a review of the stability programme, which is produced in April, but it also looks ahead to the Budget. We also produce a pre-Budget statement, which is usually a much shorter piece, three weeks before the Budget. We then produce that flash release on the day of the Budget. People have a pretty good idea of what we think at all times. We did not originally have the pre-Budget statement, but we realised that May or June was too far back for people to remember, and, of course, things change over the summer. The flash release is a new thing as well.

It is a little bit of a problem, but we are contributing to the debate in an ongoing way. For example, last March, as COVID was hitting, I wrote an op-ed in the 'Irish Times' that set out the council's view on the reaction to COVID. It basically said that it was OK for the Government to borrow a lot of money to support the economy. That shows that there are other ways of informing the debate. A better arrangement to get more out of your fiscal council in Northern Ireland would be to allow the council access to information before it is published, which will give it a bit of a head start, and to generally improve the transparency of the information that is available, which will speed up that assessment.

Dr Casey: You raised a good point. A lot of the issues tend to recur. If you think of the big Budget mistakes that could be made or that have been made in the past you find that they are things that tend to come up over a process of several years. For example, a certain policy stance might be introduced in year 1, but it starts to have an impact only in year 2, 3, 4 or 5, after they change income tax rates, tax bands or whatever spending policy they embark on. While we do backward-looking assessments, they tend to inform the next Budget and the discourse coming into it and even more if it is coming up in a second year.

Mr Frew: What about your relationship with the scrutiny Committees of the Irish Government? I know that the OBR has memorandums of understanding with Revenue and Customs, Work and Pensions, and Treasury. How do you guys go along with the scrutiny Committee for the Department of Finance down there? Are you a bit like a tag team? Is that how it works?

Mr Barnes: We mainly engage with it twice a year, when our big reports come out. We have a big discussion, where we present our views. That dialogue has been very good. I have been on the council since it was founded. In the early days, people were not quite sure what to do with us, but we now have a very good relationship. We learn a lot from the parliamentarians about what they are interested in and how they think about the world. You can see that the way that they think about the world has been shaped by analyses that we have done. So, it is a very good relationship. As Eddie said, it is more about long-term themes than specific things. One big issue that we have had is that the way that the Department of Finance does its Budget projections does not typically take into account the cost of providing existing public services. That is an issue in the UK as well. We have been pushing on that for a long time. The Parliament and members of that Committee now understand that. When they see projections from the Department of Finance, I think that they naturally ask, "Are you taking this into account?" They know that it is probably not. That is an example of how it works. We are not more closely integrated into the process, and that is partly to do with the delay between the Budget coming out and our reports coming out.

There is now a Parliamentary Budget Office (PBO). That is able to fill that gap to an extent. Its analysis, by and large, does not go as deep as ours; its mandate is much more to support the parliamentary process. It is helpful to parliamentarians. It perhaps fills the gap a little bit by bridging to our heavy reports, which come a bit later.

Mr O'Toole: Thank you both for your evidence today and for the really helpful background brief that you supplied. I have a few questions. Your economists may have the capacity to do independent forecasting, but do own a proprietary model or anything like that for either economic or fiscal forecasts?

Mr Barnes: We do. The set-up is that the Department of Finance does macroeconomic and budgetary
projections. We are required to assess both of those and to endorse the macroeconomic projections that the Department of Finance sends to the EU as part of its official documentation. We have always taken the view that the only way that we could do that is by, essentially, doing the same exercise ourselves and developing the tools to do it. Sometimes we use similar tools to Finance, but we have also developed our own tools, either on top of or separate to them. Some fiscal councils around the world do not do that; they just look at other people's projections and assesses whether their Department of Finance is being very optimistic compared with what everyone else thinks, but we felt that we needed to get our hands into the engine and understand how it works. We have those projections. We call our macroeconomic projections our benchmark projections, and we publish them in the back of our reports. We do not draw a huge amount of attention to them, mostly because the differences with the Department of Finance projections are often quite small, and people can easily get caught up with the fact that there is a decimal point of a difference somewhere. Our forecasts are designed to help us to think about it. If we were really pushing those forecasts, we would maybe polish
them a bit more. Basically, we do both. We do not have a full macromodel; we are not big enough to do that, and, to be honest, it might not be very helpful, but we have a very rich suite of models. We have an awful lot of tools that we have developed over time.

It is the same on the Budget side. We have also collected data that did not exist before. For example, a key thing about public finances is the amount of revenue that will be raised as the economy grows. We collected new data for that and estimated new models. We have developed the best estimates that there are in Ireland for that.

Mr O'Toole: Your forecasting, unlike, for example, that of the OBR, is not a core part of your public role but something that you feel has to be done in order to give ballast to your scrutiny role. Is that required in the legislation, or is it just something that you have done because you think you need to do it in order to fulfil your statutory obligations?

Mr Barnes: I think it is the second. We are not required to produce a projection of any sort, although, as I said, it is crucial for us to go through the same exercise. Otherwise, when we see things from the Department of Finance, we have no idea whether it has done a good job because we do not understand what the issues are and how it is doing it.

It would not be particularly helpful to have two sets of slightly different numbers from different people in circulation. We publish what we have. In some of our reports, if we think that there is a big difference with the Government, we produce alternative scenarios or some adjustment to the numbers that the Department of Finance has made if we think those are a better guide to understanding the public finances. However, we do not have a full forecast exercise. A lot of the time, the differences are not huge, so having two slightly different sets of numbers will not add very much.

Dr Casey: There is a second benefit to doing all that work, which is that you have a much better understanding of what is actually happening in the economy on the ground in that you can think through every single sector and see the pattern that is developing. You can really spot very clearly whether there are imbalances or strange things that would affect how taxes are being raised and what might happen with the sustainability of those tax receipts in the long term. It is a very valuable exercise, but whether you want to put it in as something that is essential for a fiscal council to do is another question.

Mr O'Toole: You say that it is very useful, but the question we are debating is how essential it is to have independent or free-standing fiscal and economic forecasting.

When the legislation that created IFAC came about, it was at a moment when the troika was heavily involved in debates with Finance and all that. Are there particular things about your role and the legislation underpinning your organisation that you think are products of that particular moment and are not necessarily useful to your ongoing work but were put in place at a very particular moment when other factors were at play on fiscal sustainability and financial stability etc?

Mr Barnes: The simple answer is no.

Mr O'Toole: OK.

Mr Barnes: Our mandate is very good. It covers looking at the macro forecasts, which is where most of the errors have been made in the public finances in Ireland. It involves looking at the budgetary part, where there are also errors and issues. For example, systematic overruns in the health budget have been a big issue, as has over-reliance on corporation tax. We monitor the fiscal rules, which is an important thing to do because they are an important part of the framework.

The mandate to assess the fiscal stance is very unusual. My sense is that only a handful of other fiscal councils have that mandate, and I think that they are mostly those that copied the Irish arrangements. It is actually very good. Basically, the bottom line is that people want to know whether the public finances are on track. Are they sustainable, are there issues and are they contributing to the good functioning of the economy?

It is very good to ask that very general question. It also opens up the potential to deal with a wide range of other issues, including long-term sustainability, which is a big one. Demographics in the Republic are such that ageing is going to happen pretty fast in the years ahead, and people need to know that. It is a really good mandate. If you were doing it again today, it is exactly what I would do.

Mr O'Toole: You touched on debt sustainability. We are in a very particular moment with huge growth in sovereign debt because of the pandemic and the response to it. How far are you mandated to look in a dynamic way at sovereign debt sustainability more generally? Are you looking at it at the minute? Obviously, the IMF in particular and the OECD will look at it too. Are you looking at a kind of static picture on debt sustainability? Views on it have changed in a decade.

Mr Barnes: That is true. We look at that a lot. That is where the fiscal stance mandate is very good, because it really falls under that. You might find that it would fall a little bit if you were just doing assessment of the budgetary projections, but then you are just doing a positive assessment and maybe some risk analysis around that.

However, as you say, it raises much deeper questions. We have the mandate to look at the fiscal stance. The fiscal stance is most of what gets the media attention and the public interest. People are not particularly bothered about how you get there through the forecasts and things. Those are very important to a technical audience but not to a general one. People basically want to know whether the public finances are on track, and they want an independent and expert reading of that. That is basically what we are doing on the council.

As to the sovereign debt situation, in the early days of the council, obviously, the Government did not have access to the markets, so we were thinking a lot about that and about meeting targets and things like that. Fortunately, we are not in that environment any more. As the situation has changed, that has become a very big part of what we do, and we do a lot of modelling on it. We have always had projections of debt, and we have always looked at the uncertainty around it. We have used fan charts, which basically show the likelihood of different outcomes of it.

More recently, we have developed — in fact, Eddie has developed — an excellent model that allows us to do a more complicated model-based version of that, which is called stochastic debt sustainability allowances. We find that very useful. We have also done a lot of work this year on the big-picture questions about the level of debt. Eddie and I, along with Elliott on the council, wrote a paper about the implications of very high debt and low interest rates. In Ireland, there is a huge difference between the interest rates, which are very low, and the growth rate, which is, essentially, quite high. We wrote a lot about that and basically came to the conclusion that the debt dynamics are really favourable at the moment but the risks are very high. The higher the debt, the higher the risks.

In February, we organised a major international conference with some of the top experts in the field like Olivier Blanchard, Charles Wyplosz and Philip Lane to talk about those questions. We have really tried to have as lively a debate as possible in the wider economics community in international terms and in Ireland about those kinds of question as well as in the council. We want to deliver the best advice on the matter. Those are the big new questions that are facing us. So, yes, we really have tackled those questions under that stance and mandate.

Mr O'Toole: I have two very brief questions.

The Chairperson (Dr Aiken): Ask the one about the central bank, and then I will give you a third.

Mr O'Toole: About the European Central Bank or the Irish one?

The Chairperson (Dr Aiken): No, about the Irish Central bank. What is the relationship with the Central Bank of Ireland? I was going to ask that, but you can have another one.

Mr O'Toole: You can ask that one; it is a good question. Now you have distracted me, Chair, because it goes on to another question. *[Laughter.]* On corporation tax, you mentioned your concern about the ongoing revenue. However, with the over-reliance on corporation tax revenues, there is clearly a big fiscal, political and international debate about corporation tax rates. What is your next move on that, as it were? Do you decide, at a forthcoming fiscal event, to say something about it, if you feel that it is worth it? If there is a live political debate, for example, inside the EU or involving the Biden Administration about corporation tax rates, that will obviously include the Irish rate. How do you make a judgement on whether to say something, and do you have to calibrate that with the political context?

Mr Barnes: We intervene on different issues as they come up. If there is a debate on a particular subject that we have done work on and we have views on it, we will try to get it out there in some form, either through social or traditional media.

On corporation tax, our job is to assess the state of the public finances; it is not to advise on tax policy, so we would take no part in that decision on tax policy. We were looking at the consequences conditional on tax policies that are chosen, either internationally or in Ireland.

Mr O'Toole: OK. My final question will lead into what the Chair wants to ask. Within the last hour, the European Central Bank (ECB) has put out a warning — it has been reported as a warning — about sovereign debt and the potential for volatility because of roughly 100% debt to GDP ratios in eurozone counties. Do you have to triangulate with that? Obviously, you do not have to echo what the ECB says, but is there an obligation for your fiscal analysis not to completely contradict what is being said by, for example, the ECB?

Mr Barnes: Our analysis is totally independent. We look at the situations in Ireland, subject to our mandate, and make an assessment on them. We also look at what happens in the world. Perhaps more relevant for us is the fiscal debate at the European level. There may be times when the overall European fiscal stance impacts everyone. There is a question of how much Ireland is often an outlier in these things on how much it contributes to wider efforts. Mostly, those are pretty second-order issues for us. We are actually independent and so will not take our direction from Finance, ECB or anyone else. We just try and make the best analysis we can as economists and experts of the situation.

Mr O'Toole: I was not in any way suggesting that you take direction from the ECB or another European institution. I was just asking about how you place yourself in that debate.

The Chairperson (Dr Aiken): I have two very short questions. First, what is your relationship with the central bank? The second question is about the red-flag function. I saw how economists were castigated if they dared to say that the Irish economic model was flawed, coming off the rails, and was all going to collapse in a big snottery heap. I saw, fairly close to, the vitriol directed at the messenger, even though everyone could see that it was happening and particularly that housing was overheating. You mentioned housing again and the red-flag position. How closely should your red-flag message be listened to? Is there a mechanism to make sure that it gets through loud and clear? I have seen what happened in the past. You know, as well as I, that many economists around Dublin still bear the scars of having to say "The emperor has no clothes."

Mr Barnes: We have a relationship with the central bank on different things. Essentially, however, our roles are fairly independent and different. We work together on some issues and have worked together a little bit on modelling. We talk to each other, but we are different institutions doing different things.

With regard to the red-flag function, there is no doubt in our minds that we will say the truth — and say it very publicly — whichever way it goes. It might be a message that people want to hear or it might be a message that people do not want to hear. We are not an independent body or a political one, but we do think a lot about communication and how we impact the debate.

The mandate is a very powerful thing. If we say something, it is not just the opinion of someone who has looked at it or has an opinion; it is based on a lot of work. We are the body officially mandated by Parliament to say these things. We use our mandate carefully. It would be easy for us to get headlines any day of the week by coming out with things, but that is not what we are about, and it would not work. We are very careful to measure our communication so that when we genuinely think that there is a problem, it should be clear to people that there is a problem. We see that in the public debate and the media, and parliamentarians realise that. Sometimes, we criticise small things where there is room for improvement, in a sense. Not every report that we do has these kinds of messages. Sometimes, we are not in that position. However, when we say that there is a problem, people take it seriously. Of course, then it comes into a political debate where other forces are at work. The force to spend more money and not really fund it properly is very powerful.

That is one of the reasons why fiscal councils have been set up. Recent evidence is that our mandate is not so powerful that, when we say something, bad things will not happen. It is, however, one of the forces that exists. We do our best, and we are in a good position. Other people are supportive of that. We have to see how it plays out. Certainly, there is a sense that we have warned about some things and that we have been listened to. Ministers have said, explicitly, that they have done something because the council said that they should. That is also a sign that we have some traction. There are, of course, many forces. Public finances are difficult. Everyone has loads of ideas about how to spend money, but they tend to find it harder to find things on which to cut back or areas in which to raise taxation. It is a difficult challenge to address, but we do our best.

The Chairperson (Dr Aiken): Sebastian and Eddie, thank you very much for a very informative evidence session. As we progress on our route towards, hopefully, getting our independent fiscal council up and running and legislated for, may we keep in contact? We would be delighted if, when we are up and running, you would look north of the border to mark our homework.

Mr Barnes: We would be happy to do that.

Dr Casey: Thank you very much.

19 May 2021

Members present for all or part of the proceedings:
Dr Steve Aiken (Chairperson)
Mr Paul Frew (Deputy Chairperson)
Mr Jim Allister
Mr Pat Catney
Ms Jemma Dolan
Mr Philip McGuigan
Mr Maolíosa McHugh
Mr Matthew O'Toole
Mr Jim Wells

Witnesses:
Mr Barry Comerford Parliamentary Budget Office
Ms Annette Connolly Parliamentary Budget Office

The Chairperson (Dr Aiken): I welcome Ms Annette Connolly and Mr Barry Comerford from the Parliamentary Budget Office (PBO). The session will be recorded by Hansard.

Ms Annette Connolly (Parliamentary Budget Office): Thank you very much for the invitation to speak to the Committee this afternoon, which I am very happy to do. You have heard a lot of detail from Sebastian and Eddie about the Fiscal Advisory Council, so I will begin by setting out what the Parliamentary Budget Office does and the differences between it and the Irish Fiscal Advisory Council (IFAC).

The PBO is an in-house parliamentary body set up by the Houses of the Oireachtas to provide the Oireachtas with tailored support for its role in the budgetary process. That means that we give support to Members in relation to the approval of spending, revenue-raising legislation, and oversight of public finances and fiscal governance arrangements. Our work is very much aimed at meeting Oireachtas Members' needs in those areas. We do that through publishing research and analysis and presenting our analysis to Committees of the Houses.

The office is staffed by civil servants — we are all civil servants — and currently has eight staff. However, we have a number of vacancies, and we will be recruiting additional staff in the coming weeks. Our mandate is set out in legislation and is line with the OECD principles for independent fiscal
institutions (IFI) and PBOs, which I know you are familiar with.

The PBO originates in the need for Irish parliamentarians to have access to expertise to better understand and engage with their role in the Budget process. In the early 2010s, on the government side, a number of reforms were introduced to the Budget process, but Parliament's role had not changed at all. So, in 2015, the Oireachtas Service commissioned a report from the OECD about how parliamentary scrutiny of the Budget could be improved. That report recommended setting up a Budget Committee so that the Oireachtas could have a specific forum to discuss Budget issues in advance of the Budget. It also recommended setting up a parliamentary Budget office to support that Committee, other Committees, and Members in general in their engagement in budgetary matters. Based on this, the PBO does have a special relationship with the Committee on Budgetary Oversight. I regularly appear before the Committee to present our analysis of major government Budget-related documents or just to brief the Committee generally on the economic and fiscal situation. The sessions are held in private, and the advantage of that, I guess, is that it allows for an open exchange with the members. We also try to align our own work programme, to an extent, with the work of the Committee on Budgetary Oversight so that we can help it in its work.

Obviously, as you will be aware, and as you have heard from Sebastian, the Fiscal Advisory Council originated in the economic and fiscal crisis of 2008-2012 and the need for an independent check on the Government's fiscal plans. EU fiscal rules required that an independent national institution should either complete or verify the Government's economic forecasts and check compliance with the EU's fiscal rules. You have heard a lot of detail about how the council does that work.

As you have also heard, the council does not work directly with the Oireachtas, but it does have regular engagement, in particular meeting the Committee on Budgetary Oversight on its fiscal assessment reports. That is important in a couple of ways. First, it allows council members a public forum to explain their assessment and the thinking behind it. Secondly, it allows Dáil Members to get a greater understanding of the issues by asking questions and engaging in open dialogue with informed, independent experts on overall government Budget policy. The PBO and the Fiscal Advisory Council recently agreed a memorandum of understanding between us to share information in areas of mutual benefit and to have more regular contact. We hope that that will help us to avoid any overlap or duplication in our work.

I thought that it might be useful to give you a sense of the practicalities and challenges that arise when setting up a new independent fiscal institution. It is important that a body such as the PBO be independent. That is an important and fundamental principle for us. The OECD advises that PBOs should be non-partisan and independent in their analysis and that they should be underpinned by statutory legislation to that effect. This is important because it allows independent institutions to operate in an area that will always be politically contentious.

Access to skilled, expert staff is a prerequisite for such a body. I will be honest and say that that has caused us issues with retaining staff over the past few years. We have had a high turnover of junior staff because many have left us on promotion. That was good for them, but it means that we have had difficulties replacing them and trying to recruit specialist staff. It is a slow process. Individuals who have the economic and statistical skill set that we need, as well as knowledge of the Budget process, are not in plentiful supply, and that skill set is in high demand across Civil Service bodies generally. I will also mention that having a statutory right to access and request government information is really important. Our legislation gives me, as director, the right to request information from Ministers and bodies and says that the office will have:

"all such powers as are necessary or expedient for the performance of its functions."

Overall, cooperation with Departments on requests for information has been quite good. There have been instances where requests have been ignored or refused, or informal consultation before a request was made indicated that no information would be provided to us.

Overall, that has not really impeded our work, and we can and do use our publications to highlight poor information or lack of information and lack of cooperation. However, the "soft" authority that we have to request information would be of greater concern if our remit on costings proposals is to be expanded.

In last year's Programme for Government, the new Irish Government made a commitment to explore extending the PBO's mandate to cost political party election manifestos. Currently, the Civil Service provides costings of political party budget and election proposals, but there are gaps in that because not everything is costed, and there is no independent check on costings.

However, implementing that Programme for Government commitment would require substantial extra resources for the PBO and a closer working relationship between us, Departments and potentially other institutions. It would also require a change in the PBO's legislative mandate. However, it is probably fair to say that that kind of work is more suited to a Parliamentary Budget Office than a Fiscal Advisory Council because we have closer interactions and engagement with the political system. It could also dilute the focus of the Fiscal Advisory Council's mandate.

I did not want to take up too much time on my opening remarks, but I just want to say thanks again for the invitation. I am happy to address any questions that you might have. Barry is here as well to supplement or respond to any questions.

The Chairperson (Dr Aiken): Annette, what is your relationship with the Committees and their Chairs?

Ms Connolly: That is a good question. Our closest working relationship is with the Committee on Budget Oversight and its Chair. More broadly, we have, over the past while, been building on and developing relationships with other Committees — the sectoral Committees especially — in relation to their role in approving the Estimates and monitoring spending allocations in year. Over the past couple
of years, we have been working with the Committee secretariat to improve the in-year monitoring of spending by Departments. That has allowed us to develop closer relationships with other Committees, but it is a slow process.

To give you an idea of how our system works, I might send correspondence to Committee Chairs, but it is very much up to the Committees to invite us to address them. Some Committees have, but not all. However, it is something that we are working on.

The Chairperson (Dr Aiken): One of the things that we want to see is a common framework across all Committees so that we are all reporting against the same issues. We also want to encourage Departments to report on similar lines, bearing in mind that the Estimates process seems to drag out and that we are always well behind the power curve when we do it.

Have you been able to get an understanding among Committees about working to a common framework? That would mean that, when you are doing your analysis, everyone can understand it, because they are sharing the same information sets, although not necessarily the same pieces of information. All information is then presented in a way that is readily understandable. As you build up experience with the Oireachtas and its Members, they will get to understand the process as well.

Ms Connolly: That is a very timely question, because, last year, the newly formed Committee on Budgetary Oversight did a review of how the Committee had operated in the previous Dáil, which was essentially the first Committee. The first Committee was set up in 2016, and it made a series of recommendations. Its report was published very recently, and I am happy to share it with you.

The Chairperson (Dr Aiken): Yes, please.

Ms Connolly: Since that report was published, we have been working with the Committee secretariat on how best to implement the recommendations. It made recommendations about the approval of the Estimates, which, in line with your experience, can be a very long, drawn-out process. In some instances, some Estimates are not approved until halfway through the year, so half the spending has already occurred. There are already recommendations about shortening that time frame and having more meetings throughout the year to look at spending in year and so on.

The PBO will look at that and will prepare the kind of templates that you are talking about. We will suggest to Committees what kinds of issues we think that they should be looking at as a Committee through the year, what kind of questions we think they should be asking, and how they should focus on them.

Obviously, government spending is a big element of the Budget. Over the past couple of years, the PBO has produced monthly analyses of government spending and of the performance on the revenue side as well. We have been sending our assessment and analysis to Committees to help them in their work. In that analysis, we point out trends and areas of overspend occurring for a Committee to focus on in its engagement with Departments. That is something that we have been happy to work on over the past couple of years. However, we will try to come up with a more robust framework in future, working with the Committee on Budgetary Oversight.

T**he Chairperson (Dr Aiken):** A final one from me. To be able to produce monthly out-turns, you need
a degree of understanding of the data that is being presented. How difficult is it to get that? One of our biggest problems is that we are months behind. We are lucky to get information on the current quarter at the time of the next quarter, so we are a quarter behind. How do you manage to do the monthly bit?

Ms Connolly: The Department of Finance publishes its own monthly fiscal monitor. That monitor has up-to-date, real-time monthly figures on the tax take and the level of spending by each Department at vote level. On the spending side, there is no information published other than the figures, so we have been contacting Departments directly to get more granular information from them about the spending. We have been asking them for explanations of exactly which programmes are overspending or underspending and for programme-by-programme breakdowns, because those are not being published by the Departments.

It goes back to the issues with access to information. At this stage, we get very good cooperation from six to seven Departments and very little information from the others, and that is a challenge for us. We know that the Departments have the information, so we have been trying to get them to share it with us so that we can provide it to Oireachtas Members. Something that we have been trying to reinforce with Members and the Government side is that Members' role of approving the Estimates is a really important one, so they really should have as much information as possible to allow them to scrutinise where the money is being spent and how well it is being spent. That is a work in progress, however.
The Chairperson (Dr Aiken): Thanks, Annette.

Mr McHugh: Tá fáilte romhaibh uilig, Annette agus Barry, go dtí an cruinniú an tráthnóna seo. You are very welcome to the meeting. I listened to your presentation, Annette. Is your role for elected Members very much an educational one?

Ms Connolly: There are a couple of things to say about that. The PBO has been up and running for nearly four years, so it has been a learning experience for us as well as for Members. We know that the Members are time-poor, with a lot of demands on their time and resources, and the Budget process is complicated and technical. There is a lot going on. This year, the Government plan to spend up to €87 billion, which is a very large Budget. The tax system is very complicated. We are therefore very conscious when we are doing our analysis that we need to try to explain it as simply as we can and try to explain the very technical elements in as straightforward a way as we can in order to help Members understand. You are right: it is about understanding what is going on. The reality is that a lot of the material that is presented by the Government side is very complicated. It is far too complicated and detailed.

Mr McHugh: I can appreciate that. Do you find that there is a lot of duplication with the Fiscal Advisory Council, or is there cooperation to the extent that there is no duplication? Can Members themselves see the difference between the roles of the PBO and the Fiscal Advisory Council?

Ms Connolly: From the outset, we have been really clear and careful to avoid any kind of overlap or duplication with what the council does. We have an informal relationship with it. From time to time, and certainly at the beginning, when we were set up, we were being asked to look at issues that were absolutely for the council. We would tell Members, "No, this is not for us. It is for the Fiscal Advisory Council", and suggest that they contact the council about such issues. We see our role very much as just working in Parliament itself and on the Budget process, whereas IFAC has a much broader economic mandate. I do not think that there is confusion about our two roles. We are keen, however, to ensure that there is no overlap with or confusion about what we do.

Mr McHugh: How does your role add value to the whole budgeting process?

Ms Connolly: Our role is really to help Members to understand the nuts and bolts of it. The hope is that there will be better scrutiny of what the Government are doing on fiscal policy so that Members can ask more pertinent questions and really have better engagement and more evidence-based conversations and discussions with the Government side on what is happening on the economy and Budget. That is very much our intention and where we see that we are trying to add value for Members.

Mr McHugh: Do you often find that, when you bring forward your information, you are in conflict with either the Government or Departments?

Ms Connolly: Yes. We just have to acknowledge up front that this is a contentious space. It is also very important, though. We have to be impartial and objective. If we feel that things need to be highlighted for Members, we do that, absolutely. We call out things that Departments are doing. That regularly happens.

Mr McHugh: It is your job. Go raibh míle maith agat arís, Annette. Thank you ever so much, once again.

Mr O'Toole: Thanks, Annette and Barry, for coming to give us evidence. Recently, you published a memorandum of understanding with the Fiscal Advisory Council. Is your relationship with it based on a shared view of the role of independent fiscal institutions? I ask that in the context of the OECD's having a checklist of things for successful independent fiscal institutions. Are you both subscribed to the same broad view, although you have different roles and different reporting lines?

Ms Connolly: Absolutely. That is very much where we are coming from in our relationship with the Fiscal Advisory Council. We are both members of the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions. In fact, next year, we will jointly host a meeting of the network in Dublin. From the outset, as I said, we have been careful to develop an informal working relationship with the council. What we do is based on informal relationships. The economics community is a very small one, so there are some personal relationships between some of the staff in our office and council staff, and that has been helpful. In its report on the Fiscal Advisory Council, the OECD suggested that it would be useful if that informal relationship were set out in a letter of understanding between us, so that is what we have done. That is why we recently agreed that letter between us. As I said earlier, it is not because there is confusion between our roles. Rather, it is to make things more formal and to give public clarity by saying that this is how we operate and that we have a close understanding and working relationship.

Mr O'Toole: The PBO was set up in 2015 but was not established in statute until amending legislation, the Houses of the Oireachtas Commission (Amendment) Act 2018, was enacted. When it was set up in 2015, was it intended that it would eventually be established in statute, or was it established in statute as a result of practice revealing to people that the PBO needed a statutory basis?

Ms Connolly: It was a bit of a chicken-and-egg situation. When the OECD made its recommendations in 2015, it clearly stated that each IFI needs to take account of its own national situation but strongly suggested that it should conform to the OECD principles. One of those principles is that PBOs should have a statutory mandate. That is based on experience, where some PBOs had been stripped of resources when they issued analysis that was contrary to and critical of the Government stance. It is therefore partly, I guess, to insulate the office from potential threat from government side.

We were set up on an administrative basis in 2017, when I was appointed as director. It was always the intention that we would prepare legislation. The way in which the Houses of the Oireachtas service was set up means that we get a three-year, multi-annual budget from the Government. That budget requires legislation to be enacted every three years, and that is by amendment to the Houses of the Oireachtas Commission Act 2003. The way in which the cycle works, that Act was due to be amended in 2018 anyway, so we took the opportunity to include establishing the PBO at the time that that legislation was being enacted. Another quirk is that that had to be agreed with the Minister for Public Expenditure and Reform, so that Minister had to bring the legislation to the House. We had worked on and developed the legislation ourselves and had worked closely with government side on its provisions.

Mr O'Toole: Unless I am misreading it, section 5 of the 2018 Act does not really specify an obligation on the part of Departments to provide you with information.

Ms Connolly: Yes.

Mr O'Toole: Would you like to see that improved by further legislation?

Ms Connolly: Absolutely. Before we prepared that legislation and the business case to have it enacted, we did a lot of research into other PBOs internationally. All the evidence, and even our conversations and consultations with PBOs, suggested that a really big issue for pretty much every independent fiscal institution internationally is having access to data and information and having as robust legislation as is possible.

From our perspective, we see this as an opening gambit. We have gone for a soft approach, where I have the right to ask for the information, but you are absolutely right that there is no obligation on anybody to provide that information. Ideally, I would love to see the section strengthened. Again from speaking to colleagues in other PBOs, I found that in some instances, even where that obligation exists, it often does not necessarily mean that they get the information that they need. This is why we have been developing and building relationships with various Departments: so that we can get access to the information that we need.

One area on which we have been working is to develop some of our own models so that we can have an independent assessment done of information and material that we get from Departments. It takes time and a lot of expertise to develop those various economic models, but it is something that we are working on.

Mr O'Toole: I was going to come on to the question of your models in a second. On the point about legislation requiring Departments to share information, can you give us a worst-case example of a Department refusing to give you information? You can anonymise the culprit or culprits.

Ms Connolly: There have been instances. It is not that we asked for direct information. Actually, no, we have asked for direct information. *[Laughter]* The response was, "You're an independent office, and we don't think that it would be appropriate for us to engage in this with you".

Mr O'Toole: OK. That is useful.

The Chairperson (Dr Aiken): An independent office of the Oireachtas.

Mr O'Toole: I have two brief questions. Section 5 states:

"provide the Houses of the Oireachtas or an Oireachtas Committee with fiscal and economic information".

Does that mean that an individual TD or senator cannot approach you and ask for a piece for work to be done? It has to be a Committee requesting it or the House voting in a plenary sitting to request information. The average Back-Bench TD cannot therefore simply commission a piece of work from you.

Ms Connolly: Theoretically, no, but we have the parliamentary Library and Research Service that expects and responds to information requests. It does research on demand. In practice, if Members come to us with a query, we do our best to respond and help them as best we can, based on the resources that we have and other priority areas. In general, most of the work is based on direct requests from the Committee on Budgetary Oversight in particular, but we get requests from other Committees as well. We make it clear to all the Committees that we are more than happy to engage and work with them and to deal with any requests that they have.

Mr O'Toole: It sounds as if you are saying that, for an individual Member's requests, the parliamentary research service is separate from you, although you do work together.

Ms Connolly: Yes.

Mr O'Toole: Members can come and ask for a bit of information on desk research that can be got by your people, but I presume that if a Back-Bencher came in and said, "I've got this great policy to spend on x, y and z. Can you cost it for me?", it would be a no.

Ms Connolly: We have been doing a confidential costings service, but it is for political parties and groups rather than for Members. Generally speaking, however, all the Members are members of a group, so it is open to them to request information from us through their group or party.

Mr O'Toole: This is my final question. You talk about the fact that you are constructing your own models. How important is it to have proper internal model-building and forecasting capacity in your organisation rather than just having the capacity to scrutinise what you are given?

Ms Connolly: We feel that we can really add value if we have our own models to double-check the information, the costings and so on that are being provided from government side. We have been developing and working on that, primarily for social welfare payments, labour market models and so on. We have been developing some of those ourselves, and the economists in the office have a lot of expertise in that area and have recently developed a debt sustainability model. We are therefore working on that and building up that expertise. Some of it we can do ourselves, but this is where it is about our relationship with Departments and what access we have to information and data. Primarily, a lot of the models are based on publicly available data sets. That is a slight constraint when it comes to building and developing our own models, but we have a relationship with the Economic and Social Research Institute and have access to its SWITCH model, which is the model that involves the tax and social income support and benefits system. Having access to that model gives us the capacity to run things through that model. That is an important way in which to double-check. We also have access to EUROMOD, which is a European-wide version of the SWITCH model. It takes time to develop those models and, as I said, technical expertise, so it will take us some time before we are fully satisfied with the models and with our own modelling capacity in-house.

The Chairperson (Dr Aiken): Annette and Barry, thank you very much indeed for your time. As we progress along our path, we would like to keep the dialogue open, so we would be delighted if you can keep in contact with us —

Ms Connolly: Absolutely.

The Chairperson (Dr Aiken): — and we will inform you of our progress. When things go back to normal, we would be delighted to get an opportunity, when we are next down in your neck of the woods, to say thank you in person. To be honest, I would prefer doing it in the Dáil rather than in one of my least favourite buildings in Dublin, which is where you are stuck at the moment. We look forward to that. Thank you both very much indeed for your time.

Ms Connolly: Thank you very much. We are happy to stay in touch. Best of luck.

9 June 2021

Members present for all or part of the proceedings:
Dr Steve Aiken (Chairperson)
Mr Paul Frew (Deputy Chairperson)
Mr Jim Allister
Mr Pat Catney
Mr Maolíosa McHugh
Mr Matthew O'Toole
Mr Jim Wells

Witnesses:
Mr Richard Hughes Office for Budget Responsibility

The Chairperson (Dr Aiken): Joining us, via StarLeaf, is Richard Hughes, the chairperson of the Office for Budget Responsibility (OBR). Richard, thank you very much indeed for taking the time to talk to us. Unfortunately, due to COVID, many of our members are available via StarLeaf or are not present because of a late plenary sitting in the Chamber last night. We do not have the full cohort of members, but I can assure you that we are particularly interested in listening to your evidence.

The main issue for us is that we are setting up an independent fiscal council and an independent fiscal commission, and we are seeking to get as much evidence as possible on the best framework for setting those up. We have received quite a lot of evidence from Scotland, Wales, the Republic of Ireland and the OECD, and I can speak for most of the Committee when I say that we are very much minded that Northern Ireland desperately needs this. We are just not quite sure how we want to do it. The organisation that keeps coming up time and again is the OBR. That is why we look forward to listening to you.

Team, relevant papers are in your packs. Richard, can I ask you to make your opening statement? We can then get stuck in.

Mr Richard Hughes (Office for Budget Responsibility): Great. Mr Chairman, thanks very much for the opportunity to appear before the Committee. Let me say that I really welcome the establishment of the Northern Ireland fiscal council and the Committee's interests in its mandates and activities. Let me also say that I do not think that you could have made a better choice as the chair of the Northern Irish fiscal council than Robert Chote, whose leadership and vision over the last 10 years has really made the OBR what the OECD described, in its independent review, as a model for independent fiscal institutions around the world. I should emphasise that Robert had a full decade at the helm of the OBR as the chairman. I am still in my first year, and I should advise you that, if any of my testimony directly contradicts his, you should weight our views according to our experience. His experience is much more prodigious than mine.

Given the OBR's dual mandate of providing both the executive branch in the UK with its official economic and fiscal forecast and informing Parliament and the public's consideration of fiscal matters, its relationship with the Treasury Committee in Westminster and the Finance Committees of the devolved Administrations has always been vital to the effective fulfilment of its functions. In Westminster, the Treasury Committee in Parliament is not only one of the most important customers for our analysis but it has been an important guarantor of our independence from the executive branch. Indeed, the Chair of the Committee typically starts each of his sessions on the OBR's forecasts by asking whether the Government have sought to exert any pressure on the OBR to change its forecasts or revise any of its judgements. For the past 10 years, the answer has always been no. That is an example of how important it is that the legislature takes an interest in the operation of the fiscal council, even after its establishment, and assures that its mandate is respected and its independence upheld.

I am really encouraged that the Committee is taking such a strong interest in the legal institutional arrangements for the establishment of the Northern Ireland fiscal council. During questions, we can come on to the mechanisms that have been most important in ensuring our independence and the impact on fiscal policy in the UK. However, before we do that, I thought that I might offer a few reflections based on my relatively brief tenure as chair of the OBR since October about the role that it plays in the fiscal policymaking process in different parts of the UK.

When thinking about what the OBR has contributed to the fiscal debate and fiscal policymaking process around the country over the past 10 years, I highlight four things. First, it has brought a more accurate and realistic economic and fiscal forecast to underpin the Government's Budget decisions. I should stress that, especially in the context of the past year, no economic institution has been particularly good at spotting crises, shocks or turning points in economic activity of the sort that the coronavirus pandemic has been. That remains an ongoing challenge for institutions such as the OBR and economic forecasters around the world, who are essentially trying to predict the future but are not always good at seeing things that can blow those predictions dramatically off course, such as the pandemic, the 2008 financial crisis and things that came previously.

A second contribution that the OBR has made and that is really not to be underestimated is its contribution to greater transparency about the assumptions that underpin the Government's economic and fiscal plans. That is not only transparency about the economic assumptions that go into the forecast but greater transparency about the detail that underpins the fiscal forecasts. That is an important consideration in Northern Ireland, where some of the concerns that people have expressed about fiscal policymaking up until now have been about the opacity of the Government's budgetary plans and the need to shine more of a light on what goes into them.

A third contribution that the OBR has made has been to make the Government more accountable for issues of sustainability and risk — those things that are beyond the typical Budget-planning horizon and that are off the edges of a typical Budget forecast. What are the potential threats and shocks that might blow the Government's fiscal plans off course in the medium term, and what are the looming long-term threats to sustainability that are lingering just beyond the Budget horizon? Those are things like demographic and climate change, which are slow burns that affect public finances over long periods.

Fourthly, and not to understate it, the OBR, together with our sister institution in Scotland and the work that we have done with the Welsh Office, has aided the process of fiscal coordination across the United Kingdom and with the devolved nations. At the very least, we have helped to inform discussions between Westminster and the other Governments that make up the UK about fiscal decision-making and provided a better information base for that process. We very much welcome the establishment of the Northern Ireland fiscal council as a counterpart in that work. I look forward to working with it to help to provide even greater transparency about the linkages between the Westminster Government and the Government in Stormont.

I want to consider the key to our success. It was very nice to read the OECD report, but I do not take any credit at all for what it says. It was nice to hear that we are considered to be a model fiscal institution in the world. What has contributed to that success in the OBR? First, there is a strong but simple legal framework that safeguards our independence. I am happy to come on to what that means in practice when you think about your own founding legislation.

Secondly, there is a clear but fairly limited mandate. By "limited", I mean that the important thing about our role is that it is limited to the conduct of analysis and not to the provision of policy advice to government, which would threaten to drag us into the policy debate and potentially undermine our important independent role as analysts who inform that debate.

A third thing, which we are given in legislation, is broad discretion about how we fulfil that mandate. We are not prescribed to produce beyond a handful of documents over a year, including two forecasts to support the Budget, or any particular kind of information and, indeed, we are not limited to providing just that information. We are allowed to fulfil our mandate to inform the public debate about fiscal sustainability in any manner that we choose, and we can look into any issues that we think are relevant.

Related to that is the fourth key to our success: the right to access information that enables us to meet that mandate. We have a legal right to get information out of the executive branch. We do not have to ask the Treasury's permission. We do not even need to ask a Minister's permission. Officials are obliged to provide that information as a matter of law.

Fifthly, we are given sufficient resources to deliver our mandate. We are headed towards being an institution of around 40 people. That is enough to deliver the limited mandate that we have. We have nothing like the hundreds of economists that the Congressional Budget Office (CBO) in the US has, or the larger number of economists that the Dutch Central Planning Bureau has. The CBO has a much broader mandate than we have, and a much closer relationship, I could say, with the legislative process within Congress in the US in that it serves individual congressmen in the drafting of Bills.
Sixthly and finally — again, I do not understate it — we have strong support from the Treasury Committee in Parliament and in the wider economic community in the work that we do. They are important clients for us. They tell us what they want to see in our reports. As I mentioned, they are important guardians of our independence from the executive, which helps to ensure that those reports are independent and hard-hitting.

Let me conclude by also offering some thoughts on issues that have proven to be more challenging, albeit with the caveat that the last nine months, which were my first nine months in the job, have been a really challenging time for everybody. Some of those challenges reflect the fact that we are operating in a very difficult environment in economic policymaking and decision-making at every level and in every part of government.

Budget timetables have been one challenge. They have proven to be a headache for everyone, not just in Westminster but in Stormont, Edinburgh and other places. That has been especially true over the past year, when we have seen more than a dozen Budget-sized fiscal announcements of which, as an institution, we needed to keep track. Many of those announcements were made, out of necessity, outside of and without an updated economic and fiscal forecast. The Chancellor has had to make decisions on the hoof. The same has been true of the Finance Ministers in the devolved Administrations. It creates complexities and difficulties not just for us but for the Scottish Fiscal Commission in trying to keep pace with events, align forecasts that are produced at different times and trying to capture all the decisions that have been made at different levels of government and also their interdependencies. Of course, the resources that you have to deploy in Stormont and that your colleagues have to deploy in Edinburgh depend on decisions that are made in Westminster.

A second challenge that we found is trying to find ways of communicating risk and uncertainty and avoiding an excessive focus on just our central forecasts. The past year has taught us that forecasts are only as good as the day on which they are produced. After that, events take over. Two once-in-alifetime shocks have hit the UK economy in the space of the past two decades, neither of which was anticipated by the forecasts that were produced even a few months before. In the work that we do, we have tried to emphasise just how much uncertainty there is in the fiscal outlook. In that, we provided different scenarios for the path of the pandemic, including options where vaccines worked and did not work, to try to help policymakers to appreciate how to prepare for the full range of potential scenarios for the pandemic. I think that we made some progress with that, including through publications like the fiscal risks and fiscal sustainability reports, which focus on the wider realm of possibilities that might unfold in the coming years. However, there can still be a preoccupation with our precise point estimate for GDP this year, next year and the year after that.

A third challenge has been that some elements of the public finances remain more opaque than others. Here, I would emphasise the departmental expenditure limits (DEL) that make up roughly half of total public spending and on which the Northern Ireland block grant is based. We essentially forecast those, almost as a lump sum, based on discussions with the Treasury about how much DEL it has planned over the coming year and how much DEL it expects to execute within those plans in the coming year. The fact that, at least for the last year, the Government have been effectively operating with just an annual Budget and not a multi-year horizon for departmental expenditure limits means that our forecast for DEL is much more indicative beyond the year ahead than things like our forecast for welfare spending, where you can predict case numbers and uprating; Governments have stated policies in those areas, and you can forecast them on a more technical basis. Essentially, DEL is a political commitment of the Government that we take into account in our forecasts with a bit of discounting. It is not a technical exercise for the likes of us, but we need to improve on that.

The fourth and final challenge is that Westminster has been operating without any clear fiscal rules for government. The fiscal targets that are set out in legislation expired in March and were broken by very large margins as a result of the fiscal shock of the pandemic. Since then, the Chancellor has outlined a set of objectives for fiscal policy that he has committed to codifying in legislation at some point this year. However, for the moment, they are vague in precise values and deadlines. That means that it is difficult for us to fulfil the part of our mandate of whether the Chancellor is meeting those objectives. None of the issues that I raised is easy to solve and none of them can be resolved by ourselves alone, but I think that, working collectively across countries and between Governments, fiscal councils and legislatures, we can make progress on all of them. They are by no means the full list of things on which we need to make progress collectively as a fiscal community, and I look forward to hearing your thoughts on the role that the Northern Ireland fiscal council can play in helping to improve that situation. I would be really happy to take any questions that you might have.

The Chairperson (Dr Aiken): Richard, thank you very much indeed. I will get stuck straight in. We have had our challenges with our budgeting process this year, but we have always had challenges. To put it politely, we have always had some sort of crisis or something issuing with the Budgets or the presentation of information as we have gone through them. Some of it is down to delays and disputes with Westminster, but, very often, it is due to our internal issues.

The Welsh Government appear to have developed a memorandum of understanding (MOU) with the OBR that allows for a draft Budget that is based on your projections. We do not have devolved taxes, but your projections could be devolved and debated, regardless of delays at Westminster. Do you think that we could have something like that in Northern Ireland? Even if we had a baseline against which we were able to plan and were looking at information from an independent fiscal council, it would at least let us know how much we are off the delta and level of deviation and give us a framework from which to start. What are your thoughts on that?

Mr Hughes: It can help, although I stress that we do two economic forecasts a year, and those are done to support the Budget process in Westminster. They do not necessarily coincide with the timetables and needs of the Governments in the devolved Administrations. One thing that we are not able to do, basically for resourcing reasons, is bespoke forecasts for devolved nations outwith the forecast that we do for the UK as a whole, because, essentially, those forecasts piggyback on the economic forecasts that we do for the UK as a whole.

It has been the case in Scotland that the Scottish Fiscal Commission, which is a relatively wellresourced fiscal council for a devolved Administration — obviously, the Welsh do not have their own fiscal council — does its own economic forecasts for Scotland, forecasts its own tax revenues and welfare, and compares it against ours. That is, of course, better suited to the timetables that they have. We have had instances, even in the past 12 months, when the Scots produced a forecast before us because they had to fulfil their own timetabling needs.

Therefore, it can be part of the solution, and, I think, in general, forecasts need to be regularly updated in the context of crises. Our ability to provide a bespoke forecast for Northern Ireland precisely to fit your needs might be more of a challenge. It raises the question of what the role of the fiscal council would be in Northern Ireland and whether it would have its own forecasting capacity and mandate or would piggyback on ours. If it were to piggyback on ours, unfortunately, it would basically have to accept the vintage of when that is produced. If your process happens at a different stage than ours, there is a risk that, if events move on, it becomes out of date.

The Chairperson (Dr Aiken): I have a quick question. You said that the Scots produced something ahead of the OBR this time round. When they did that, how far away was it from the model that you were looking at?

Mr Hughes: It was different, but, basically, that was mostly because of the timing. It was produced a few months after we had done our most recent forecasts. What we understood about the progress of the pandemic had changed. At the time that Scotland did it, vaccines had been developed, and that was good news relative to an earlier forecast that we had done. However, the even better news about both the effectiveness of the vaccines and how quickly it looked as though we would be able to roll them out and lift restrictions meant that our subsequent forecast was even better.

Therefore, it is not so much that there were differences of methodology, but timing has been everything in the past 12 months in understanding the impact of the pandemic and public health restrictions on the economy and then forecasting what the lifting of those restrictions would mean for the recovery in activity as we come out of the pandemic.

Mr Allister: Good afternoon. I want to cover a couple of areas with you. The OBR already gets information from Northern Ireland. I want to explore what happens to that information. It receives Northern Ireland data, both from the Treasury in the run-up to each Budget and autumn statement and directly from Northern Ireland during the twice-yearly annually managed expenditure (AME) exercises. What does the OBR do with that information?

Mr Hughes: We use it to update out-turn against our forecasts for departmental spending and welfare spending, and then it becomes the input into our own forecasts for departmental spending and welfare. Given that Northern Ireland is a relatively small part of both those areas, it does not form a big part of that forecast, but, nonetheless, for adjusting for out-turn and looking at the forecast for the coming year's AME, Northern Ireland is a separate item within departmental expenditure limits, and welfare spending in Northern Ireland feeds into the welfare forecasts that we provide to the Government.

Mr Allister: Am I correct to say that there is no memorandum of understanding to cover any of that? Is that right?

Mr Hughes: There is not, mainly because we do not have a direct relationship with you of the kind that we have with the Welsh Government, whereby we provide forecast inputs into the Welsh Government's Budget process. We rely on the memorandum of understanding that we have with the Treasury, on behalf of the UK Government, to get the information from it that we need concerning spending in Northern Ireland.

Mr Allister: Given that Northern Ireland's budgetary arrangements are very much focused on the Northern Ireland grant, and we are not in a situation of balancing income with expenditure, what use is there for a fiscal council? What will be the added value of a fiscal council in that limited situation?

Mr Hughes: The implication in your question is right. One of the functions of fiscal councils across the world is to provide a macroeconomic forecast on which Governments can base their economic and fiscal plans. Since Northern Ireland does not have its own revenues, and because its revenues depend on the revenues and spending decisions of the UK Government, it does not make a lot of sense at this stage in the process to have a fiscal council producing a macroeconomic forecast for Northern Ireland. It may be interesting to business in Northern Ireland, and it may be interesting for other reasons, but it is not essential to producing the Budget, because the Budget depends on the block grant that you get from the UK.

We play an important role beyond the forecasting role. We provide greater transparency on the composition of spending, the challenges and pressures on spending over the medium to long term and the sustainability of the Government's fiscal plans. A fiscal council in Northern Ireland could fulfil that role. It is the scrutiny of public finances function, which looks at their composition and evolution and makes sure that they are based on a credible and realistic set of assumptions that match the pressures that are being put on different parts of the Civil Service.

Mr Allister: Speaking of such scrutiny, Northern Ireland has an astonishing level of spend on welfare — over £5 billion a year. In the scale of the total spending, that is truly shocking. Would there be a role for the fiscal council in looking into that and, in particular, the robustness of any anti-fraud measures and how they are operating? Would that be a useful function?

Mr Hughes: We provide that function for the UK Government. The Office for Budget Responsibility produces a welfare trends report. It looks at the long-run trends in welfare spending over time and the pressures on welfare spending over the medium term. That helps to frame the debate about why the Government spend large amounts on welfare in some areas and perhaps less in others. We are also a check on the realism of the Government's plans to change welfare policy. For many years, the OBR scrutinised the plans for the roll-out of universal credit (UC) and asked tough questions about whether the timetable for the roll-out, which was aggressive, was realistic and whether the anticipated savings would materialise. Over a series of forecasts and tough discussions between the OBR and the Treasury, we got to a much slower and more realistic forecast for the roll-out of UC and, therefore, fewer savings coming out of the process. There are roles in understanding the underlying trends in what is happening to the overall mass of welfare and in providing greater scrutiny about the Government's plans for reforming welfare, if and when they materialise.

Mr O'Toole: Thank you, Richard, for your evidence. What are your overall perceptions of the Budgetmaking process of the Northern Ireland Executive and, by extension, the Assembly and how it is scrutinised?

Mr Hughes: I am relatively new to the role here, and I have not been directly involved in the Budgetmaking process in Northern Ireland or your scrutiny. I am an active consumer of the information that is produced as part of the process, but the documentation is relatively limited. It provides a breakdown of spending by Departments, some breakdowns of spending on welfare and the split between current and capital spending. If you compare that with the amount of information that we provide about the UK Government's Budget, it is relatively limited.

A lot of the questions that need to be asked about budgets are about the assumptions underpinning the numbers, not what the numbers themselves are. The numbers are the things that parliamentarians need to vote on as a matter of law, but what matters for whether they are credible and sustainable are the assumptions that you are making about their growth or reduction and the scrutiny of what assumptions are being made about the impact on different policies. Are heroic assumptions being made about how much you can save in a particular area? Are heroic assumptions being made about how slowly some items of spend will grow and how quickly some items of spend on tax will rise? The underpinning assumptions are less apparent from the documentation that the Government produce. The other thing that I note is that, basically, you get one year, and, for the purposes of fiscal policy, you are along for the ride for the year ahead. The things that you can change are the arc of spending and the arc of tax over a five-year period. Just think about this Government's current tax-raising plans. Most of the rises in tax will come in in 2025, and, in that sense, near-term decision-making is pretty constrained. It is medium-term decision-making, which gives you more options and more choice.

Mr O'Toole: That is really useful. You hit on the question of medium- and long-term policymaking and Budget setting. As you said, obviously, it is dependent on the block grant. In recent years, our Budgets have tended to be for one year.

On the subject of a macroeconomic forecast and whether it is useful or sensible for the fiscal council here to produce its own macroeconomic forecast as part of its work, if we have a multi-year Budget — hopefully, we will have one after this year's spending review — would it not be useful, sensible or helpful to have a discrete macroeconomic forecast on which to base longer-term policies and with which to explain to the public how and why those policies are being made?

Mr Hughes: I can see there being an input into the making of welfare policy, because it tells you things like how many unemployed people you will have and how many claimants to the welfare system you are likely to have. To some extent, however, those numbers can be generated from our own forecasts by making a few assumptions in the way in which we provide the same information to the

Welsh Government for their welfare planning. Given that you do not have many of your own revenues, that is one very big reason not to produce macroeconomic forecasts just for the sake of Northern Ireland.

On your question about how you make decisions about the rest of spending — not welfare spending but spending on public services — in every country, there is a lively debate about the feedback between government policy on the one hand and the economy on the other. Governments often want to believe that, if they spend lots of money on infrastructure, for example, and lots of money on education, they can get big growth effects later in the forecast from the impact of those things.

The reality is that those kinds of changes operate on economies over a period of decades. If you start educating more children now, or if you educate them better now, they will not be in the workforce for 10 to 15 years. Those sorts of interventions do not really show up in economic forecasts for very long periods, if at all. The same is true of investments in infrastructure. It takes five years to build much of the infrastructure, so, apart from the demand side benefit, you do not really see much of the supply side benefit for decades, if not generations. If what you were looking for was, "What is the return on this transport investment project? Why can I not see it in the forecast?", the answer is that it is somewhere way out in the distance. It is probably quite small and getting lost in the forecast-toforecast changes when you take into account out-turn or smaller changes to inflation or infrastructure.

Mr O'Toole: That is really useful. Part of the OBR's job is giving the public and Parliament an independent watchdog or a check on government policymaking. Clearly, the OBR has done that very well, and, in a sense, externally, the Institute for Fiscal Studies (IFS) has done some of that as well. There is also the explanatory job of education that you talked about. This is a statement, and I am not asking you to endorse it: the policymaking landscape in Northern Ireland has been relatively unambitious, perhaps, and very short term. There is quite a large consensus that policymaking and Budget setting have been short term here. Is there a job of education that would be served by the fiscal council having macroeconomic forecasting power? Even if, as you say, the short-term benefit of trying to forecast the multiplier effect of a one-year economic policy, such as the high street voucher scheme that we are doing this year, is limited and economically dubious, is there a different argument to do with the necessary job of educating the public and explaining longer-term policy options, such as investment in infrastructure or some kind of skills policy? My question is this: is there a different argument to do with public education?

Mr Hughes: I think that there is. Potentially, that requires a different kind of capacity from the fiscal council, or, at least, a different function. It is not providing any regularly updated forecasts of the medium term; rather, it is providing projections for the long term. It is more akin to the long-term fiscal sustainability analysis that we provide once every two years to the Government and to Parliament in the UK than the forecasts that we do every six months. Those kinds of exercises are less disaggregated, less complicated and require fewer people. There is a great benefit to them, though we do not do them every year, so we are not constantly updating a really complicated machine. However, they help to inform discussions about things like demographic changes and pressures on welfare systems, the impact of things like climate change and questions about what would make a difference to long-term productivity.

Mr O'Toole: Those reports, then, are as much about the text as the tables, in that they are as much about framing the narrative and offering insight as they are about saying, "Look at this table. Write this headline on the basis of this number".

Mr Hughes: They are. Text and tables go best together, and I will give you one example. Quite early in our fiscal sustainability analysis, a particular insight into long-term health costs was revealed. Often, people talk about those things as being demographic, whereas, in reality, the main problem with health pressures is not so much the population ageing but unit costs going up over time. In our projections, population ageing accounts for about a quarter of the total rise in health spending. It is the escalating unit costs per old person that are driving much of the rise in health spending over the forecast horizon. That leads to a different discussion about long-term health policies, because it becomes more about how to get better efficiency and how to control costs, rather than necessarily asking questions about what to do about the fertility of the population or whether there are enough people working to support old people.

Mr O'Toole: OK. I will try to close now, Chair, to give others a chance to come in. I have a question on the 'Charter for Budget Responsibility', which is legally required. However, it does not have a very clear fiscal mandate at the minute; it has an inoperative fiscal mandate. Rather than asking about what the UK and the Treasury are doing, what kind of fiscal mandate do you think would be useful for a devolved Executive?

Mr Hughes: I am certain that the prohibition of my commenting on policy extends to commenting on policy in Northern Ireland, so I would not dare to suggest to you what your fiscal rules should be. One thing that it is evident from the information that you have available to make fiscal rules is that the kind of fiscal rules that you have for the UK as a whole, which depend on knowing what GDP is and being able to measure things such as output gaps — the gap between supply and demand, and whether you have a structural deficit or just a cyclical deficit — are much more complicated to calculate for a devolved country than for a national Government. Basically, the information to provide those calculations does not exist. It is for that reason that, traditionally, some national Governments have had fiscal rules that are simpler and easier to calculate.

The other thing that you tend to need at a subnational level, potentially less so at a national level, is flexibility. Subnational finances can be a lot more volatile if you do not have the stabilising element that comes from the centre of government, such as redistribution or equalisation funds. We have some of those in the UK. However, we do not have as many as are seen in true fiscal federations elsewhere in the world, which have big stabilisation funds or much greater borrowing powers for subnational Governments to balance local revenues against local spending. The fact that they are smaller, local economies means that they are much more volatile than the national economies that can average out areas that are booming versus areas that are struggling economically.

Mr O'Toole: You may be aware that, in addition to a fiscal council, we have a fiscal commission, which is chaired by another luminary, Paul Johnson.

If you could change and try to improve one thing about the OBR's relationship with the Welsh Government, what would it be?

Mr Hughes: It is a work in progress. I think that it works remarkably well. One thing that would be of benefit to all of us, especially once the Northern Ireland fiscal council is set up, is to have more regular, frequent discussions with our colleagues in Wales, Northern Ireland and Scotland about the state of the macroeconomy: where we think that it is going and how it is showing up in respective Budgets, including questions on what is happening to the labour market situation in particular at the moment. Once the Northern Ireland fiscal council is set up, there will be an opportunity for us to have a quadrilateral group that meets regularly to talk about surveillance issues and those coordination and management issues.

Mr O'Toole: Thank you, Richard.

Mr McHugh: Richard, fáilte romhat. You are very welcome. You mentioned independence being central in many respects. Are you free to publish at your own discretion or do you find that you are directed by the Government or otherwise?

Mr Hughes: No, we are free to publish at our own discretion. The only constraint that we have from the Government is that, because we provide the economic and fiscal forecasts to support the Government's Budget, we coordinate with the Treasury to make sure that our economic and fiscal outlook coincides with the publication of the Budget. Beyond that, we decide the timetable for publication of our documents. All the content of our documents, all of our analysis and all the judgements that we make in putting it together are *[Inaudible owing to poor sound quality.]*

Mr McHugh: Richard, in relation to your governance structures, who has the final say on appointments to your body?

Mr Hughes: That is an important issue, and it relates to how to safeguard independence. My appointment, and those of the budget responsibility committee, my two colleagues, are unique in the sense that it is the Chancellor who proposes the candidates, but they have to be confirmed by Parliament's Treasury Select Committee. That is a very American-style arrangement: the legislature has confirmation hearings for officials appointed by the Executive, and the legislature's explicit approbation is required for the person to get the job. It is not true even for the governor of the Bank of England.

Reflecting our dual mandate to the executive and to the legislature, there is, essentially, a dual key between the Chancellor and Parliament's Treasury Select Committee over the three key appointments to the OBR. That has been an important guarantor of our independence, because it makes sure that I am not just a creature of the Treasury. It was especially important in my case because I had spent a fair amount of time working in the Treasury. It was for me to prove, demonstrate and reassure Parliament that I was not going to be just the Chancellor's man sitting here in the OBR.

Mr McHugh: Does the legislation specify what kind of qualification staff require to take up post? How many of your staff are, say, economists by trade? How many come from government or public expenditure backgrounds?

Mr Hughes: The legislation does not specify any particular qualification. It says that we have to be qualified to do the job. The Chancellor and Parliament need to be satisfied that we have the background and experience to do the job well, but the legislation does not specify that we necessarily have to have a master's degree, PhD or those sorts of things. I have a master's degree but not a doctorate.

On the question of the right people to employ, we are in large part an economic and fiscal forecasting outfit, so an economic background is important. I should emphasise, though, that some people come from generalist backgrounds and learn skills on the job. It is important to have a balance of people who are macroeconomists by training and others who have more public finance experience. Of the three members of the budget responsibility committee, Charlie Bean is an eminent macroeconomist with lots of experience, whereas Andy King and I have more of a public finance background than a pure macroeconomics background. Having a mix of skills at the top of, and throughout, the organisation is important so that we do not become too much of an economic think tank but have people who have practical experience of managing tax revenue collection, public expenditure planning and budget policy.

Mr McHugh: Which aspects of the legislation that established the OBR are most important to allow you to fulfil its functions? Which of them might be appropriate for the fiscal council for the North of Ireland to copy?

Mr Hughes: There are three things. The issues that you raised about the appointment process and ensuring dual accountability to the executive and Parliament are critical to our independence. The second thing is specifying, but only at a very high level, what outputs we are expected to produce. The legislation says that we have to produce two economic and fiscal forecasts for the Government and a handful of other supporting documents once a year or once every two years, but it leaves us broad discretion to decide all the content of those documents, consistent with meeting our mandate. The third thing, which is really important, is the right of access to information from the Government to produce those documents. That has allowed us to inform decision-making and debate in a way that I did not think possible before the OBR was created. Basically, we have become a conduit for getting information out of the Government and putting it in front of you, Parliament and the public, which allows what the Government are doing with public finances to be scrutinised in more detail.

Mr McHugh: Yes, and you have stated that you have a legal right to access that information.

Mr Hughes: Yes.

Mr McHugh: Go raibh míle maith agat arís. Thanks very much once again, Richard. Go raibh maith agat. Thank you.

Mr Wells: We were here until 2.30 am dealing with alcohol and liquor licensing. I feel as though I spent until 2.30 am drinking intoxicating liquor *[Laughter]* but I did not. Most of us are a wee bit under the weather after that experience, but we were able to grasp most of what you said, and other members have covered a huge degree of that. I am trying to tease out what the relationship is between you and your counterparts in Scotland and Wales and what the relationship is likely to be with us. You said that you have a memorandum of understanding with the Welsh office of budget responsibility or fiscal council. What is your relationship with Scotland?

Mr Hughes: Each of our relationships is different. My guess is that we will have a different relationship with the council in Northern Ireland. I do not consider any of those to be a copy-and-paste model that you could use for the institution in Stormont. Scotland has the Scottish Fiscal Commission, which is, basically, a Scottish OBR, so our relationship is one of mutual support. It does its own economic forecasts and fiscal forecasts for devolved taxes and welfare. Essentially, we compare notes, help each other, share our respective views on the outlook and make sure that our key assumptions correspond to what they are planning in Scotland and what we are planning in the UK.

It is different with Wales because it does not have an independent fiscal watchdog. Our memorandum of understanding is with the Welsh Government, and it is to provide the economic and fiscal forecasts that underpin the outlook for Welsh taxes and spending. Northern Ireland will have its own fiscal council, so we will have to have yet another kind of relationship with it. As mentioned at the beginning, the case for having an independent macroeconomic forecasting function in Northern Ireland, at least at the beginning, before taxes are devolved, is weaker than it is in Scotland or even Wales, where taxes are devolved. There is definitely a role of coordination and discussion around the assumptions that go into producing the fiscal forecasts for Northern Ireland, particularly for welfare spending. That will be important. We could also compare notes on forecasts for the wider public finances and anything that has particular sensitivities to the macroeconomy.

Mr Wells: Do you not see a role for a formal link between Northern Ireland and England, or the UK, in that sense?

Mr Hughes: I think that, once the institution is established, we will look to have a similar kind of memorandum of understanding with the Northern Ireland fiscal council in areas in which our responsibilities overlap. Those things tend to codify what both sides agree is a good working relationship and how we sustain it. In Scotland — my guess is that this will also the case with you — mandates evolve over time, so you have to keep those memoranda up to date. For example, if the fiscal council in Northern Ireland decides to do some long-term projections, we will have to think about how to support that process here in the OBR by adapting our long-term forecasts, going out to 30 or 50 years, to make sure that they are of use and can be input to any kind of exercise that you want to do in Northern Ireland.

Mr Wells: My next question might be a wee bit out of left field, but I think that I should ask it. Obviously, all rectitude has been blown out of the water by coronavirus. All the sense that we have about budgetary responsibility has completely disappeared over the past 15 months. As a body, are you working on that to see what on earth has happened? Basically, money was thrown at the problem, maybe quite rightly so, at a phenomenal rate. I am sure that not all of the decisions were responsible in a budgetary sense, or anything like it. Do you have plans to look at that in a UK-wide context, or do you expect each of the devolved Administrations to look at that?

Mr Hughes: You are right: we have seen an unprecedented expansion, particularly in public spending, to combat the pandemic and its economic effects. There are three distinct kinds of scrutiny, and we have applied two different kinds of scrutiny to that. The first is that we have scrutinised the costings of the Government's measures to make sure that they are as accurate as we think that they could be for spending on things such as the furlough scheme, test and trace, vaccines and grants to businesses. We have made sure that we think that those cost estimates are credible. We have certified those, essentially, as the Government have made and announced those decisions.

Our second type of analysis is evaluating how realistic are the plans of the Government, having ramped up all of that spending, for ramping it back down or putting the genie back in the bottle, as it were, once the pandemic is over. The Government have set out plans for scaling back all pandemicrelated spending by the end of this financial year, which is March 2022. We raised concerns about the realism of that assumption, because it does not make any provision for things like catch-up funding for missed NHS procedures; capacity for standing test and trace; revaccination, should we need booster jabs in the future; or long-term support for public transport. In our most recent economic and fiscal outlook, we highlighted that as a risk to the Government's fiscal plans. Next month, in our fiscal risks report, we will have a special focus on the pandemic and its legacy on public finances, including what kind of medium- and long-term pressures the pandemic might leave behind for the Government to contend with. That is the second kind of analysis that we have done: the sustainability of the postpandemic spending path.

There is a third kind of analysis, which we do not provide, because it is really within the purview of audit offices. It is scrutinising the value for money of that spending and the bang for your buck that you get out of it. The National Audit Office (NAO) here is doing a great job on that. We do not see ourselves as being auditors or scrutineers of value for money or efficiency. That is an issue for the Northern Ireland fiscal council, because that has been put in its mandate. How it interprets and pursues that will be a bigger question for you to debate and discuss. That does not fall within our remit, and, to be frank, I would not really want it to, because we are not auditors. Our comparative advantage is not going into the detail and not making value judgements about what was and was not worth spending. The NAO does that very well, and I am very happy to leave that function to that office.

Mr Wells: Thank you.

Mr Catney: Thank you, Richard. My questions will not take very long. I feel like Jim. At least, Jim, when you have had a drink, you know what brought on the bad feeling the next day. You and I will be tortured in that Chamber again, but it is a case of no pain, no gain — there you go.

To what extent, Richard, has the OBR improved the understanding of government among elected representatives? I ask that question because everything that I do on this Committee seems to be rushed. I do not feel that I have the time to analyse all the effects that things can have. What have you brought or can you bring to representatives to give them a better understanding of what is going on within government?

Mr Hughes: I think that it has improved understanding. I will emphasise a few things. Before the creation of the OBR, there was a much debate and scepticism amongst legislators about the realism of the Government's economic forecasts and whether those were being deliberately inflated to try to be more optimistic about the outlook for growth, for example. That part of the debate has, I think, gone from here in the UK. People can criticise us for getting it wrong, but they cannot criticise us for being institutionally over-optimistic because we are under pressure to be so.

The second thing is that there is much more transparency around the detail of government policy and the assumptions that underpin different elements of the forecast. For example, even if you get the economic forecast right, if you are too optimistic about corporate profits, you can still get the forecast for corporation tax wrong. There is much more detail on what underpins different assumptions and what underpins the key tax and spending lines in the Budget.

The third thing is that the reports that we produce on sustainability and risk bring greater scrutiny to long-term pressures and to the potential shocks and threats to public finances. Look, for example, at how much detail there is about the Government's loan guarantee scheme for businesses. We provided a lot of detail for people to scrutinise. In the old way of doing things in the UK, before the OBR was created, that detail was off-balance sheet and off-Budget.

Mr Catney: Your charter indicates that you must have regard to the policy. I am looking at that for Northern Ireland. Do you not think that you are in an elevated position from which you could give much-needed critical advice about some of the policy decisions that are made by the Government? At the moment, you do not.

Mr Hughes: Part of maintaining our independence and constructive engagement in the process is not becoming a commentator on policy. Some fiscal councils in other countries have been councils of

wise
men and women who provide sage advice to Finance Ministers about what to do on fiscal policy. They
tend to become just another voice in the fiscal debate, and not a particularly privileged one. In the UK, we are not short of smart people talking about where fiscal policy should go, and the same is true in Northern Ireland. I am not sure that adding another voice to that will necessarily lead to better policy. That debate needs better information, and a fiscal council can provide a more informed debate rather than, necessarily, a new voice in the debate.

Mr Catney: That would be great, if we got it. I live in hope. If you could enhance your powers, what enhancement would you choose for the Office for Budget Responsibility?

Mr Hughes: I am very happy with the powers that we have; I am certainly not eager to engage in mandate creep. We, and you in Stormont, would benefit from greater clarity about timetables and processes for putting Budgets together. This has been a really tough year for everybody. You are staying late into the night to scrutinise licensing laws; I am sure that the same thing happens with Finance Bills and Supply Estimates. That is often because decisions are taken late about when to bring things to Parliament, giving Parliament limited time to scrutinise information, and decisions being
made in a hurry. The more predictability that we can provide on the timetable for Budget policymaking,
the better for all concerned.

Mr Catney: I hear what you say. Just to be light-hearted, my colleague Jim Wells made a good point last night when he said that we in Northern Ireland chose to do both on the one day. *[Laughter.]*

Mr Wells: Madness.

The Chairperson (Dr Aiken): Is that you finished, Pat?

Mr Catney: Yes. Thank you.

The Chairperson (Dr Aiken): You have had your shower, haven't you?

Mr Catney: Not yet.

The Chairperson (Dr Aiken): Richard, thank you very much for your evidence. We will be delighted to
keep in touch. The Office for Budget Responsibility is, in some respects, the gold standard that many of us wish to emulate. The interrelationship between the OBR, the devolved Administrations and the independent fiscal councils will be vital. Finally, the Finance Committee would like to see that interrelationship not only between the independent councils across the piece but between our Committees. We will look at doing that as another role. Independence, scrutiny, openness and transparency are all key to where we are going. Thank you very much for your time and evidence.

Mr Hughes: Thank you.

9 June 2021

Members present for all or part of the proceedings:
Dr Steve Aiken (Chairperson)
Mr Paul Frew (Deputy Chairperson)
Mr Jim Allister
Mr Pat Catney
Mr Maolíosa McHugh
Mr Matthew O'Toole
Mr Jim Wells

Witnesses:
Professor Alan Barrett Northern Ireland Fiscal Council
Dr Esmond Birnie Northern Ireland Fiscal Council
Sir Robert Chote Northern Ireland Fiscal Council
Ms Maureen O'Reilly Northern Ireland Fiscal Council

The Chairperson (Dr Aiken): Sir Robert, can you hear us?

Sir Robert Chote (Northern Ireland Fiscal Council): Yes, I can. Thank you.

The Chairperson (Dr Aiken): OK. Hi, everybody else. It is like being amongst old friends. You should never start a Committee meeting, particularly of the Finance Committee, with a bit of apology, but, as you can imagine, fewer of us are here in person today. A few of us are on StarLeaf. You will have noted from the media that the sitting yesterday went on a bit longer than usual, as we were dealing with new licensing laws in Northern Ireland, but we are ready for your evidence and are delighted that you are here to talk to us.

Esmond, I know that you need to be away, at 4.30 pm, is it?

Dr Esmond Birnie (Northern Ireland Fiscal Council): No, a bit earlier than that, probably at about a quarter to four. Apologies.

The Chairperson (Dr Aiken): Robert, will you lead off?

Sir Robert Chote: Yes. Thank you very much indeed, Chair, and my apologies for not being with you in person. I had hoped to be, but I am afraid that it is down to the test-and-trace app, which has left me self-isolating for a few days. I am afraid that it is from the front bedroom again.

It is a great pleasure to appear before you and to be asked to undertake this role, especially in the company of my three distinguished colleagues on the call today. I certainly hope that the council will be able to work to the benefit of everybody in Northern Ireland, including everybody on the Committee, by bringing greater transparency to the region's finances, and we certainly see our relationship with the Committee as key to our impact and our accountability.

As you know, I came to this job having spent a decade spent running the Office for Budget Responsibility (OBR), and you have just been speaking to Richard. Three years of that was spent chairing the OECD's network of fiscal councils around the world, and I spent roughly the same time as a member of the external advisory panel of the Parliamentary Budget Office in the Republic. One lesson from all that experience is that there is no one-size-fits-all model for these sorts of institutions, either in their remit or their structure. We need to be humble about that and also be willing to learn as we go along. There may not be a common model, but there is certainly a shared motivating spirit and a transparency of speaking truth, as we see it, to power and of acting independently and impartially in the face of any political pressure that we might face in this context, be it from the Executive, the UK Government, or even from your good selves.

As you know, we have been given some draft terms of reference by the Executive based on New Decade, New Approach (NDNA), but they are relatively brief, so we thought that the sensible thing to do, as we started our work, was to talk to a wide range of stakeholders about how exactly to flesh that out and where people see the strengths and weaknesses of the management and reporting of public finances at the moment. We sent you a summary of what we have heard so far.

There are issues that people have consistently raised so far. The first is the importance that they place on the council's independence, politically speaking, both in substance and in appearance so that it reassures the public that you are getting professional judgement, not politically motivated output or wishful thinking. Secondly, there is a real need to educate people, including people who are involved with it, like yourselves, on a day-to-day working basis, about exactly how public finances work in Northern Ireland and what the moving parts and the non-moving parts are. In some ways, that is as important as the particular reports that we have been asked to provide under the terms of reference. Thirdly, from speaking to people, we get a sense of their frustration with the variable and unpredictable timetabling of the Executive's Budget process, which you have already been talking about, and that is down, in no small part, to the timetabling of the decisions in London that determine the block grant. However, it is also down to the Executive's own decision-making mechanics. That clearly complicates the question of the most sensible timing at which to produce the reports that we have been asked for so that they are of the most use to you and to others. We will want to reflect on that as we hear from more people in the consultation process.

I am sure that, in time, we will come to — you have already been speaking about it — the importance of underpinning legislation for bodies of this sort. Looking at the lessons from other countries, that legislation needs to be clear on, but not unduly prescriptive about, remit. The OBR ran into some difficulty with that when there was a change of heart about exactly what sort of reports should be produced and when, and how to disentangle that from the primary legislation. Of course, the legislation also needs to safeguard the independence of the institution, particularly, as you have already discussed, through procedures for appointments and dismissals, through the funding of the institution and through rights to information from government and rights to publish.

I will leave it there with that rough summary. I am absolutely delighted to be in the role. I am very grateful — indeed, relieved — for the warm reception that the idea of the council has received to date, and I hope that we can live up to some, if not all, of the expectations that people have of us.
The Chairperson (Dr Aiken): OK. I will kick things off. Thank you very much indeed for your comprehensive report. It is safe to say that there is not a lot in it that surprises any of us.

I have already tackled the Finance Minister about this in the House, but what sort of engagement have you had with him and the Finance Department? We are into the last year of the mandate and have gone through numerous budgetary cycles and all the other differences that we have at the moment. We have had the Estimates and the various forecasts and so on. What engagement have you had already?

Sir Robert Chote: The sound is cutting in and out slightly, so I apologise if I mishear you. The engagement so far has been very much about the mechanics of setting up the institution. Before accepting the job, I had some initial discussions with the Minister, the then permanent secretary and departmental officials about what they were looking for in the institution. We covered many of the issues that, I suspect, we will cover today: the importance of legislation and access to information etc. Since then, there have been the practical issues of ensuring that we have people to do work for us. We are in the early days, and nothing is underpinned by legislation yet. We had a discussion about a chief of staff and some other staff to begin working with us. There are also communication issues to do with preparing websites and the like.

The Chairperson (Dr Aiken): Are you getting any pushback on that or are people being fairly open?

Sir Robert Chote: There has been none whatsoever so far. The Department has been very keen and has not pushed back on anything that we have asked for. We are just starting to get discussions under way with the Department about what a memorandum of understanding (MOU) between it and the fiscal council might look like. As in the UK, that will, essentially, in a boiled-down form, provide a template for memoranda of understanding with other Departments. The very early draft is commendably good and is not ringing any particular alarm bells for me, which is good news.

Needless to say, the test will be when we start to ask for more information over time. If there are two things that my counterparts in other fiscal councils have worried about or complained about most over the 10 years that I was involved with them, it was the funding of the institution — of course, every public body worries about adequate funding — and access to information. A legal right of access to information is very important; it is one of the OECD principles to which, I hope, this institution is committed. I know that the Department of Finance is committed to this institution and this framework matching those principles as far as possible. However, you also need political commitment to provide that, and you need Departments to have the resources to provide you with the information that you need with the timeliness, quality and detail that you ask for and to be able to help you with the questions that you have about it. Nothing that I have heard so far leads me to worry about that, but it is not lost on me that when other institutions get into difficulty with their Governments, it is often over those issues.

The Chairperson (Dr Aiken): We have a Financial Reporting (Department and Public Bodies) Bill going through at the moment, which will bring the various Departments into alignment in how they make their financial reports. However, the Committee is asking whether that will include the whole gamut of Northern Ireland Government expenditure and whether it refers to arm's-length bodies. I note your point that people need to be educated about the budgetary process; however, I am beginning to think that the people who need to be educated about that first are in the Civil Service itself. There is a real lack of coherence in reporting standards across the piece there. I am beginning to have concerns that we are trying to put through legislation for something that should be standard operating procedure in Departments. Should the memorandum of understanding be just with the Department of Finance, or should it be with the Executive Office because of the mandatory coalition that we have in Northern Ireland?

Sir Robert Chote: The model adopted with the OBR is that it has a memorandum of understanding with those Departments with which it has the greatest interaction: the Treasury, Revenue and Customs and the Department for Work and Pensions. Other Departments are encouraged to observe the same principles that underpin it.

The issue here is that it is perfectly sensible to start off with an MOU with the Department of Finance, and then an interesting question would be whether you could take away the Department of Financespecific bits of it and have something concrete for other Departments. Many fiscal councils have memoranda of understanding with Governments; they are important and useful. What we ended up doing with the OBR was — once you have tested it out and seen how it works in practice — boil down the key sets of expectations on both sides of the relationship into a page or so, not least because people turn over in Departments and move jobs, and, in the UK context, some of them come in with an instinctive reluctance to share information. There needs to be a simple guide to say, "Let us not waste time with you pushing back on that, because we are entitled to this and we always get it". Therefore, much of it is about embedding a good working relationship. If you get down to dispute mechanisms over whether "section 1.4(b)" is or is not being fully observed, you have lost the battle.

The Chairperson (Dr Aiken): This week, I have already pushed the Minister of Finance on when the legislative framework will come through to put the council on a statutory footing. One of the key things that has come out of the evidence that we have already received, and, indeed, your briefing note as well, is about getting that onto a statutory framework as quickly as we can because of Northern Ireland's — I hate using the word — "unique" circumstances. In the Northern Ireland context, we want to see openness and transparency as quickly as possible. The question is how quickly we need to get that onto a statutory basis. My perspective — I will be quite honest about it — is that it should happen as soon as humanly possible. However, we are operating within a tight legislative framework.
It is fundamental. Key to it is trust. The reason that we have always pushed for an independent fiscal

council is to develop trust, openness and transparency to break through those principles. When would you like to see it on a statutory framework?

Sir Robert Chote: The OBR was put on a statutory basis within a year or so of its being set up. It was set up in May 2010, and I took over as chairperson in October 2010. The legislation started making its way from the House of Lords, probably in late autumn, and finally achieved Royal Assent in April. How quickly it gets through depends on how much people want to debate the substance of it. The main area of debate in both the Lords and Commons was independence and, for example, whether the Charter for Budget Responsibility gave the Government too great powers to interfere with that independence, and so the legislation was tweaked to remove that suspicion.

Clearly, it would be desirable to have it done before the end of the mandate before things get snarled up there. I would rather that it was right than super-quick. However, there are other models. Hopefully, one could make progress on that relatively swiftly. There are other models to look at and, importantly, the OECD principles to draw upon. Hopefully, not much blue-sky thinking should be required on the principles behind it, although there may be issues about how to tailor it to the idiosyncrasies of Northern Ireland's legislative process, if I might put it that way.

Mr O'Toole: Thank you, Sir Robert, Maureen, Esmond and Alan. As I have said on behalf of my party to all of you in different contexts, we welcome the establishment of the fiscal council and your appointments to it. It is a very positive innovation and one that we hope to shape in a constructive way.

I have a few questions, not necessarily aimed at anyone in particular. First, NDNA has not exactly been a sacred text in its delivery, but the language that was agreed was not exactly pored over. In the terms of reference, you draw from New Decade, New Approach two broad requirements. One is examining revenue streams and spending proposals, of course, and it finishes with a statement on how revenue streams and spending proposals allow the Executive to balance their Budget. I am interested in people's views on the phrase "balance their budget" in the context of how Northern Ireland funds itself and is funded. This is a genuinely open question. Is it useful to talk about a balanced Budget in Northern Ireland's context where we have seen that most of the funding comes via the block grant and, certainly recently, there have been many, many moments of in-year reprioritisation, in-year monitoring and further Barnett consequentials throughout the year? Is a balanced Budget really meaningful as a concept in that context?

Sir Robert Chote: I will speak briefly and then ask colleagues to pitch in. In the context of the relatively limited borrowing powers that the Executive have, the reference to balancing the Budget makes sense in a way in which, in the UK context, it would be much more ambiguous in the context of whatever set of fiscal rules you had on how big the Budget deficit should be and what your objective for the medium-term path of debt and the deficit was. You do not have that same freedom, and, therefore, as I think you were discussing with Richard earlier, you do not have the same need for, or presence of, fiscal rules to guide people on how that will be managed. It is much more a question of how you allocate departmental expenditure limit (DEL) spending within the envelope that is implied very largely by the block grant, with some additional top-ups to that and the relatively modest contribution from rates. The borrowing powers are pretty limited by the standards of *[Inaudible owing to poor sound quality]* so, in that sense, talking about a balanced Budget does not seem to be an unreasonable framing of the constraints within which the Executive have to operate. Would Esmond or Maureen like to chip in?

Dr Birnie: Thanks. I agree with what Robert has said. Clearly, this is different from balancing the Budget and the fiscal frameworks of the Republic of Ireland Government, the UK Government and so on. We are a region that relies largely, although not entirely, on a block grant. However, it is useful to consider, as far as we can, what the pressures are, even in the short run, to spend and compare that with the actual amounts of money that are available to spend. Of course, such considerations become even more, in a sense, apparent when you come to the second point in the terms of reference about long-run sustainability.

Mr O'Toole: Thank you. That is helpful. To follow on, we talked a little bit in our session with Richard Hughes about the Charter for Budget Responsibility. Obviously, Robert, you are the world expert on that. We discussed the fiscal mandate that has been contained within that and the fiscal rules. I go back to the question of whether "balancing the Budget" is a useful phrase. Would it be useful to construct something that approaches a fiscal rule or a balanced Budget rule that acts as an overarching test for the Executive? If so, what might that look like?

Sir Robert Chote: It is quite hard to draw the parallel. Fiscal rules in the national Government context are quite often about where you want the public finances to be in the medium term. You are sending people a signal about getting from a situation in which typically you are starting with a Budget deficit and may be worried about the overall Budget deficit, the Budget deficit on current spending or the profile of the debt:GDP ratio. Essentially, what is a good place to get to and over what time horizon should you aim to get there?

That process does not always work. In the period that I was running the OBR, the UK Government got through a good many fiscal rules that failed, either because of economic and fiscal shocks that came along or changes in political preferences. The degree to which financial market investors, for example, would now be particularly impressed by the next set of fiscal rules that come along, whatever they are, and see them as being a meaningful anchor to expectations of where the public finances will go is debatable. They are useful in the UK and national context, in part because they are a way for the Government to signal what they think prudent and good management of the public finances looks like. In the Northern Ireland context, however, the constraints in place, and the necessary short-termism that is thus imposed, do not make that particularly helpful.

The medium-term question is more around the sustainability issue. For example, are there long-term spending pressures and, in particular, are there spending pressures in Northern Ireland that would move "needs" differently from the way in which they would move in the rest of the UK and therefore impact on what Northern Ireland would get as a consequence of the operation of the Barnett formula and the block grant anyway? There would also be questions about whether the UK Government were going to go for a programme of retrenchment that would change the outlook for the block grant. There are also issues around welfare, revenue and spending, but the benefit of putting rules around the overall magnitude of spending and receipt, when essentially you require a balanced Budget in the shortish term, with only relatively limited wiggle room on the borrowing side for cash-flow management, is not obvious.

Mr O'Toole: OK. That goes back to the point about the fiscal council being a body that is mostly examining how the Executive perform within the relatively narrow ways in which they receive funding, which, as you mentioned, are fairly narrow areas of revenue-raising and the block grant.
I am going to ask you a broader question about the fiscal commission. Although it is operational and is starting tentative consultation, we are a very long way from there being, for example, any change to the Executive's borrowing or revenue-raising powers. Given, however, that that is a more live possibility because there is a fiscal commission, should we be thinking about building headroom into your legislation to allow you to have a more expansive role should that become necessary?

Sir Robert Chote: The role that the council will have to fulfil in steady state is going to depend in part on what the commission recommends and whether the Executive and the Assembly wish to proceed with that. You can either put the room for manoeuvre in the legislation at the start-up phase or, if there is going to have to be other legislation to implement greater devolution, do it at that point. In any event, you want to end up in a position in which the legislation is commensurate with the task that you are expecting the institution to fulfil.

I go back to your earlier point. You are right that we are not doing the same medium-term forecasting and therefore using forecasts to assess consistency with medium-term fiscal management, in the sense of how big the Budget deficit should be, where the debt is going etc. Scrutiny of the near term and sustainability is still important, particularly perhaps in the near-term report. Understandably, the Department of Finance's Budget documents focus on the Budget as a process of allocating DEL. The fiscal council will have an important role to play in putting that into the broader picture, because of the fact that it is not just DEL spending that matters in Northern Ireland. There is also annually managed expenditure (AME). Where AME is being spent — in welfare and elsewhere — and how the funding mechanism for it works is a lot less looked at. On the income side, there is a role for it in explaining to people how the block grant and the AME grant works, in explaining the importance of the periodic nonrecurrent, non-Barnetted additional sources of money from the UK Government, in explaining the rates income etc. It is important to put a Budget presentation that is, understandably, focused on the allocation of DEL into the broader revenue and spending picture. Alan may like to comment on the way in which the Budget process works in the Republic and whether that direction fits.

Professor Alan Barrett (Northern Ireland Fiscal Council): I agree with all the points, but I will add a comment on part of your earlier question, Matthew, about the interpretation of "balance". The words that have come up in our deliberations include "prioritisation" and "trade-offs". It is a slightly different take on "balance". We have discussed what balancing a Budget means in a standard national context, or even in a subnational context, with significant tax-raising powers. This is a little bit different.

Nevertheless, one of the issues that has come up in consultations is the sense that issues of trade-off are not as explicit as they might be. In one of the discussions, I drew a parallel with the administration of public finances in the Republic of Ireland. In the days when we were getting a lot of EU spending, there was a sense that the EU money that was coming into Ireland was a bit like the block grant that was going from Westminster to Northern Ireland. It was grant-type money. Of course, we were raising our own revenues through taxation. Often, there was a schizophrenia in the discussion around those sorts of things. There was agonising over the allocation of the money that we raised through taxation but, it seemed, less agonising around some of the block grant money that was coming from Brussels. It was almost like free money, or something like it. We have been teasing out some of the issues and trying to get to a situation in which the allocations will be looked at more forensically, and in which the fiscal council will then hopefully play a role, not in making policy prescriptions about what should be happening but in trying to illuminate the sorts of trade-offs that are envisaged.

Mr O'Toole: That is really helpful. Thank you. The point about illumination is well understood. Is it fair to describe the way in which you seem to be seeing the two broad products, or thematic work streams,
as, first, offering a near-term presentation, which is an annual Budget presentation to allow the Assembly and, hopefully, the public to understand how the annual Budget works, and, secondly, what is effectively a version of the fiscal sustainability report, with the caveat that it is not a fiscal sustainability report, because we are not a sovereign state with wide-ranging tax-varying powers and our own debt?

Sir Robert Chote: That is broadly right. We need to suck it and see somewhat, give those things a try and then look at them and see how useful people find them. Many of the same sorts of themes as that distinction on the sustainability come up with the fiscal sustainability report in the UK context. You might expect that that report would probably do an overview and then pick out a specific topic in a particular report. Health would stand out as a very obvious early one, because of the nature of some of the medium- to long-term pressures and because of its relative importance in the Executive's DEL Budget.

It has always been clearer to most of the people to whom we have spoken what those sorts of sustainability issues are, as distinct from where we can best add value on the more short-term reviewing of the Budget process. It is probably a report on what we see in the draft Budget that will, as Alan said, try to tease out and illuminate some of the choices that are made in order to put the DEL numbers and rates into the broader context of the bigger spending revenue picture and, as Esmond said, to tease out some of the pressures in the near term as well as the long term. The aim, as we have said, with both of those is that we would hopefully precede the report with some sort of first publication as a guide to the way in which the Northern Ireland public finances operate. We can piggyback off that and use it as a foundation from which the other reports can follow and then be revised over time.

Mr O'Toole: OK.

The Chairperson (Dr Aiken): When can we expect the dummies' guide to Northern Ireland public finances?

Sir Robert Chote: That will depend a bit on resources and on how we proceed with the stakeholder engagement process but, hopefully, over the summer or as early as possible after everybody comes back from their summer holidays, if we can.

Mr Catney: Thanks to Sir Robert, Alan, Esmond and Maureen. I am so excited that we have the fiscal council and that it is moving forward. Coming from a business background, I wanted to be a member of the Finance Committee in order to bring our recommendations through to government. Everything seems to be rushed, as I have said before. There have been five Budget Bills or something, and I do not know how many of them have had their progress speeded up via accelerated passage. The information seems to move so fast that it is very difficult to keep ahead of it.

You have suggested that legislation could support the fiscal council's independence. I am looking at all your appointments. When your report comes out, will we be able to challenge the figures and put our own twist on the report?

Sir Robert Chote: When we produce analysis, the aim will be to explain. It will be to show our working, to use an exam analogy. It is, in part, using that sort of analysis to ask where the numbers have come from and what the assumptions are that underpin them so that people can look at the analysis and make use of it. If, however, they take a different set of assumptions and different views, they can see how important those would be to the conclusions that you have reached.

The question of how much time there would be to consider and ponder the stuff that we produce is part of the broader issue that you have raised about the unpredictability and the quite often squeezed nature of the Budget consideration process. What we can do with a draft Budget will have to depend in part on what the gap between the draft and the final Budget looks like and whether it is going to be more useful for us to provide something smaller and quicker, because that is what the timetable is demanding, rather than something larger. We will have to see how that operates in practice.

It is not our job to come up with policy recommendations. We may have things to say about process etc, but, hopefully, it is raw material that can inform you and public debates more broadly.

Mr Catney: That is really what I am after. I want us to come up with our own ideas, but, in order to do that, we need to have that information at our disposal. I really look forward to your report, and it will hopefully come sooner rather than later. Thank you, and well done.

Sir Robert Chote: Thank you for expressing your excitement. That is a word that I rarely hear. *[Laughter.]*

Mr Catney: Listen, Sir Robert, you want to be on this Finance Committee. Anything that gives me a bit of information is great. *[Laughter.]*

Sir Robert Chote: The sentence "You want to be on this Finance Committee" is not one that I had heard yet. *[Laughter.]*

The Chairperson (Dr Aiken): You might have heard many times already, Robert, that we just want a bit more openness and transparency.

Mr Catney: That is all that I want, Chair.

Mr McHugh: Tá fáilte romhaibh uilig an tráthnóna seo. You are all very welcome this afternoon. In the sense that turkeys do not vote for Christmas, do we really need a fiscal council, given the lack of control that we currently have over our Budget here in the North of Ireland?

Sir Robert Chote: As I say, I have looked at other fiscal councils and worked with people who run a fiscal council in very different countries with different political systems etc. There is no one-size-fits-all model. Their role depends, to a considerable degree, on where power resides in the Budget-setting process, whether there are other institutions of an informal nature that are already in that space, and how important supranational supervision of the public finances is. In almost every case, the biggest contribution that those institutions make is greater transparency and a willingness and a determination to shine a light into the darker corners. Sometimes, things are not being hidden malignly. Rather, it is just that they are quite complicated and glossed over. You do not have a formal role in the process of setting the block grant. The OBR's numbers feed into the setting of the Scottish block grant, but that is not the case here. A number of people to whom we have spoken so far have said that, as a very start, it about getting some explanations and some material for people to explain exactly how all of this fits together. Some of the challenges are around being able to tell a story about what is going on over time. Do you have consistent numbers? When you compare this year with last year and the year before, are you comparing apples with apples and apples or apples with oranges and bananas? There is a lot that can be done by giving people a better information set and enabling them to have greater trust in the fact that those things are being looked at, even if you will not be as deeply embedded in the policy formation process as the OBR and some other institutions of that sort are.

Mr McHugh: I mentioned this in the previous session. What governance structures should we have in place for the fiscal council?

Sir Robert Chote: If you look at the OECD standards, you will see that the first thing is that you will want this to be set up in legislation and not just to exist as a floating departmental advisory body. It is perfectly reasonable for it to be of that form to start with, while it is bedding itself in and learning the ropes, and when you are designing that legislation, but the sorts of things that matter in that legislation are the processes for hiring and firing the key decision makers and the assurance of political independence that that can provide.

You will not set down in legislation how big the institution should be, but you will want to have the institution's funding set in a way that is transparent and is set some years in advance so that, if the Government were to decide to squeeze the institution, as happened spectacularly in Hungary and to a lesser degree in Canada and arguably in Sweden, it is visible and transparent and there can be no debate about the fact that that is what is going on.

The other element, which we have already discussed, has been the right to information from within government: the information that you need to do the job. In some cases, those legal rights are used in anger. In Canada and, I think, in Spain, the fiscal council has taken a Government to court for the information that it required. That is very extreme and, if you get to that point, is a sign of relationship failure, but it is important to have it there as a baseline. There is also the ability to publish within the remits that you have been given without being censored or interfered with by the Government. Those are the sorts of things that you will want to have in legislation. You will want the remit to be defined clearly but not be unduly prescriptive. There needs to be flexibility to allow for not getting exactly right what the two reports a year should really focus on. If you stick it in primary legislation, you are therefore just making a rod for your own back. It is about striking a balance between having a clearly defined job to do and not writing some long description of exactly what every document ought to look like and then stuffing that into legislation.

Mr McHugh: Do you see this Committee as having any role in appointments and the like?

Sir Robert Chote: As you have already discussed with Richard, the Treasury Committee in Westminster has veto power over the appointment and removal of members of the OBR committee, who are effectively the council members. That, as Richard said, is unusual. It has occurred in a couple of other areas, but it is much more of a US-style phenomenon. I do not know whether there are constitutional bars to your Committee's having the same powers in a Northern Ireland context.

Personally, I would not have any objection if you had those equivalent powers. Having them has worked fine for the OBR. In some other countries, the appointments have to be approved by a vote of the whole legislature. In some cases, there are committees of the great and the good that then appoint people. There are therefore different models, but the relationship with the Committee is an important one. The appointment model in the UK context has been helpful to the OBR.

Mr McHugh: Thank you ever so much.

Mr Allister: It is good to see you folk again. I have had the opportunity to talk to you about a number of the issues, so I will focus on just a couple of matters. You underscore the importance of access to information being prescribed and enforceable. That would clearly be the case with the local devolved

Departments, but do you anticipate having the right of access to information from, for example, the Treasury?

Sir Robert Chote: If legislation is established in the Assembly, I do not think that the Assembly —

Mr Allister: That is right.

Sir Robert Chote: — can force the Treasury to provide us with the information. In the Scottish context, if I remember correctly, the devolution of tax and spending powers was put into legislation first in 2012 and then in the Scotland Act 2016. I think that, in the 2016 Act, the OBR was given right of access to information from the Scottish Government, and the Scottish Fiscal Commission (SFC) was given right of access to information from the UK Government. I suspect therefore that, formally speaking, you, as MLAs, cannot force the Treasury to provide that, but if the commission came up with something that required a legislated fiscal framework in both Westminster and Belfast, those rights having been put in place elsewhere is the opportunity.

Mr Allister: You are absolutely right. The Assembly has no powers to give you access powers to the Treasury, so it may take dual legislation to equip you with those powers. That is important. Very often, in our budgetary discussions in Northern Ireland, we get into pass the parcel a lot — perhaps it is passing of blame — between the local Department and the Treasury. If I were on a fiscal council that was trying to explore some of those issues, I would want to have the power to go to the source for both in order to see what the truth is. You would be considerably inhibited if you did not have, directly or perhaps through the OBR, the powers to access information from the Treasury.

Sir Robert Chote: That is true. There are two points. One is, as you say, the relationship with the OBR, which, for obvious reasons, I hope and expect will be good. I have already indicated that the more we know about the Northern Ireland-specific bits of the OBR's UK public finance forecasts, the better. The OBR almost published — I am not sure whether it got to the final version of one of the welfare trend reports — a Northern Ireland-specific five-year welfare spending forecast. Hopefully, it will be possible to extract that from the numbers that are already there. We need to talk to the OBR about that.

The other point to bear in mind, particularly in relations with Governments, is that, although it is important to have the legislation, your first port of call is not to go to the courts. Your first port of call is to go to the court of public opinion, to Committees, both here and at Westminster, and to the media to say, "To do our job properly, we need this information, and we are not being provided with it". That can be quite powerful, before —

Mr Allister: Ultimately, though you do need the clout of legislation?

Sir Robert Chote: — you get to summoning the lawyers. That is a very rare outcome in the operation of these institutions.

Mr Allister: Yes, but it is by the very existence of the ultimate power to go to statutory enforcement that, very often, you do not have to go there. The power exists, and people know that you can have recourse to it. I am worried about that grey, or blank, area between a Northern Ireland fiscal council and the Treasury. I think that that needs to be properly assessed and tended to.

Sir Robert Chote: The other thing, short of legislation, that you can do is a memorandum of understanding (MOU), which does not have the same force but, again, takes the form of an agreement on the basis of which you can say publicly, "They said that they would be willing to provide this, and they have not done so". There is no legal recourse but it is, nonetheless, a powerful tool.

Mr Allister: I still struggle somewhat to understand, in circumstances where our finances are based on a Northern Ireland block grant, what you will find to do, because it is not a question of balancing budgets or anything else in that regard. Within your ambit is something I raised with the Office for Budget Responsibility: there is, perhaps, useful work to be done on the excessive spend on welfare in Northern Ireland of £5 billion per year. Have we got proper anti-fraud provisions? A fiscal council

could
usefully explore that. Is that in your ambit, as you see it?

Sir Robert Chote: It is not clear that that would, formally speaking, fall within the remit. The idea that we would have the expertise to judge the level of fraud and error in the welfare system — in the UK context, the Department for Work and Pensions estimates that and the National Audit Office looks at it. The OBR does not take a bottom-up primary view of it. If, as Richard Hughes said, the Government announce new policies or they say that they are going to spend x amount on more people to deal with that particular aspect of fraud and error, the OBR would ask, "Are you talking them away from somewhere else, meaning that the fraud and error is just going to pop up in a different place?" You can ask those sorts of questions. You can also probe, as best you can, whether the Departments and the Audit Office are finding different rates of fraud and error in different places. Is there an empirical basis on which to believe that a higher number of pence per pound is lost through fraud and error in one part of the country versus the other? How robust those numbers would be, given that, by its nature, fraud and error is hard to quantify with huge precision, remains to be seen. It is not that sort of forensic auditing function. We are not resourced in either skill or number of people for that, but there are ways in which you can shine light on that and encourage people to bring you evidence on those sorts of areas.

Mr Allister: We know that, as a starting point, welfare spend per capita is much higher in Northern Ireland.

Sir Robert Chote: Yes, and obviously that partly reflects employment rates, relative wage rates, younger age structure etc. There are a variety of explanations for the differential welfare bills, and differential fraud and error could be one of those.

Mr Allister: If you had the power to produce own-initiative reports, given the straitjacket of our fiscal situation, what do you anticipate you would do such reports on?

Sir Robert Chote: We would need to look at it over time and see what the demands are. An obvious area — this comes under the sustainability report umbrella — is health, given the proportion of Executive DEL spending that it accounts for and, as Richard described, the nature of demographic and non-demographic pressures there. When we get to the first sustainability report, health spending will be a very strong contender for the first special topic report.

Mr Allister: What are you looking for there?

Sir Robert Chote: An explanation of why the level of spending is where it is at the moment; whether the allocation of it looks different from other parts of the UK and why that might be; whether there are particular reasons to believe that pressures over time are likely to be more powerful or less powerful. That matters particularly under the Executive funding process. There are upward pressures on health spending everywhere. Upward pressures on health spending in England and Wales are frequently acceded to, and you see additional money put into the UK's health budget, and we may see more of that later this year. That feeds through to the Barnett adjustment to the block grant. A particular area of
interest would be whether there are reasons to believe that those pressures are of a different nature or
a different speed in Northern Ireland than in the rest of the UK, given that that is what is likely to drive the block grant decisions. Would Maureen or anyone else like to add to that?

Ms Maureen O'Reilly (Northern Ireland Fiscal Council): Apologies, I could not get on for a while there. I could hear you but I could not see anything.

Just to reiterate, health is the obvious one. The other is probably education. The point of the fiscal council would be to demonstrate where the money is spent. That in itself will tell a big part of the story.
That is the basis and the starting point. That is where the emphasis has been throughout the consultation so far. That is the case with political parties and throughout the wider consultation. As Robert said, those issues will emerge over time as part of the sustainability piece. Behind that, there are issues around the ageing population and the different demands, depending on what scenarios we look at. That will come over time. The initial focus is obviously on just trying to explain how things are at the moment.

Mr Allister: Sir Robert, would part of your interest be looking for, and assessing the success in obtaining, efficiencies in government?

Sir Robert Chote: That is one of the areas that is framed relatively vaguely in the brief that we have been given. As you can see from the response letter that we sent through to you, we asked people to say which long-term efficiency programmes they thought that we ought to focus on most. There was a sort of generalised silence as people tried to think of the ones that they would point us to in that direction — arm's-length bodies etc.

Mr Allister: That might suggest that there is not great appetite or thought when you live in a scenario of block grant funding.

Sir Robert Chote: I will leave you to draw that conclusion. You are not the first person to say that in a response to us.

Mr Allister: I take it that your council would not be shy about saying that sort of thing, if that is what you found.

Sir Robert Chote: We will not be shy about saying anything that we find. We are not a policyrecommending body. That will not prevent us from saying something, on occasions, particularly around where we think there are obvious ways that processes can be improved upon. It is not for us to make the judgement as to whether too much or too little is spent on a particular area. That is ultimately a political choice. If there is clear evidence that we can point to that says that a particular category of spending is delivering much weaker results in one part of the country than elsewhere, and we can see, probably from the work of other people, that there are explanations for why that might be, then shedding light on that is exactly the sort of contribution that we could help to make.

Mr Allister: Final question: how should we judge your success or failure?

Sir Robert Chote: This is pretty much the same answer that I gave when I was asked that question when I started at the OBR. At that point, I said, "Do not judge us on the precise accuracy of our forecasts", which is fortunately not an excuse that I have to get in early here. Do people feel that there is more information about the way in which the Government are spending and raising their money? Do people have a greater understanding and a greater trust that the figures that they are presented with are based on good professional judgement, not on politically-motivated wishful thinking? Have we managed to bring more light to the shadier areas of public finance? That is what I tried to achieve at the OBR, and it is what I think that we can hope to try to achieve here.

Mr Allister: Thank you.

Ms Dolan: Thank you, and thank you all for coming here today. You will be glad to know *[Inaudible owing to poor sound quality]* quick. Do you *[Inaudible owing to poor sound quality]* ?

Sir Robert Chote: I am terribly sorry; I am getting a lot of feedback. Can the Chair repeat the question for me?

Mr Wells: I could not hear the question either.

Ms Dolan: That is OK. It does not matter. I can email it to you.

Sir Robert Chote: Was it something about full-time or part-time?

Ms Dolan: Yes.

Sir Robert Chote: About whether I should be full-time or part-time?

Ms Dolan: Yes.

Sir Robert Chote: I am perfectly happy on the basis of the part-time role that I have been given at the moment. It is clearly a very different role from the full-blown forecasting operation that I had to run when I was at the OBR. The honest answer is that you have to get the institution up and running, you have to start producing the outputs, and then you see whether the resources are adequate to the

task.
If they are not adequate, whether the best way of spending the marginal pound is having more of council members' time versus more staff support will, I am sure, be an open question. The short answer is that we have to get on with the job and see. It is another reason why not putting things like the Budget too inflexibly into legislation, because we are learning as we are doing, is quite important.
Ms Dolan: OK. That is fair enough. My other question could have the same answer. What is your view
on having a maximum period of service for the chair and council members?

Sir Robert Chote: I think that that is perfectly sensible. In the UK context, I served the two five-year terms that I was permitted to serve. Leaving aside the particularities of a fiscal council, spending more than a decade running an institution is probably not in your own best interests or, indeed, in the best interests of the institution that you are running. While I would cheerfully have carried on, it is probably good for me and good for them that I was not allowed to. I refer you to the US political process as well.
Ms Dolan: No problem. Those are my questions. Thank you, Chair.

The Chairperson (Dr Aiken): Thank you very much indeed, Jemma.
Sir Robert, I have just one final point. The idea of doing a comparative study — obviously, Health immediately stands out because it is 51% of our budget. Many people would say that Northern Ireland governance is essentially the Department of Health with a few other bits tagged on. One of the issues that we have is, bearing in mind the block grant, do we get value for money for the services that we have? The comparator with what is delivered across the rest of these islands is quite an important piece of work that may need to be done before we start doing deep dives into particular departmental areas. I only say that because I appointed a Health Minister, but that is neither here not there.

We need to understand whether we are getting effective governance for our block grant at the moment. Of course, I do not think that anybody can put hand on heart and say we are achieving the best value for money, or whatever it is, or even a comparator to do that as well. I do not even think that we know the delta of the difference between what we deliver in, let us say, our education sector and what is delivered in the southeast of England, Wales, Scotland or wherever it happens to be. Even that degree of analysis is quite important. Some of the discussions that we are beginning to see now are about what is going to happen after the next Assembly elections and moving on to the next stage, by which time we really hope that the independent fiscal council is fully embedded into the process. That is a piece of work, I suggest from this Chair, that we would probably like to see before we delve down into a particular area. First, find out how far we are away from everywhere else, then we can look at individual sectors. That is just an observation.

How do you see the interrelationship between the fiscal council, the fiscal commission, this Committee
and, in wider terms, the legislature? You have already taken quite a lot of evidence. I have already talked to you separately from a party perspective. How do you see that interrelationship and that triangle working?

Sir Robert Chote: In the steady state, it is going to be a bilateral relationship between us and the Committee. I see the Committee, just as I did with the Treasury Select Committee in the Westminster context, as being an absolutely key stakeholder. You are amongst the most informed people with questions to ask about the things that we are supposed to be looking at that we will be willing to find. As I always used to say to the Treasury Select Committee in London, we should be accountable to and responsive to the Executive and the legislature but independent of both. However, that is an important relationship, and we will be wanting to talk about whether you think that we are delivering news that you can use, as it were — analysis that is helpful, and, of course, in the form and timescales
that you need for Budget consideration.

On the relationship with the fiscal commission, they are separate tasks. I have spoken to Paul about that. There are models from Wales and Scotland about the sorts of programmes of work that the commission will undertake. I am sure that some of that will be familiar, and it may have different ways that it wants to do that. There may be a shared usefulness of our initial introductory guide work that may also be helpful in feeding into what it is doing. There may be scope there for using resources effectively.

In the longer term, when the commission ceases its work, there will be a pool of informed people who have been working in this area whom I shall be looking greedily upon for the longer-term funding and resourcing of the council. In the near time, there obviously needs to be a division of resources. I suspect that we will have more capacity in the steady state than we will while the two of us are operating in parallel. However, it is not our job to be telling the commission what to conclude. One thing that I would be keen on is that, if the commission has proposals for greater or different forms of devolution, it gives thought to the task that that would then leave for the council, and indeed you and the Department of Finance, to deal with in managing that process thereafter. I look forward with great interest to seeing where it goes with its discussions and then what you, on the political side, do with whatever recommendations it comes up with. Obviously, in the meantime, we will be keen to share information and expertise and avoid duplication as far as we can.

The Chairperson (Dr Aiken): Maureen or Alan, do you have anything to add?

Professor Barrett: A quick one, Chair, if I may, and it is on your question about the relationship between the fiscal council and the Finance Committee, drawing on my experience when I was on the Fiscal Advisory Council here in the Republic. We would write and release the reports, do a launch and discuss the reports at that time, and always got good coverage. Typically, a couple of weeks later, we went to the Oireachtas Finance Committee and then the Budget Committee. It was through the interrogation that a lot of the issues in the reports were brought to life and illuminated, and there was often a second round of media reporting of our reports in the context of the Committee's questions. Obviously, we keep talking all the time — education and informing is an important part of the role — so, if I can put it back, it is almost like a challenge to you and your colleagues on the Committee. It will be up to you to come along and ask us the interesting and engaging questions that will keep the media interested in our joint work. To go to one of Jim Allister's questions on what success looks like, there was a media interview of a Minister that began with, "The Fiscal Advisory Council has said x.

How do you respond?" It is that idea that what you are saying will be considered authoritative and challenging. I think that those are some of the dimensions along which success can be measured, and, as I said, maybe the next time that we are talking to the Committee, you will remember the challenge that we are setting, which is to engage and ask us the questions that illuminate *[Inaudible owing to poor sound quality.]*

The Chairperson (Dr Aiken): Alan, that is quite interesting, because I remember, every time that the report came out in Dublin, we went either to the Irish Business and Employers Confederation (IBEC) or to one of the other numerous briefs that were being held. There was a big role for what I call informed civil society and that degree of engagement. That is the bit that I think that we also need to develop here in Northern Ireland. There needs be that sense that, when the report is published, it is of significant importance and it receives that analysis. Like me, Alan, you will have gone round the numerous breakfasts. You will have gone to the IBEC breakfast, the PricewaterhouseCoopers one, the Ernst and Young one — you will have done the whole thing. The reality was that that was part of the landscape, and you knew exactly the time of year when that was going to take place. You knew the engagement with the political process that was going to happen beyond that, and it was very much fixed in the timetable to do that. Again, that created the sense that the scrutiny was coming and that all the work had to be done beforehand to be able to get to that point. I sense that we are a very long way from that yet, and that is why we need to get the building blocks in and get it on a statutory basis so that we can actually get this process rolling. I think that that is a very valid point, Alan. I see a significant role for what I call wider civil society in Northern Ireland as well as us, and people becoming really latched on to this being the thing that we need to keep on looking at because this is the degree of scrutiny and understanding that we need to have. We need to be able to hold truth to power, but, equally, we need to be able to do it in an informed way. I think that that is one of the important pieces that we need to see.

Ms O'Reilly: Linked in with that and with what Jemma said earlier about the term of the council members and, indeed, the staff, we are at very early stage. We will be building up, hopefully, an awful lot of expertise. There is a tendency to *[Inaudible owing to poor sound quality]* build up the expertise and someone moves, so it is important that investment is made and is given time to come to fruition so that we can make better-informed decisions and we are able to help in that whole process going forward. You are probably asking whether I am talking myself into *[Inaudible owing to poor sound quality]* but, in a sense, it has to be given time to build up that level of expertise, both in terms of the council members and the staff.

The Chairperson (Dr Aiken): Sir Robert, Alan, Maureen and Esmond, who has gone away, thank

you very much indeed for your evidence session and for everything that you have done. We have a lot of work to do. The sooner that we can get this up and rolling, the better. I am really looking forward to reading the handbook. Maybe I can have the second copy after you have presented it to the Finance Minister.

Finally, when we are talking about the MOU, given the unique relationship that we have in Northern Ireland with the role of the Executive Office and the role of the Northern Ireland Executive and given that, in many respects, the Departments spend their lives working in stovepipes, despite the best efforts to bring it together, I think that it is very important that this MOU is not just with the Department of Finance but is spread out further. I think that that will be very important as we move forward. Thanks very much indeed. Cheers, everybody.

Sir Robert Chote: Thank you very much for your time.

APPENDIX 3
WRITTEN SUBMISSIONS

WELSH PARLIAMENT FINANCE COMMITTEE SUBMISSION

Dr Steve Aiken OBE MLA

Chairperson

Committee for Finance

Northern Ireland Assembly

12 January 2021

Dear Steve

Role and Remits of Independent Fiscal Institutions

Thank you for your letter dated 18 November 2020, which seeks information regarding Independent Fiscal Institutions.

As you are aware, the Wales Act 2014 (the Act) devolved certain tax and borrowing powers to Wales.

In its 2015 report on '**Best Practice Budget Process Part 2 - Planning and implementing new budget procedures**' the (then) Finance Committee recommended that:

> '…the Welsh Government considers further the advantages and disadvantages of establishing a fiscal commission for Wales having regard to the arrangements in place for Scotland and The Netherlands and share its analysis with the Committee.' (Recommendation 7)

In its **response** to that recommendation, the Welsh Government said it would:

> '…consider all options for validating and scrutinising the tax forecasts that contribute to the budget plans, including the possible establishment of a fiscal commission for Wales.'

Proposed as an interim measure, Bangor University was given a one-year contract to independently scrutinise the tax forecasting models used by the Welsh Government. The then Cabinet Secretary for Finance, in his **letter** to the Finance Committee on 21 September 2017, outlined his preference for the Office for Budget Responsibility (OBR) to undertake the independent forecasting responsibilities for Wales in the longer term.

During a Finance Committee **session** in December 2017, the then Chairman of the OBR expressed the view that it would be challenging to provide a comprehensive analysis of Welsh tax forecasts given the timings of both Welsh and UK Government budgets.

In its March 2018 report, '**The implementation of fiscal devolution in Wales**' the Committee stated that it:

> '…. welcomes the work which has been undertaken by Bangor University in considering the models and forecasting used by the Welsh Government.'

The Committee went on to say that it:

> '…. questions the Welsh Government's proposal to use the OBR for future forecasting and, whilst appreciating the benefits of this approach, the Committee is not reassured by the OBR's views regarding its ability to deliver comprehensive forecasts alongside the Welsh Government's draft budget.'

The Committee concluded that it would welcome regular updates from the Welsh Government on its plans for independent tax forecasting.

In July 2018, the then Cabinet Secretary for Finance issued a **written statement** announcing that the Welsh Government would enter into an arrangement with the OBR for the provision of Welsh tax forecasts for Welsh Government Budgets from 2020-21 onwards.

In its November 2018 report, '**Scrutiny of the Welsh Government Draft Budget 2019-2020**', the Committee again expressed its concern regarding the OBR's comment on the challenges to provide a comprehensive analysis of Welsh tax forecasts.

In April 2019, the OBR formally commenced its role in providing Welsh Tax Forecasts, publishing its first report in December 2019. As the arrangement with the OBR is still in its early stages, and due to the unusual fiscal arrangements over the past two years, the Committee has yet to take a firm view on how effectively the current working arrangements will be in the longer term. However, the two reports produced to date have been informative and the Committee has always appreciated the attendance and evidence of the previous Chairman, Sir Robert Chote – Robert always provided honest, open and informative evidence. We will shortly have our first session with the newly appointed OBR Chairman, Richard Hughes, to consider OBR's most recent publication on Welsh taxes.

As we approach the end of this Senedd term I do not anticipate there being any additional information to inform the Committee on the best approach. However, I am sure that the role of the OBR and the arrangements for independent forecasting in Wales will be of interest to our successor Committee, and it may be useful for further collaboration between our two Committees in the future.

Yours sincerely,

Llyr Gruffydd MS
Chair of the Finance Committee

Dr Edward Cooke Submission

Fiscal Council for Northern Ireland

Dear Sir / Madam

I would be obliged if the NI Assembly Finance Committee could invite the NI Fiscal Council to address the implications and impact of S.75 equality screening failings within the NI University sector and to look to see if similar S.75 screening failings are common in the spending programmes of other NI government departments.

I invite the newly created Fiscal Council, through the Department of Finance and the NIA Finance Committee to treat my concerns as whistle-blowing concerns because throughout 2017-2021 I have been a self-funded research student at QUB.

Copied to Julie Sewell at the Department for Finance

Julie.Sewell@finance-ni.gov.uk dof.enquiries@finance.ni.gov.uk

Kindest regards

Dr Edward Cooke

It appears that one of the duties of the Fiscal Council is to increase transparency within NI arising from the lack of any government opposition. However, given the absence of government within Northern Ireland between 2017 and 2020 and the threat that the NI Protocol presents to the continuation of government in Northern Ireland in the near future, the Fiscal Office's functions may become exponentially important as an office that monitors and audits NI government departments in the absence of any government.

During 2017-2020, I wrote on numerous occasions to the Department for the Economy and the NI Equality Commission presenting both bodies with factual FOI Act data that indicated there had been systemic S.75 equality screening omissions in the award of departmental research scholarships. The amount is question, I believe amounts to around £200 million. Through my investigative research, it became apparent that the Ulster University had disregarded S.75 equality screening in the extension of its existing campuses and the provision of the new Belfast campus. Between 2017-2020, I wrote to the Department of the Economy as a whistle-blower. I was (and still am) a self-funded research student at QUB at a time when there was no sitting NI Assembly / Executive. After proving by way of FOI Act replies that statutory S.75 obligations had not been undertaken by the Department and those charged with S.75 screening auditing and monitoring obligations, the Department declined to address the impact of 18 years of S.75 failures.

My concerns during 2018-19 were presented to Parliamentary Committees at Westminster in the absence of a sitting government / Assembly in NI. When, the Department for the Economy took no action, I then wrote to the NI Audit Office during 2019 and 2020 to invite the Audit Office, the office responsible for ensuring that government funds were spent within the legal requirements of S.75 provisions to address the matter. Throughout the period of the collapse of the NI Assembly, in the absence of any NI Government Ministers or political oversight, the Department and the agents of government treated by whilst-blowing complaints in the same way that the RHI whistle-blowing complaints were treated. My complaints were acknowledged but no corrective action was taken. Paradoxically, during the same period when the Department was being subjected to the scrutiny of the RHI Inquiry Team, the Department treated my complaints in the same manner as the RHI whistle--blowing complaints with no attempt was made to discover the magnitude of the S.75 failings or the impact of the failings. The RHI Inquiry findings prompted the formation of the Fiscal Council Office as confirmed in the New Decade New Approach Deal of January 2020. The New Deal addresses the lack of accountability within government in NI.

If, I might suggest, the RHI Whistle-blower attempted to show maladministration in public spending in NI that would unfairly advantage one small section of the community and would disadvantage the UK tax-payers. I have attempted to make transparent, systemic and historical public spending failures in the NI university sector that has a major demographic impact in the changing structure of NI and which potentially could help bring about political instability by the ongoing academic marginalisation of the Unionist community. Section 75 screening is of vital importance to monitor, track, audit and if necessary take corrective action to prevent discrimination against any one of the protected groups within NI. In the absence of S.75 monitoring of policy changes, spending programmes or substantial development proposals, government is without the necessary statistical data to ensure that spending is equitably distributed between the different communities within NI. As I understand it, no government department within NI is allowed to direct public spending for major policies or projects that have not first been subject to a S.75 screening assessment. Arising out of the GFA, S.75 screening is a pre-requisite of NI public sector spending and lies at the very heart of stability within NI. That one government department in NI ignored its S.75 obligations for 18 years in the university sector does not bode well for how these obligations were monitored throughout all NI government Departments! For example, in England, as a result of monitoring we find that BEM groups are advancing within the English schools and university sectors; last week it was reported that a comprehensive school in London sends more school children to Oxbridge than any of the English public schools.

In NI, the Unionist working-class community has been forgotten about academically and this presents problems if this community sees itself marginalised and then becomes radicalised. After four years of writing to the Department of the Economy, the NI Equality Commission and the NI Audit Office my whilst-blowing complaints have not yet been fully addressed and no senior government officer wishes to explain how these S.75 failings and public spending malpractices arose or discuss the impact of the failings! In short, the Department of the Economy and the monitoring agencies are protecting themselves; under the New Decade New Approach Deal of 2020 this must stop!

The underperformance and continuing marginalisation of Unionist school children students going to the local universities and thereafter staying within NI is a problem that has been ongoing for over 2 decades. That during this same period, S.75 screening of public spending programmes in the university (and the NI school) sectors has been ignored is disconcerting! When I raised these issues with the DfE, NI Equality Commission and thereafter the NI Audit Office during the period when there was no functioning NI Executive, my concerns were ignored. In 2021, a year after engaging with the newly established NI Assembly, the NI Audit Office finally agreed to examine my complaints. I would also invite the Fiscal Council to monitor the NI Audit Office as it tracks S.75 screening in relation to all government public spending programmes in order to see if any rebalancing is required. The NI Audit Office could no longer fail to address my complaints in the wake of the Ulster University deciding to divert 800 university students from one incomplete UU campus building to another UU campus that is not yet commenced. The UU were only able to take this decision after systemically disregarding S.75 obligations since 2000! I believe that my S.75 whistle-blowing complaints will inform Sir Robert and the new Fiscal Council, how the NI Departments and oversight agencies of NI operate in the absence of Ministerial oversight.

The New Decade New Approach Deal has at the heart of it the opening up NI government. Coming in the wake of the RHI inquiry, an inquiry that demonstrated the closed nature of the NI Departments and the inability of the NI public hold to account departmental officers when they make errors, the New Decade New Deal of January 2020 attempts to address the problems that I report above. The NI Fiscal Council is a manifestation of the New Decade New Approach Deal and recognises that the NI Departments and the NI Executive will not change unless there is an intervention from independent, expert fiscal oversight. The instigation of the new Fiscal Office is evidence to the dysfunctional nature of the NI government departments, their inability to protect the public purse and the absence of Assembly scrutiny and independent oversight.

The New Decade New Approach Deal commences with the phrase; ‘A restored

Executive brings with it urgently needed local political oversight and decision-making’.

On page 11-12 of the ‘Deal’, (Part 2: Northern Ireland Executive Formation Agreement), the NI political parties agree to:

(1) Undertake further reform to take account of the outcome of the Renewable Heat Incentive (RHI) inquiry;

(2) Rebuild the trust of citizens in the operation of a future administration;

(3) Reaffirm their commitment to greater transparency and improved governance arrangements that are aimed at securing and maintaining public confidence;

(4) Strengthening requirements for record-keeping and the protections for whistleblowers;

and,

(5) Establish a Fiscal Council to assess and report on the sustainability of the Executive’s finances and spending proposals.

I would be obliged, if you could provide me with the contact details of the New Fiscal office in order that I can invite Sir Robert Chote and his team to investigate the allegations of this whistle-blower.

Kindest Regards

Dr Edward Cooke

BA, BSc (Architecture), BSc (Building), LLB (Law and Government)

PGC (Professional and Higher Teaching), PGD (Administration and Law),

PGD (Property Development)

MSc (Construction Management), MSC (Environmental management)

MA (Modern British History), MA (Legislative Studies and Practice)

LLM (Corporate Governance and Public Policy),

LLM (Environmental Law and Sustainability)

PhD (QUB School of Law)

PhD ongoing (QUB School of HAPP)

Ex member by examination of the RICS, CIOB, APS and CIofArb.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/856998/2020-01-08_a_new_decade__a_new_approach.pdf

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT SUBMISSION

Lessons learned from other jurisdictions and options for the development of an independent fiscal council in Northern Ireland

Written submission from the Organisation for Economic Co-operation and Development (OECD) to the Committee for Finance

1. The OECD's support of Independent Fiscal Institutions

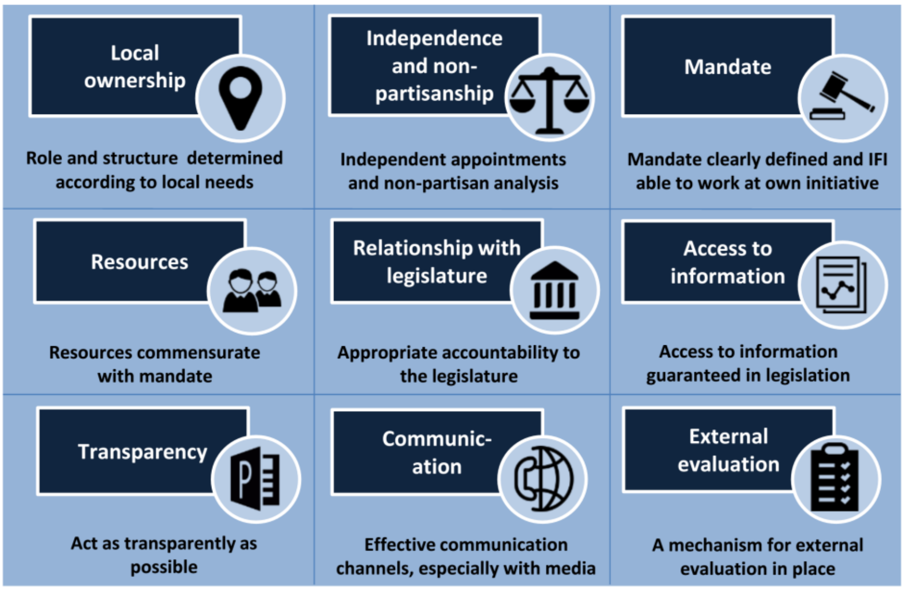
Independent fiscal institutions (IFIs) provide expert non-partisan analysis of public finances to promote greater budget transparency and accountability, enhance fiscal discipline, and to raise the quality of public debate around fiscal policy. Recognising these contributions to the public interest, the OECD adopted the *Recommendation on Principles for Independent Fiscal Institutions on the proposal of the Public Governance Committee* (OECD, 2014[1]).

The OECD Principles for Independent Fiscal Institutions provide guidance on the design and governance of IFIs, codifying lessons learned and good practices determined by consulting a broad range of stakeholders, including members of the OECD Network for Parliamentary Budget Officials and other Independent Fiscal Institutions (PBO Network). There are 22 principles across 9 different headings on independence, resources, access to information, transparency, among others (Figure 1.1). The full principles are provided in 4.Annex A. The principles were disseminated to OECD Members and the OECD secretariat monitors their implementation. A majority of OECD Member countries (80%) now have IFIs and many of those without are seeking to establish them in the near future.

The principles form the backbone of the IFI evaluation framework developed within the PBO Network that the OECD secretariat uses to assess IFIs in external reviews. The OECD has conducted reviews of national IFIs in Spain, Portugal, Lithuania, Slovak Republic, the United Kingdom, and Ireland, among others, and subnational IFIs in Victoria, Australia and Scotland, United Kingdom.

Section 2 of this submission describes common challenges arising from the initial design of an IFI that the OECD has observed during its external reviews. Section 3 describes the main high-level decisions that Northern Ireland's decision makers will need to consider while institutionalising an IFI.

Figure 1.1. The OECD Principles for Independent Fiscal Institutions



2. Lessons learned from OECD reviews of IFIs

The OECD has observed several common challenges arising from initial IFI design decisions during its external reviews. The most significant of these are described here. These issues have resulted in the OECD recommending reforms to bring the institutions more in line with the OECD principles and international best practices.

Lesson: If an IFI is attached to a larger institution under a shared service arrangement, there should be safeguards to maintain its independence and ensure value for money of the services

The OECD principles state that local needs and the local institutional environment should determine options for the role and structure of the IFI and that design choices may also need to take into account capacity constraints, particularly in smaller countries (Principle 1.2). Ideally, IFIs should be established and resourced as a standalone body separate from other government departments and agencies (this is the case for the Northern Ireland Fiscal Council's closest peer the Scottish Fiscal Commission). However, IFIs that are conceived as small institutions with a small secretariat need to preserve their independence while recognising that it may not be realistic to have a standalone office complete with its own corporate services (human resources, information technology (IT), and accounting staff). Small institutions may sometimes be attached to larger organisations, typically other independent organisations such as audit offices, central banks, or think tanks. They then operate under a shared service agreement for processing payments, maintaining IT systems, undertaking internal audit and control, managing human resources, and in some cases even handling communications, among other services.

Challenge: Insufficient analytical independence from larger organisation. Each potential larger organisation carries different risks. For example, if the IFI were to be attached to the Ministry of Finance under a shared service arrangement the public may perceive them as being biased from the close tie to the executive branch of government. If a jurisdiction decides the IFI must be attached to a larger organisation, it must assess potential candidates against public perception, service capacity, budget protection, and other criteria to find a suitable arrangement. But regardless of which institution is ultimately chosen, the IFI must be given a strong wall of independence to separate it from the influence of the senior management of the institution in which it sits. This analytical independence should be explicitly prescribed in legislation.

Challenge: Insufficient operational independence from larger organisation. Shared service arrangement can lead to disagreements in the codes of conduct and other procedural frameworks to which an IFI must adhere. Common areas of friction include media engagement (for example, the parent organisation may require the IFI to engage the media through its existing communications team) or in publishing protocols, such as requiring the IFI to release reports under the templates and letterhead of the larger organisation, costing an IFI its distinct identity to increase public awareness of its work.

Challenge: Poor value for money from shared services. There have been cases in IFIs where the larger organisation fundamentally does not understand the work of the IFI, such as the need for special software or rapid publication timelines. This can lead to the IFI taking on much of the shared services itself while simultaneously paying the shared service fees, resulting in a scenario that is the worst of both worlds.

Lesson: Expectations for time commitments of the chair and council members should be clearly defined, with the chair preferably described as a full-time position

The OECD principles state that leadership should be remunerated and preferably full time (Principle 2.4). Being a chair of a council typically requires a considerable time investment, whether it is recognised in the employment arrangement or not. Members of councils tend to be recruited from academia or other positions where they remain employed. It is important that the member and their employer can be given expectations for the commitment involved and the degree to which other responsibilities should be reduced to enable them to undertake the role.

> **Challenge: IFI arrangements count on the goodwill and voluntary effort of the chair and council members.** It is not unusual for council members to dedicate significant personal time to their roles. This is particularly the case for the chair, who is often also the accountable officer for the IFI. It is common for the workload to correspond to at least a half-time position, regardless of the actual intention or compensation established in the IFI's design. Chairs are also the face of the Council for key stakeholders including the parliament, the media and the public. In this role, the Chair must be available at short notice. Given the demanding nature of the role, a number of IFIs have decided to employ a half- or full-time Chair, including small IFIs such as the Slovenian Fiscal Council, the Czech Fiscal Council, and the Hellenic Fiscal Council.
>
> A full-time commitment also reduces the risk of conflicts of interest and the risk of the public confusing a chair's media statements related to their outside employment with media statements in their role on the council. For example, an academic with a public finance research agenda may appear in the press to promote their academic research, which may not necessarily correspond to the agreed views of the council and research of the council's secretariat.

Lesson: Engagement with the legislature should be clearly defined in legislation

The OECD principles state that the role of the IFI in supporting legislatures should be clearly established in legislation and that the IFI should be provided with sufficient time within the budget cycle to fulfil that role (Principles 5.1 and 5.2).

> **Challenge: Legislation is not clear on how the IFI should report to the legislature on analytical issues to ensure that the IFI's analysis is taken on board in parliamentary debate.** Most IFIs have clear accountability chains for their operational reports (financial statements, audit procedures, and annual plans); however, for the fiscal council model of IFIs, legislation is often silent as to whether the council should respond to requests directly from the legislature or appear regularly before the legislature's committees on analytical topics. If no terms are explicitly defined, IFIs tend to have low engagement directly with the legislature. Legislation should define clear stages of the budget cycle or calendar year for the council to engage with the legislature, including the role of the IFI in supporting committees and individual members.

Lesson: IFIs should have the right to publish self-initiated work defined specifically in legislation

The OECD principles state that IFIs should have the scope to produce reports and analysis at their own initiative, provided that the analysis is consistent with their mandate (Principle 3.2). Defining this scope explicitly in legislation protects the IFI's ability to provide impartial analysis. Further, issues impacting public finances and the budget may arise that require immediate commentary and where independent analysis

would benefit the public debate. If an IFI is required to go through an external approval process it may be held back from intervening on a time-sensitive issue.

Challenge: Self-initiated research has been left as a grey area in legislation. A problem more inherent to the PBO model than the fiscal council model, the right of an IFI to pursue its own research agenda and publish reports directly to the public has been left vague in legislation in some jurisdictions, leading to disputes between the IFI and its jurisdiction's government, parliament, or the IFI's parent institution. When a new IFI is created, decision makers should consider the OECD principles on self-initiated research and describe this power explicitly in the institution's governing legislation if they intend it to do such analysis.

Lesson: IFIs should have a legislated right to receive specific government information and a resolution mechanism in case the government does not comply

Timely access to reliable information is critical to the work of IFIs. It forms the basis of budget analysis, forecasting, and costing. Without good information, IFIs cannot guarantee the quality of their analysis to stakeholders, facing significant reputational risk.

Many IFIs struggle with access to information in their first years. A strong legislated backstop is important to clarify the IFIs right to information so that analysts can build relationships with government departments on clear terms. Furthermore, IFIs should be empowered to develop and sign memorandums of understanding with individual departments for regular exchanges of information related to the budget cycle.

Challenge: Legislation is not specific. Experience suggests that if an IFI's right to information is specified in vague terms, a government may argue that the powers cannot apply to all information, therefore it applies only to the information the government selectively wishes to share. To the extent possible, legislation should specify the specific data that the IFI is entitled to receive, such as access to government financial reporting and management databases from the state treasury, anonymised tax data, and key assumptions used in official forecasts, among others. The timeliness of the data should also be specified, if possible.

Ideally, a small institution that is not envisioned as a provider of its own independent forecasting capacity should also have access to the government's analytical models. For example, the OBR in the UK receives periodic access to HM Treasury models.

A useful practice for a Northern Ireland fiscal council to develop may also be an annual statement of data needs as is published by the Scottish Fiscal Commission. The statement describes the data the IFI requires to do its job well, the data it currently is receiving, gaps in data, and how the data sharing agreements and relationships with government bodies are evolving.[1]

Challenge: Legislation fails to include a resolution mechanism. Many IFIs, when confronted by a government that does not provide requested information, are faced with questions of next steps. Legislation should specify a resolution mechanism or arbiter in the event of noncompliance with an information request. For example, Canada's PBO is able to submit a petition to the speakers of both houses of parliament, who may then compel the government to deliver the information.

[1] See, for example, the *2019 Statement of Data Needs* from the Scottish Fiscal Commission, available here: https://www.fiscalcommission.scot/publications/statement-of-data-needs-september-2019/.

Lesson: IFIs should be staffed by an adequately resourced analytical secretariat with competitive compensation

The OECD principles state that resources allocated to IFIs must allow them to fulfil their mandate in a credible manner (Principle 4.1). To do so, it is important that the IFI have a robust institutional memory and structured analytical frameworks to ensure consistency and coherence of opinions over time. This requires a sustainably resourced secretariat that is able to retain experienced subject matter specialists.

Challenge: T**he IFI was designed without a strong secretariat to support the council**. Some IFIs with a council model have been designed under the expectation that council members would do the majority of the research themselves. These councils were provided with only a small secretariat of one or two staff who were primarily intended to support the council on administrative matters rather than on analytical issues. This tended to result in opinions and analysis over time that did not have a coherent voice and were largely driven by the expertise and personalities of individual council members (who, as discussed earlier, are often only compensated for a small number of hours a month). Most such councils have worked with governments and parliaments to find a solution to expand and strengthen their secretariats over time.

Lesson: the IFI should have full ownership of its communications and develop performance tracking capability from inception

The OECD principles state that IFIs should develop effective communication channels from the outset (Principle 8.1). The success of an IFI in engaging legislators, the media, and the public directly is crucial to its influence on the public debate. Success cannot be measured without performance information.

Challenge: The IFI does not have a unique identity and ownership of its communications. Some IFIs placed within other institutions such as the parliament or the audit authority must communicate through an established press office that may not fully understand the communications requirements and goals of the IFI or may not have the technical capability to monitor the IFI's influence separately from the rest of the parent institution. To be most effective in its communications, the IFI should track communications activities and other performance indicators themselves. An IFI should preferably maintain its own website but in the case of shared services, the IFI may need to carve out a distinct area of its parent institution's website and more of a distinct branding and identity so that interest in its reports can be tracked.

3. Main options to consider in developing an independent Fiscal Council in Northern Ireland

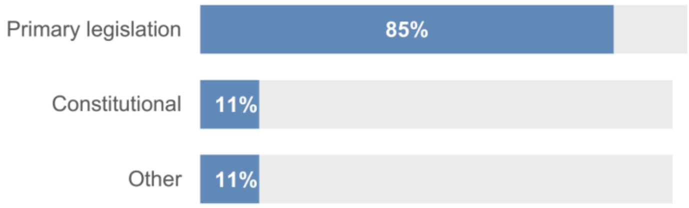
Legal basis

In designing the institutional framework for an IFI, jurisdictions must decide whether to use broad but strict constitutional provisions, narrower but more flexible financial management laws, or other internal rules and procedures.

A large majority of OECD IFIs are established in primary legislation, in line with the OECD principles (Figure 3.1). Few countries have constitutional provisions (and these are of little relevance to Northern Ireland). Those that do have constitutional provisions typically prescribe only the establishment of the IFI, the appointment of its leaders and its overarching responsibility, with rules of operation left to statutory law; however, some such as Slovakia go into considerable detail.

Others such as the Austrian PBO and the Swedish Fiscal Policy Council are established by political agreements, committee order, or executive order.

Figure 3.1. Legal basis for establishment



Source: OECD IFI Database (2019).

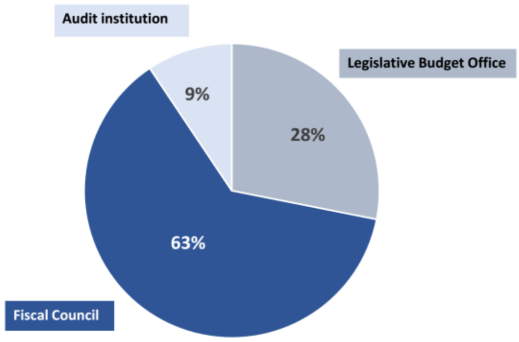
Institutional model

IFIs in the OECD have been set up under three main institutional models (Figure 3.2). The most common is the fiscal council model, made popular as the dominant choice for delivering the independent monitoring body requirement of the EU fiscal surveillance framework. Others have chosen the parliamentary budget office model, whose focus is on serving the needs of the legislature's committees and individual members while maintaining a degree of independence to pursue their own research agenda and communicate directly with the public. Finally, although rare, some countries such as Finland have chosen to set up a department within their audit authority to examine fiscal policy issues.

Some of the more unique alternatives among IFIs include:

- Italy, whose parliament exercises considerable power over budget deliberations, chose to establish an IFI using a PBO model but with a council rather than the individual leadership that is more typical of a PBO.
- Austria, Greece and Ireland have both a fiscal council and a PBO, with the fiscal council officially fulfilling EU requirements.
- France and Lithuania have established their IFI within the supreme audit institution (SAI). Finland has put part of the IFI function in their SAI and set up a second separate Economic Policy Council thus separating independent monitoring and assessment functions from broader and more academic *ex ante* policy advice to government.

Figure 3.2. Institutional models for OECD IFIs



Source: OECD IFI Database (2019).

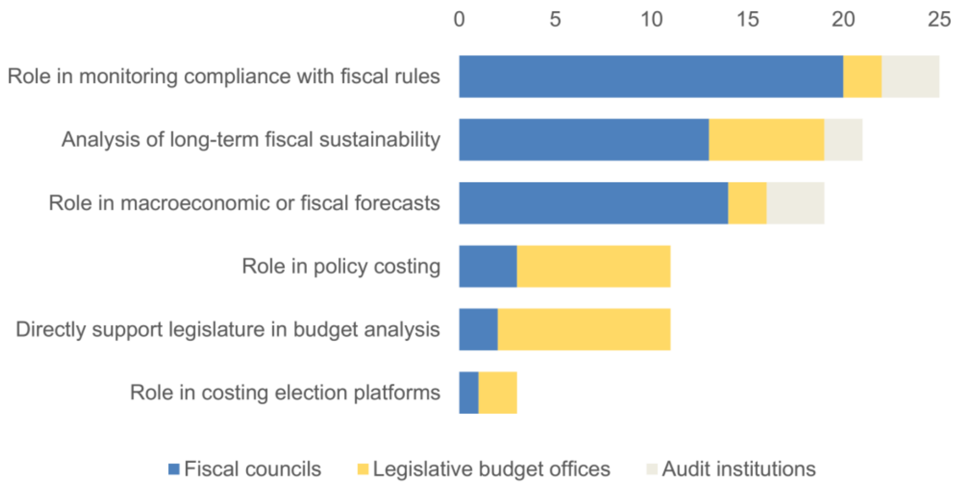
Mandate

While OECD IFIs have diverse mandates, certain core functions are common across IFI models and are linked to the budgetary process, such as macroeconomic or fiscal forecasting, monitoring compliance with fiscal rules, policy costing, long-term fiscal sustainability analysis, and supporting the legislature in budget analysis.

All OECD IFIs, with the exception of the French High Council of Public Finance, have the ability to set their own work programmes within the bounds of their mandates and to undertake analysis at their own initiative. This is a key aspect of operational independence and allows IFIs to do work that they deem important to the public debate. A recent example is the research that IFIs undertook to help governments and legislatures respond to the economic effects of COVID-19.

Some IFIs have included unique aspects in their mandates to suit local needs. For example, Spain's Independent Authority for Fiscal Responsibility (AIReF) has a prominent subnational mandate, reflecting Spain's decentralised system.

Figure 3.3. Core functions by institutional model (number of IFIs)

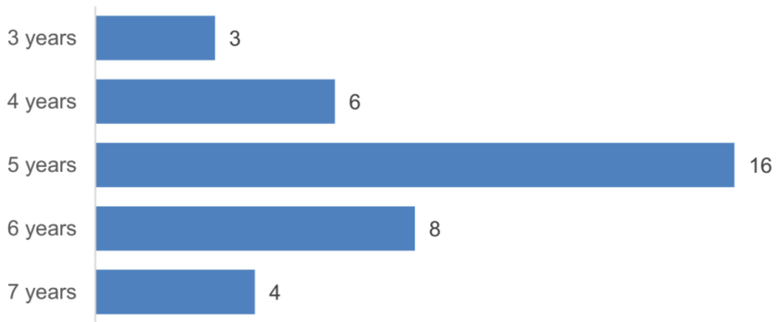


Source: OECD IFI Database (2019).

Leadership

Term length. Leadership terms lengths vary from three years to seven years, with the average and most common being five years (Figure 3.4). Term lengths are designed to overlap elections cycles to be independent of the political cycle in most jurisdictions.

Figure 3.4. Leadership term length in OECD IFIs (number of IFIs)

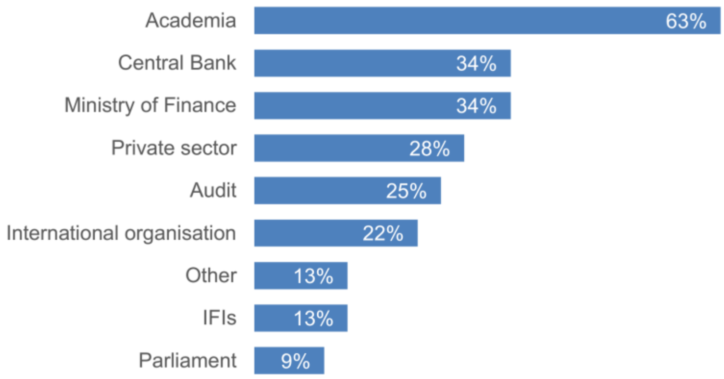


Source: OECD IFI Database (2019).

Nationality restrictions. Several OECD IFIs (for example, the Irish Fiscal Advisory Council, Portuguese Public Finance Council, and the Swedish Fiscal Policy Council), allow for non-nationals to serve as council members, increasing the pool of qualified candidates (particularly useful in smaller jurisdictions) and reducing the risk of "groupthink". This design choice may also serve to bolster independence

Leaders' background. Fiscal council models are most commonly populated by academics, but a wide range of other backgrounds are represented (Figure 3.5). Although it can be beneficial to have experts with experience in the Ministry of Finance who "know how the sausage is made", the perspectives that come from outside stakeholders are also valuable.

Figure 3.5. Leadership background in OECD IFIs

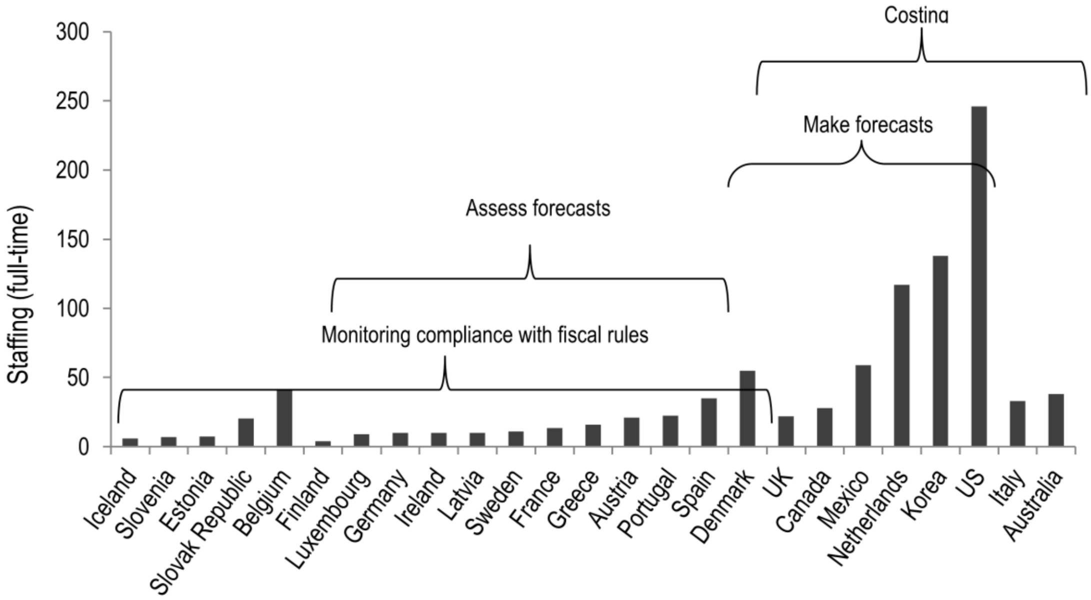


Source: OECD IFI Database (2019).

Resources

IFI resources vary widely based on their mandated tasks. For example, the IFIs with the most staff and financial resources have a costing role for the legislature, which is among the more resource-intensive functions (Figure 3.6). Comparing across different institutions is difficult, as the level of depth for certain functions and the wage cost of staff in countries varies widely. Staff levels in Figure 3.6 correlate nearly perfectly with financial resources (Figure 3.7), as IFIs have few expenses other than the analysts that staff them.

Figure 3.6. Staff levels vary primarily with mandate

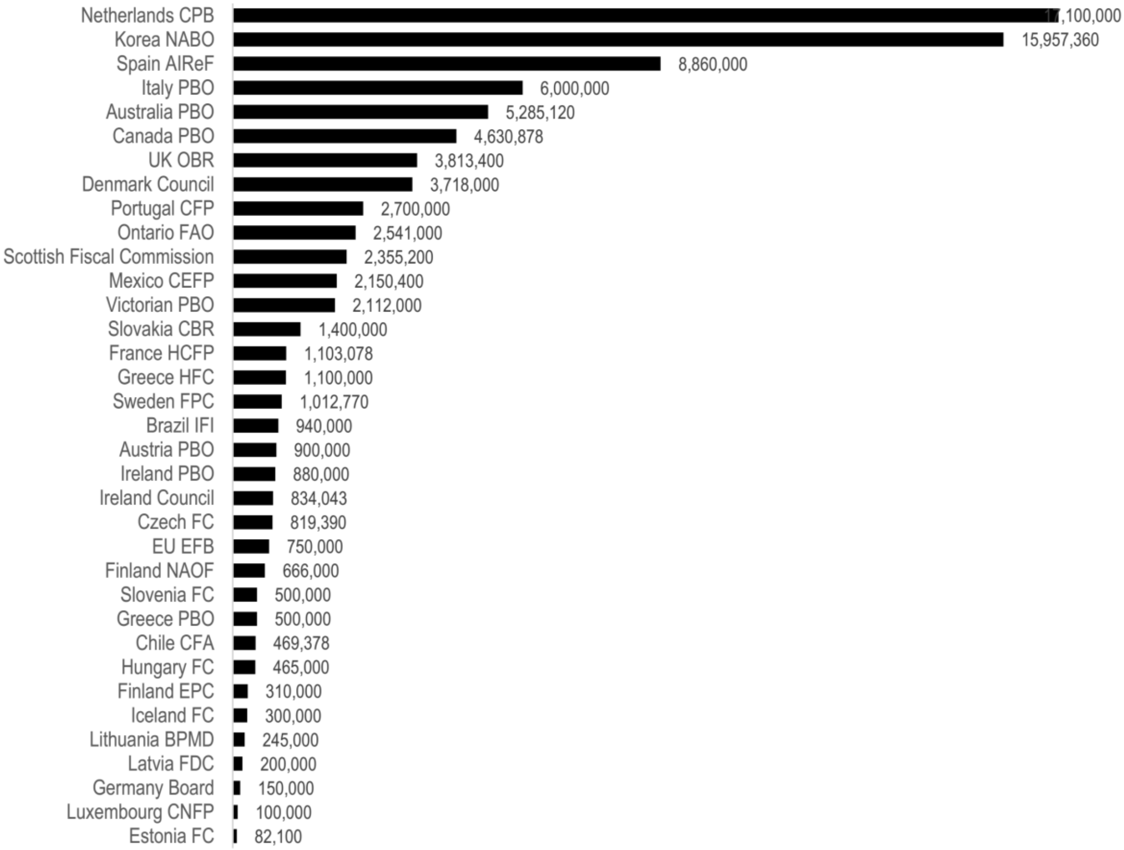


Source: OECD IFI Database (2019).

Budget arrangements for IFIs in OECD countries are generally not as strong as for other independent institutions such as audit authorities. OECD recommendations arising from reviews often suggest strengthening protections in the form of a separate budget line, referral to parliamentary committee instead of the finance ministry, and implementing some form of multi-year funding commitment, which can help insulate IFI budgets from political pressure.

Examples of additional protection include the Australian PBO, which was initially established with a fixed level of funding for its first four years to protect it from political pressure. Elsewhere, the OBR's budget is separately identified within the Treasury's budget and published. The OBR can submit an additional Memorandum to Parliament to "protect the independence of the OBR and ensure transparency in the resources that are provided to the OBR". In practice, the OBR's budget is typically set out three or four years in advance. This is an important and unusual protection for an arms-length body in the UK.

Figure 3.7. Financial resources largely reflect staff numbers (euros)



Note: CBO note shown to increase visibility of lesser funded IFIs. Amounts are for the financial year that most closely corresponds to calendar year 2020.
Source: OECD IFI Database 2021 (forthcoming).

Engagement with legislature

Around a third of OECD IFIs directly support the legislature in budget analysis. For the most part, this function is found in the parliamentary budget office model of IFIs (Australia, Austria, Canada, Greece, Ireland, Italy, Korea, Mexico and the United States), although the Netherlands CPB also supports the legislature. Support may include tasks such as providing comprehensive analysis of the government's budget proposals, supporting parliamentary committee inquiries or undertaking confidential budget analysis for parliamentary groups and individual parliamentarians.

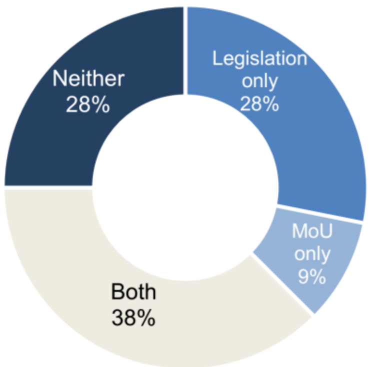
All except the Belgian High Council of Finance (HCF) and the German Independent Advisory Board to the Stability Council officially submit their key reports to the legislature. In Greece, the Hellenic Fiscal Council sends an annual activity report to the legislature, while technical reports are sent to the Ministry of Finance. Similarly all but the Belgian HCF and the German Independent Advisory Board to the Stability Council participate in parliamentary hearings, although members of the Advisory Board have sometimes participated in their individual capacity. Finally, 84% of legislatures play a key role in the appointment or dismissal process for IFI leadership.

Regardless of the direct support of parliament prescribed in legislation, one of an IFI's greatest paths for influence is through building strong relationships with legislators. For example, to resolve a lack of cross-party support for the creation of Spain's Independent Authority for Fiscal Responsibility (AIReF), its first president met individually with all parties represented in the Spanish parliament to explain AIReF's role and its independence. AIReF also held information sessions at its premises that MPs could attend, actively sought to increase the number of hearings before Parliament (Congress and Senate), and undertook studies at the request of MPs. As a result, even those political stakeholders that disagreed with its establishment now recognise the quality of its work and increasingly approach AIReF for information on its opinions. Hearings with AIReF's president are a regular feature of the parliamentary budget calendar and its analysis is regularly mentioned by parliamentarians and parliamentary staff. Parliamentary stakeholders report that AIReF has enriched the parliamentary debate on fiscal issues and that AIReF's analysis has gone some way towards levelling the playing field.

Access to information

Timely access to relevant and reliable information is critical for the work of IFIs. Access to confidential government information is often what sets IFIs apart from think tanks and private sector institutions that may also provide independent budgetary analysis and forecasts. Most IFIs rely on legislated access to information, memorandums of understanding with departments, or both; however, 28% of IFIs do not have any official access to information, typically relying on good relationships with the public service instead (Figure 3.8). The OECD and PBO Network have developed a useful resource on access to information practices which has been submitted alongside this document.[2]

Figure 3.8. Formal underpinning of access to information across OECD IFIs



Source: OECD IFI Database (2019).

Transparency

Transparency is a core value of OECD IFIs. Full transparency in their work and operations both demonstrates an IFI's independence and protects its independence.

If a PBO model for an IFI is pursued, it is important to specify in legislation whether parliamentarians are entitled to confidential analysis from the office. This may depend on whether the legislature is already well-supported with confidential advice from a parliamentary research services, such as the Northern Ireland

[2] See *Briefing Note: Access to information for Independent Fiscal Institutions* (OECD, 2020[3]).

Assembly's Public Finance Scrutiny Unit (in this case care should be taken to legislate clear distinctions between potentially overlapping responsibilities).

Just over 90% of OECD IFIs are assessed as having full operational transparency. Ninety-four percent of IFIs publish all of their reports publicly. Seventy-two percent publish underlying methodologies for their work. Specifying exact specifications for transparency in legislation can assist both IFIs and their stakeholders in ensuring the highest levels of intended transparency are maintained.

4. Further assistance

This submission touches on some of the most common issues in designing an effect IFI, but by no means all of them. Once enacted, legislation can prove resistant to change. The more challenges and solutions that can be anticipated in drafting the first legislation and in setting up the operations of the IFI, the better. The OECD secretariat and the PBO Network is available to support institutional development as the process continues.

More resources are available at: https://www.oecd.org/gov/budgeting/parliamentary-budget-officials/.

Contact:

Scott Cameron
Scott.Cameron@oecd.org
Public Management and Budgeting Division, Directorate for Public Governance
Organisation for Economic Co-Operation and Development (OECD)
2, rue André Pascal
75775 Paris Cedex 16

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Annex A. OECD Principles for Independent Fiscal Institutions

The twenty-two Principles for Independent Fiscal Institutions (fiscal councils and independent parliamentary budget offices) proposed below are grouped under nine broad headings: (1) local ownership; (2) independence and non-partisanship; (3) mandate; (4) resources; (5) relationship with the legislature; (6) access to information; (7) transparency; (8) communication; and (9) external evaluation.

1. Local ownership

1.1. To be effective and enduring, an IFI requires broad national ownership, commitment, and consensus across the political spectrum. While a country seeking to establish an IFI will benefit from the study of existing models and experiences in other countries, models from abroad should not be artificially copied or imposed. Regional or international authorities may provide valuable support and protection.

1.2. Local needs and the local institutional environment should determine options for the role and structure of the IFI. Design choices may also have to take into account capacity constraints, particularly in smaller countries. The basic characteristics of an IFI, including specific protections, should be informed by the country's legal framework, political system, and culture. Its functions should be determined by the country's fiscal framework and specific issues that need to be addressed.

2. Independence and non-partisanship

2.1. Non-partisanship and independence are pre-requisites for a successful IFI. A truly non-partisan body does not present its analysis from a political perspective; it always strives to demonstrate objectivity and professional excellence, while serving all parties. This approach favours having IFIs precluded from any normative policy-making responsibilities to avoid even the perception of partisanship.

2.2. The leadership of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation. The qualifications should be made explicit – including professional standing and relevant government or academic experience. Qualifications should include proven competence in economics and public finances and familiarity with the budget process.

2.3. Term lengths and the number of terms that the leadership of the IFI may serve should be clearly specified in legislation as should be the criteria and process for dismissal for cause. The leadership's term should optimally be independent of the electoral cycle. Independence may be enhanced by defining the term span beyond the electoral cycle.

2.4. The position of head of the IFI should be a remunerated and preferably full-time position. Strict conflict-of-interest standards, particularly for institutions with council members employed on a part-time basis, should be applied equally vis-à-vis other employment in the public or private sector.

2.5. The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws.

2.6. Staff should be selected through open competition based on merit and technical competence and without reference to political affiliation. Conditions of employment should be along the lines of that of the civil (or parliamentary) service.

3. Mandate

3.1. The mandate of IFIs should be clearly defined in higher-level legislation, including the general types of reports and analysis they are to produce, who may request reports and analysis, and, if appropriate, associated timelines for their release.

3.2. IFIs should have the scope to produce reports and analysis at their own initiative, provided that these are consistent with their mandate. Similarly, they should have the autonomy to determine their own work programme within the bounds of their mandate.

3.3. Clear links to the budget process should be established within the mandate. Typical tasks carried out by IFIs might include (but are not limited to): economic and fiscal projections (with a short- to medium-term horizon, or long-term scenarios); baseline projections (assuming unchanged policies); analysis of the executive's budget proposals; monitoring compliance with fiscal rules or official targets; costing of major legislative proposals; and analytical studies on selected issues.

4. Resources

4.1. The resources allocated to IFIs must be commensurate with their mandate in order for them to fulfil it in a credible manner. This includes the resources for remuneration of all staff and, where applicable, council members. The appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies, such as audit offices, to ensure their independence. Multiannual funding commitments may further enhance IFIs independence and provide additional protection from political pressure.

5. Relationship with the legislature

5.1. Legislatures perform critical accountability functions in country budget processes and the budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work. Regardless of whether an independent fiscal institution is under the statutory authority of the legislative or the executive branch, mechanisms should be put in place to encourage appropriate accountability to the legislature. These may include (but are not limited to): (1) submission of IFI reports to Parliament in time to contribute to relevant legislative debate; (2) appearance of IFI leadership or senior staff before the budget committee (or equivalent) to provide responses to parliamentary questions; (3) parliamentary scrutiny of the IFI budget; and (4) a role for Parliament's budget committee (or equivalent) in IFI leadership appointments and dismissals.

5.2. The role of the IFI vis-à-vis Parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation. Preferably, the IFI should consider requests from committees and sub-committees rather than individual members or political parties. This is particularly relevant for those IFIs established under the jurisdiction of the legislature.

6. Access to information

6.1. There is often asymmetry of information between the government and the IFI – no matter how well an IFI is resourced. This creates a special duty to guarantee in legislation – and, if necessary, to reaffirm through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals. Information should be provided at no cost or, if appropriate, sufficient resources should be provided in the IFI budget to cover analysis obtained through government actuarial services.

6.2. Any restrictions on access to government information should also be clearly defined in legislation. Appropriate safeguards may be put in place as regards protection of privacy (for example, taxpayer confidentiality) and of sensitive information in the areas of national defence and security.

7. Transparency

7.1. Given that promoting transparency in public finances is a key goal of IFIs, they have a special duty to act as transparently as possible. Full transparency in their work and operations provides the greatest protection of IFI independence and allows them to build credibility with the public.

7.2. IFI reports and analysis (including a full account of the underlying data and methodology) should be published and made freely available to all. As noted in 5.1, all IFI reports and analysis should be sent to Parliament in time for legislative debate and the leadership of the IFI should be given the opportunity to testify before parliamentary committees.

7.3. The release dates of major reports and analysis should be formally established, especially in order to co-ordinate them with the release of relevant government reports and analysis.

7.4. IFIs should release their reports and analysis, on matters relating to their core on-going mandate on economic and fiscal issues, in their own name.

8. Communications

8.1. IFIs should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders. Given that the influence of IFIs in fiscal policy making is persuasive (rather than coercive by means of legal sanctions or other punitive measures), media coverage of their work assists in fostering informed constituencies that may then exercise timely pressure on the government to behave transparently and responsibly in fiscal matters.

9. External evaluation

9.1. IFIs should develop a mechanism for external evaluation of their work – to be conducted by local or international experts. This may take several forms: review of selected pieces of work; annual evaluation of the quality of analysis; a permanent advisory panel or board; or peer review by an IFI in another country.

SCOTTISH FISCAL COMMISSION SUBMISSION

Submission from the Scottish Fiscal Commission to the Committee for Finance, Northern Ireland Assembly for inquiry into a Fiscal Council for Northern Ireland

Introduction

1. The Scottish Fiscal Commission (SFC) operated as a non-statutory body from June 2014 scrutinising the Scottish Government's forecasts for two taxes devolved under the Scotland Act 2012 along with the 'economic determinants' of an existing tax – non-domestic rates.

2. The SFC was formally established as an independent statutory body on 1 April 2017 by the ***Scottish Fiscal Commission Act 2016***. Under the powers of the Act the Commission became responsible for producing a range of fiscal forecasts that the Scottish Government was required to use when it presented its annual budget to the Scottish Parliament.

3. The Commission has been chaired by Dame Susan Rice since it was established in 2014 and it currently has three other Commissioners: Professors David Ulph, Francis Breedon and Alasdair Smith. The Commission employs 22 staff, most of whom are analysts and the budget for 2021-22 is £2.005 million. The Commission buys in some administrative support services from the Scottish Government, including IT support, human resources and financial services.

4. This briefing note provides more information on the Commission, its statutory duties and powers, our relationship with the Scottish Government and Parliament and how the Commission's role has evolved. The note also provides some reflections on our experience, including our founding legislation and the ***OECD Principles***.

Remit, publications and scrutiny

5. The Commission produces Scotland's official, independent economic and fiscal forecasts to accompany the Scottish Government's fiscal events. We forecast Scottish Government revenue from fully and partially devolved taxes and devolved social security spending.[1] The Commission is also required to forecast onshore Scottish GDP as the Scottish Government has access to additional borrowing powers if we were to forecast a "Scotland Specific Economic Shock". All of our forecasts are produced in-house by a team of analysts overseen by four Commissioners, appointed under the terms of the 2016 Act, who are personally and collectively responsible for the forecasts and other reports.

6. This operating model is relatively unusual in a wider international context where many fiscal councils are responsible for scrutinising the forecasts of the executive. The United Kingdom's Office for Budgetary Responsibility (OBR) has a similar model in that it is also responsible for producing official forecasts for UK fiscal events, although the OBR rely on HMRC and DWP to produce their tax and social security forecasts under the guidance of the members of the Budgetary Responsibility Committee (the equivalent of our Commissioners).

7. The Scottish Parliament adopted a new year long scrutiny process, following the report of the Budget Process Review Group in 2017. The Commission has aligned its work to this new process, meaning our work is now spread more evenly through the year. The principal forecast is published at the same time as the Scottish Government's Budget in the period between December and February. Our second forecast is usually published at the time of the Government's Medium Term Financial Strategy in May. The Government is required to use our economic, tax and social security forecasts in both of these publications – although there is a mechanism for Ministers to override our forecasts by the Finance Secretary making a statement to Parliament. This provision has not been used to date.

8. We are also required to provide an assessment of the reasonableness of the Government's borrowing projections and comment on the overall level of funding available to the Scottish Government as part of each forecast publications. The sophistication of this assessment has evolved since our first statutory report in December 2017.

9. The Commission will typically hold a media conference on the day of publication or the day after and will be expected to give evidence to the Scottish Parliament's Finance and Constitution Committee. In recent years, as the scale of the devolved social security payments has risen, we have also regularly given evidence to the Social Security Committee. The Commission has also given evidence on an occasional basis to the Economy, Energy and Fair Work Committee.

10. Our legislation also gives the Commissioners the right to publish, from time to times, reports relating to "fiscal factors" or the resources available to Ministers. We have used this power to publish costings to accompany legislation which changes the taxes and social security payments we forecast; to institute a new series of "Fiscal Updates" that provides commentary on budgetary developments including in-year management. In August this year we intend to use the "fiscal factor" power to publish our first full forecast not linked to a Government fiscal event following a request from the Parliament's Finance and Constitution Committee.

11. There is a statutory requirement that our forecasts must have regard to Scottish Government policy, but that we may not consider any alternative policies. This means that we cannot, for example, publish costings of alternative Scottish Government policies or policies developed by other political parties.

12. We are also required to evaluate our forecasts each year. We publish reports comparing our forecasts to the actual level of tax revenue and social security spending, recognising any ways our forecasts could be improved in the future. We give evidence to both the Finance and Constitution Committee and Social Security Committee on these reports.

Independence

13. In common with other fiscal councils the Commission has always seen its independence, and perceptions of its independence, as key to its successful operation. In 2014 the OECD published a set of ***recommended principles for Independent Fiscal Institutions*** that informed the drafting of our founding legislation. Subsequently our Framework and Protocol agreements with the Scottish Government, signed by the Cabinet Secretary for Finance and our chair, have added further safeguards. The Annex to this note contains an assessment by the OECD of the extent to which the Commission meets each of their principles showing that we fully met the majority, and partially met the remainder.

14. The SFC is a Non-Ministerial Office and is part of the Scottish Administration but not part of the Scottish Government. This means that the Commission is directly accountable to the Scottish Parliament for the delivery of its functions, and not through Scottish Ministers.

15. The Commission's funding is included as a separate line in the Government's annual budget and is approved by Parliament as part of the Budget Bill. Each year the Commission is asked to submit its funding requirements for the following three years. The Framework Agreement provides an additional safeguard adding a requirement for the Cabinet Secretary to provide a public indication of funding for the two years following the year covered by the budget. The Framework also provides an explicit escalation process in the event of a disagreement on funding.

16. The Commissioners are appointed by the Scottish Government's Cabinet Secretary for Finance following an open and competitive public appointments process overseen by the independent ***Commissioner for Ethical Standards in Public Life in Scotland***. The Cabinet Secretary is required to submit their recommendation to the Parliament which is then required to vote on their approval before final appointment. New Commissioners are expected to give evidence to the Finance and Constitution Committee before a recommendation is made to the Parliament. If a Commissioner is to be removed from office (on the grounds of non-attendance, inability to perform their functions or being otherwise unfit to continue being a Commissioner) Parliament is also required to approve the process.

17. The Commission's legal status also means that its employees are civil servants employed by the SFC and not the Scottish Government.[1] The Commission has the freedom to select and hire its staff through open recruitment – a practice that we have followed for practically every appointment since April 2017. The Civil Service Commission (a UK public body) provides assurance that civil servants are selected on merit on the basis of fair and open competition.

18. The Commission made an early decision to ***voluntarily comply*** with the UK Statistics Authority's Code of Practice. Although the Commission is not a producer of statistics we have found that several features of the Code have helped us with transparency and independence, particularly the requirement to pre-announce publications and develop a clear revisions policy.

Relationships

19. We have been fortunate in that our three principal sets of relationships, with the Scottish Parliament's Finance and Constitution Committee, the Scottish Government and the UK Office for Budget Responsibility have worked well and were characterised from the start by a strong desire to see the Commission operating effectively.

20. We developed written agreements with the Scottish Government and the OBR early on in our relationships that have subsequently been revised. Both sets have been revised in the light of experience, with the Protocol with the Government being revisited annually to reflect our joint experience in sharing the information that allows us to produce forecasts.

21. Relationships with Whitehall departments have developed more slowly as our need to interact with them has developed over the past four years. The earliest of the relationships was with HMRC who provided us with income tax and other data. We then worked to develop a relationship with DWP to provide information on the first social security payments that were to be devolved to Scotland. Again formal

written agreements were developed with both these departments. We're currently working on formalising a developing relationship with the Treasury's devolution and OBR sponsorship teams.

22. The development of our relationships with data providers has been assisted by a recommendation from the Parliament's Economy, Energy and Fair Work Committee that we set out our statistical needs annual and that these needs should be a top priority. From 2018 we have published an ***Annual Statement of Data Needs*** that we have used to highlight gaps in the data we need for our work, and report back on the progress in meeting these needs.

Evolution of the Commission's work

23. The SFC was initially established as a non-statutory body in June 2014 to comment on the reasonableness of the Scottish Government's forecasts of two taxes devolved under the Scotland Act 2012 (Land and Buildings Transaction Tax and Scottish Landfill Tax) as well as the "economic determinants" of non-domestic rates.

24. The next stage in the evolution of the Commission was linked to the further devolution of taxes and social security heralded in the ***Smith Commission report*** commissioned immediately after the 2014 independence referendum result. The Scottish Government's intention to put the Commission onto a statutory basis was included in its November 2014 ***Programme for Government*** published the day after the Smith Commission report. Legislation was introduced into the Parliament in September 2015 following a public consultation. As the Bill passed through the Scottish Parliament the UK Parliament was considering the Scotland Bill to devolve new tax and social security powers. And at the same time the Scottish and UK Governments were negotiating on the funding arrangements – the Fiscal Framework. The negotiations on the fiscal framework resulted in the Scottish Government agreeing to change the Commission's role from the body responsible for scrutinising forecasts to the one responsible for producing the forecasts. The Scottish Fiscal Commission Bill was amended and passed at a similar time to the Scotland Act 2016.

25. By the time of its statutory establishment in April 2017, the Commission's role as the provider of the official and independent fiscal forecaster was enshrined in legislation. The Commissioners had decided upon their "operating" model that the forecasts should be produced in-house using models developed and maintained by its staff. In addition, the first set of regulations had been passed by Parliament that expanded our remit to include forecasts of "demand-led social security expenditure" and Scottish non-oil GDP.[1] Since establishment a second set of regulations have added forecasting assigned VAT receipts to the remit.

26. It is clear then that the SFC was established to serve the needs of increased fiscal devolution. Indeed, the bulk of our efforts since we became a statutory body in April 2017 has been focussed on this task. Our external review in 2019 highlighted suggestions that we expand our activities beyond this relatively narrow focus. The reviewers noted a particular gap identified around long-term fiscal sustainability in Scotland – an issue that was picked up more recently in February this year by the Legacy Expert Panel set up by the Scottish Parliament's Finance and Constitution Committee.[1]

27. Since 2017 the Commission has been required to produce an assessment of the reasonableness of the Scottish Government's borrowing plans. Although these powers are modest (with annual limits of up to £600 million of resource borrowing to cover forecast errors and £450 million of capital borrowing)

developing an assessment framework has meant looking across the whole range of funding and reserve mechanisms available to the Government. The sophistication of our work here – and the level of commentary we have been able to provide to the Parliament – has developed over time.

28. In recent years the gradual implementation of devolved tax and social security in the 2012 and 2016 Scotland Acts has increased the need for greater attention to be paid to in-year budget management. In 2020-21 there were two further staging points.

29. A further £3 billion of social security payments were devolved to Scotland from April 2020 which increased the need for in-year budget management. Spending is determined by the number of eligible people who apply for support and the Scottish Government needs to fund this spending as it arises, even if it differs from the forecast used to set the Budget initially.

30. Secondly, the first income tax reconciliation correcting for SFC and OBR forecasts used to set the 2017-18 budget were applied to the 2020-21 budget. This correction reduced the budget by £204 million – a gap the Scottish Government intended to address by drawing on its borrowing powers.

31. By themselves these developments would have meant that there was a role for the Commission to provide more commentary on in-year budget issues and the implications for borrowing and reserves. Of course, in the event COVID-19 meant that there was significant additional in-year funding as the block grant from the UK Government increased in line with their additional spending, as well as the direct impacts on devolved tax revenues and social security payments.

32. In April 2020 the Commission published a "***Fiscal Update***" to bring together an analysis of the early stages of the COVID funding using an approach we had developed as part of our assessment of borrowing. Since then we have produced three updates that are now settling down into a regular series of updates on in-year budget management providing a systematic account of how the budget has changed since the introduction of the Budget to Parliament. The latest ***update*** published in March includes the COVID funding announced in the UK Budget and how the deal reached by the Scottish Government with the other political parties to allow passage of the Budget Bill was funded.

Reflections from the Scottish Fiscal Commission

33. We take the view that the ***Scottish Fiscal Commission Act 2016*** has served us well in establishing a sustainable and effective fiscal council. Crucially, the Commission's independence is enshrined in the legislation and is backed up by a number of provisions that reinforce independence including the Commissioners' appointments being subject to Parliament's approval. Our OECD reviewers reached a similar conclusion saying that the legislation "serves as a potential model for other countries that wish to establish an IFI."[1]

34. The Act's requirement that the Scottish Government uses the Commission's forecasts in setting the Scottish Budget provides a strong incentive to the Government to co-operate with the Commission to produce accurate forecasts. This incentive is backed up with a clear statutory duty on the Government and other public bodies in Scotland to provide information to the Commission, although there is no statutory right of access to data held by public bodies elsewhere in the UK.

35. The Act is very clear about the Commission's remit and its functions. As well as producing regular forecasts and assessing the accuracy of our forecasts, the Commission can also, from time to time, produce forecasts, assumptions or projections in relation to any fiscal factors we consider appropriate. The Act defines a 'fiscal factor' as anything which affects the resources available to Scottish Ministers. This broad definition has allowed the Commission to comment on a range of areas and most specifically on the overall position of the Scottish Budget and the Scottish Government's fiscal framework. It also means that as we can produce forecasts that are not linked to fiscal events. We have been able to publish costings when the Government introduces new legislation or regulations for taxes or social security payments. We will use this provision to produce our first full forecast not linked to a fiscal event this August following a request from the Parliament's Finance and Constitution Committee.

36. Our legislation also states that forecasts must have regard to Scottish Government policy, but that we may not consider any alternative policies. This means that we cannot, for example, cost alternative Scottish Government policies or policies developed by other political parties.

37. The legislative provision for regular external evaluation is another positive reinforcement of the Commission's independence – but also the culture of continuous improvement and reflection prompted by the statutory requirement to produce annual forecast evaluations and undergo regular external reviews. In particular we found the obligation for an early external evaluation after 2 years of operation was incredibly helpful. The Commissioners took the decision to work with the OECD, inviting them to conduct a full review with an independent panel of experts. The review followed the standard OECD format including a technical assessment of our modelling approach, interviews with our key stakeholders, an evaluation of our publications and communications. We were encouraged by the review's very positive assessment of our reputation and the perception of independence. The review's recommendations, particularly on expanding the range of our outputs, have as we discussed above have helped us take a wider perspective on our role and how we can assist Parliamentary scrutiny.

Link to document with Annex

NICVA and UUEPC SUBMISSION

NICVA UPDATE

Fiscal Powers: A review of the fiscal powers of the Northern Ireland Assembly NICVA PwC report 2013

NICVA commissioned PwC to carry out this ***review*** which was published in 2013. It was part of a body of work carried out by NICVA through our Centre for Economic Empowerment. The focus of the work was twofold. The first was to help voluntary and community organisations to become better informed about economic issues and to take part more effectively in economic policy debates. In support of this we ran a series of training courses and masterclasses on a wide range of economic issues.

The second aspect centred on researching issues that might improve the lives of people in Northern Ireland if policies were adapted or new policies developed that might improve the economy of Northern Ireland. NICVA believed in informing the debate and much of the research was commissioned to explore the options rather than to find evidence to support a position.

That was the basis for commissioning this research report. We wanted to explore the possible benefits, or not, of devolving more fiscal powers to Northern Ireland. We wanted to shed light on which powers may be useful to have or not but mostly we wanted an informed debate.

NICVA tried to have an open mind on all the issues believing they were worth exploring and examining before we should take a view for or against any change in policy.

NICVA had taken part, over a 10-year period, in the Government's Economic Development Forum which advised the economy Minister. The EDF focus was trying to find the policy changes that might improve the trajectory of Northern Ireland's economy. NICVA's research was also driven by that goal and in all ***18 reports*** are available on the NICVA website under the work of the Centre for Economic Empowerment.

Seamus McAleavey
NICVA

Fiscal Powers:
A Review of the Fiscal Powers of the Northern Ireland Assembly
April 2013

NICVA commissioned PwC to produce this report in 2013. It was part of a project, the Centre for Economic Empowerment, that NICVA established over a number of years. The purpose of the CEE was to enhance the voluntary and community sectors economic skill and build its capacity to contribute to the economic debate.

In all 18 research reports were commissioned and published by NICVA and are available on NICVA's web site at ***https://www.nicva.org/programmes/centre-for-economic-empowerment***

The main purpose in commissioning the research was to explore and try and find evidence to support beneficial policy change in Northern Ireland. NICVA recognised that Northern Ireland's economy chronically underperformed and was searching for policy initiatives that might change Northern Ireland's 'flatline' development.

With regard to devolution and fiscal powers by 2013 Northern Ireland was the only devolved region that had not been subject to a comprehensive review of fiscal policy and legislation/proposals to devolve a variety of fiscal powers.

Executive Summary of the report

The success of previous attempts to agree and implement a vision for the Northern Ireland economy has been limited.

A number of studies, including the Strategy 2010 in 1999, the most recent Programme for Government and the Northern Ireland Economic Strategy have all identified and articulated a vision of a more prosperous Northern Ireland. This is summarised in Strategy 2010 as, "A fast growing, competitive, innovative, knowledge-based economy where there are potential opportunities and a population equipped to grasp them." Of course, without a single, cohesive and generally agreed economic objective, policy making, and objective setting will remain challenging. Hitherto, successful implementation has remained elusive.

There has been little progress towards closing the prosperity gap between Northern Ireland and the rest of the UK.

At least, 15 major reports on the state of the Northern Ireland economy, since the 1957 Isles and Cuthbert's report have reached broadly similar conclusions about the region's shortcomings. Successive strategies and reviews have collectively failed to close the productivity, innovation and earnings gaps between Northern Ireland and the UK average.

Maintaining the status quo in economic strategy is unlikely to significantly improve Northern Ireland's economic performance, relative to the rest of the UK.

So, it is reasonable to suppose that a continuation of previous performance is unlikely to substantially narrow or close the existing gaps between Northern Ireland and the UK average in terms of performance.

The current macroeconomic climate and the absence of public spending growth is likely to further disadvantage the region for the foreseeable future.

Given that an improvement in economic performance towards a defined vision is desirable and can be assumed to be feasible it is worth considering how policy might be adjusted to promote such an outcome. This is particularly appropriate in the current climate of austerity where pressures on public expenditure are likely to be continued well into the next Spending Review period beginning in 2015.

Northern Ireland is the only devolved region that has not been subject to a comprehensive review of fiscal policy and legislation/proposals to devolve a variety of fiscal powers.

Recent developments in terms of comprehensive reviews of the fiscal powers available to the devolved administrations in both Scotland (the Scotland Act 2012), potentially in Wales (the Silk Commission) and in the English regions (the Heseltine Growth Review), suggest there is a real opportunity to begin a similar debate in Northern Ireland as to the further devolution of fiscal powers that could assist in rebalancing the economy.

Northern Ireland's current position in terms of funding the devolved administration could be characterised as one of:

• Very limited fiscal variation, where only a few taxes, the Regional Rate and Air Passenger Duty (APD) direct long haul, are under devolved control and where there are limited powers to borrow and gain extra resources from, for example, the EU.

• Overwhelming dependency on the block grant from HM Treasury.

• Being the recipient of a longstanding and sizeable net transfer from the UK Exchequer.

In considering which taxes might be devolved it is important to quantify the revenue generating potential of those taxes.

Drawing upon the deliberations of the Calman, Holtham and Silk Commissions in determining which taxes might be devolved, it is helpful to define taxes as "major" and "minor" in terms of the size of the revenues raised. Devolving a major tax will potentially make a greater contribution to increasing the revenue stream, autonomy and accountability of a devolved assembly. Having said that, it might still be decided to devolve certain minor taxes because of their potential contribution to particular economic, social or environmental policy agendas.

In terms of the scale of revenues collected three taxes stand out as major: Income Tax, National Insurance Contributions and VAT. In practice, only Income Tax is a strong candidate for devolution, as has been identified in both Scotland and Wales. Devolving and thus potentially varying the rate of National Insurance Contributions from that of the rest of the UK would in practical terms be hard to reconcile with welfare and benefits policy commitments. EU law appears to prohibit regional variations in VAT rates.

Corporation Tax is not a major tax, although the revenue raised is greater than some of the minor taxes. There has been a prolonged debate about, and campaign for, devolving Corporation Tax varying powers to Northern Ireland. The Prime Minister has indicated that any decision about this will not happen until after the Scottish independence referendum in September 2014. In addition, devolving Corporation Tax is subject to the strict Azores Judgement and would have a direct and substantially detrimental impact on the block grant for many years.

In identifying potential taxes for fiscal devolution in Northern Ireland, we should make allowance for:

• Developments in Scotland (additional Income Tax variation powers, Stamp Duty and Land Tax, and Landfill Tax) and proposals in Wales (Silk proposed Income Tax variation, Stamp Duty and Land Tax, Landfill Tax, Aggregates Levy and APD);

• Developments in England under the Heseltine Growth Review proposals where, while the majority of the proposals to decentralise powers to the English regions/cities seem to have been accepted, the magnitude of financial transfers have yet to be determined.

• In addition, a number of criteria will influence the suitability of a tax for devolution:

1. Would devolution improve accountability?

2. Is devolution possible without creating significant economic distortions?

3. Is devolution possible without imposing significant costs (either administrative or compliance)?

4. Could devolution promote various policy objectives; economic, social, health or environmental?

5. Would devolution be compatible with EU law?

6. Is devolution possible without a major negative effect on the tax base in the rest of the UK?

• Further reform of the tax base across the UK, whereby fiscal incentives will add to the attractiveness of Northern Ireland for foreign direct investment (FDI) and indigenous investment, even without specific regional devolution. The recent progressive reduction of Corporation Tax rates, introduction of the Patent Box regime and increased tax incentives for R&D are examples where UK wide policy has had a potential benefit to Northern Ireland. Regardless of what happens in terms of enhanced powers it is important to make the most of the incentives Northern Ireland already has.[i]

Given these considerations and the experience of Scotland and Wales, the following taxes would theoretically become candidates for full or partial devolution in NI:

• Income Tax;

• Stamp Duties;

• APD;

• Landfill Tax. **Of the so-called "major taxes", only Income Tax is a major tax in terms of revenues raised.**

The size of the revenues raised and the fact that devolution has already occurred in Scotland and is proposed for Wales is an argument in favour of considering Income Tax devolution for Northern Ireland. At the same time, there are some other significant considerations relevant to whether Income Tax should in fact be devolved. There is considerable uncertainty about the extent of responsiveness on the part of employees to tax rates and the elasticity of labour supply. This is both in general terms and amongst Basic and Higher Rate[ii] taxpayers but there are indications from the external evidence that if the Assembly wished to maximise revenue it would increase the Basic Rate by a small amount and hold the Higher Rate at current levels.3 [iii]

Care must be taken in choosing the method to index deductions from the Northern Ireland spending block if any of the taxes were to be devolved.

This would especially be the case in terms of Income Tax as a large source of revenue (such deductions are a requirement under EU law). Indexing to the growth of UK revenues for that tax (the method favoured by Holtham for Wales) has the advantage of insulating the block deduction from the general UK economic cycle and UK policy risk (things that would have a general impact on the amount of Income Tax revenue collected but are not under the control of the devolved administration). However, it is much less clear, based on the past performance of the Northern Ireland economy, that Northern Ireland would be able to grow its regional Income Tax base above the UK average.

So, it is uncertain whether the gains to revenues could outgrow the deduction from the spending block. This creates the risk that Income Tax devolution would lead to the Assembly having less resources in the future. Such a risk has to be weighed against any benefits (e.g. economic or political accountability) from such devolution.

If Income Tax was devolved policy makers must balance the respective priorities of revenue maximisation, the promotion of entrepreneurship amongst high earners and distributional objectives.

Trade-offs are likely and it is very unlikely the Assembly could use Income Tax variation to pursue all three of these goals at once. This reinforces the point that the question of whether the power to vary a tax should be devolved (the subject of this report) is in principle separate from the question of how such a power might be used. Greater tax powers might require the Assembly to clarify or define its policy position, e.g. on the relative priority to be given to economic efficiency or distributional considerations.

Defence of the Northern Ireland funding block is understandable but not the only consideration.

Especially during a period of austerity, it would be entirely understandable if the Executive gave strong emphasis to defending the extent of the block grant to Northern Ireland (hence producing a concern about possible off-setting reductions in the block grant which arise from fiscal devolution given the need to ensure compatibility with the Azores Judgement). This reinforces the point that devolution of a tax may require confidence that it could produce sufficient compensating growth in the private sector to set against any reduction in the block grant. This confidence will be reinforced if the induced gains in other tax receipts relate to tax streams which are also under devolved control. Even if the other tax streams are not devolved such a policy might be justified if the aim were to contribute to rebalancing the Northern Ireland economy, i.e. the % share of the private sector and social enterprise sector compared to the public sector.

Fiscal variation should be seen as a supplement to other policy emphases and not as a solution in its own right.

Northern Ireland has hitherto not engaged in the level of debate about wider fiscal powers which has been going on in Scotland and Wales. While it may be useful to initiate that debate, it does not mean that enhanced fiscal powers would, in themselves, become a game changer to transform the economy.

Other, previously identified objectives should still be pursued; these would include improving the quality of management across the private, public and third sectors whilst having a single-minded emphasis on raising productivity and exporting performance through gains to R&D and management capabilities. Indeed, regardless of what happens in terms of enhanced fiscal powers, the scope to use the UK's existing business tax package (e.g. Corporation Tax falling to 20% in 2015, and Patent Box now in place) should be maximised as a selling point for Northern Ireland as a destination for international investment.

NICVA
February 2020

[1] Of course, none of these characteristics of the UK business tax system mark Northern Ireland out relative to other UK regions. Our point, however, is that we suspect more could be done to sell these attractions to potential international investors given that it is undoubtedly the case that the UK overall has a relatively attractive offering compared to many other Western economies.

[1] Strictly speaking, "Rates" as both the 40p and 45p rates are relevant.

[1] It remains unclear how far an elasticity taken from US or UK experience would accurately predict how the Northern Ireland labour market would respond to, say, a 2p increase in the Basic Rate or a 3p decrease in the Higher Rate. The revenue maximising argument for actually cutting the Higher Rate becomes stronger if we assume a very strong behavioural response (i.e. considerable increase in labour supply) and/or strong in-migration by high earners from, say, GB and the Republic of Ireland.

Written Statement to Department of Finance Committee: The Fiscal Powers of the Northern Ireland Assembly

Dr Esmond Birnie, Senior Economist Ulster University Business School

Context: Limited fiscal powers

- At the establishment of the State of Northern Ireland (NI) back in 1921, again in 1998, and now in 2021 the extent of fiscal powers was limited. Currently, NI's tax varying powers are restricted to the Regional Rate and Air Passenger Duty for long haul trips. Also, a few new very small (in terms of the revenue raised) taxes were introduced during the 2007-16 period of devolution: the levy on plastic bags and the Large Retail Levy. The power to vary Corporation Tax has existed since 2016 but remains unused. Stormont does have discretion over a range of charges.
- Three arguments for greater powers and greater use of those powers (including greater use of existing powers): (1.) to improve accountability (decisions to spend more would be linked to an extent to the decisions about how to fund that spending), (2.) to either discourage or encourage certain economic behaviours or sectors (e.g. higher taxes on environmental damage) by either raising or lowering certain tax rates, (3.) if we wish to fund a higher level of spending we may have to look to our own resources given the extent to which post-Covid UK fiscal policy is likely to be constrained with more limited growth of the Block Grant and Barnett consequentials.
- None of this implies that greater tax varying powers is a miracle cure for all the ills of the NI economy (or of NI society). The under-performance of the NI economy over the last 100 years has been a long run trend arising from a range of explanations.
- Fiscal devolution isn't just about cutting taxes or just about increasing taxes. Different circumstances imply that certain taxes should increase and certain should decrease. Tax varying powers give the Stormont Executive greater choice as to what to do.
- Fiscal devolution is not in conflict with the pursuit of greater efficiency and effectiveness in terms of public spending and public sector delivery. In fact, the knowledge that some decisions to spend more would be accompanied by a necessity to raise taxes or charges could incentivise public sector reform. I do see it as an antidote (albeit a partial one) to the mindset of "free money" which helped to create the RHI crisis.
- Unlike Scotland (Calman and Smith Commissions) or Wales (Holtham and Silk), NI has *hitherto never had a full scale, independent inquiry* re. the extent of fiscal powers. Now, of course- in the shape of Paul Johnson's Fiscal Commission- it does.

The position in Scotland and Wales

- Back in 1998-99 NI had more fiscal powers than the other 2 devolved administrations. That is no longer the case. In 2020-21 31% of total tax revenues collected in Scotland were devolved (including assigned VAT), 20% in Wales but only 9% in NI (Institute for Government website, "Tax and devolution", accessed 21 April 2021).
- SCOTLAND: Has devolved the former Stamp Tax on property sales (SDLT, now LBTT), Landfill Tax and Income Tax on earned income in terms of rates and bands (though not the Personal Allowance). To be devolved, Air Passenger Duty (APD) and Aggregates Tax (subject to some legal issues relating to state aid). VAT, half of its revenue to be assigned to Scottish Government (subject to both the UK and Scottish Governments working out and agreeing that amount).
- WALES: Now devolved SDLT (now LTT), Landfill Tax, and part of Income Tax (can vary by up to 10p in each band).
- It may be worth anticipating the implications for NI if in a few years Scotland does head to "Devo Max" (possibly following a majority vote for such a "third option" in a second independence referendum).

Importance of this Committee

- The NI public/electorate/taxpayers/service users deserve an informed debate re. fiscal powers. This Committee is well-placed to contribute to such a debate.

- And that debate could happen alongside and be informed by the analysis and recommendations of the Fiscal Commission.

Fiscal devolution: Broad principles

Here are some important considerations:

- Keep the tax base, i.e. the areas of economic activity which are taxed, as broad as possible in order to keep rates of tax as low as possible. Ironically, the tendency under devolution has been for scale of reliefs from non-domestic Rates to be widened (in 2018-19 totalling £237.5m). This is not a good approach to taxation policy in so far as greater burden has to be applied to those who are defined within the tax base.
- It is sometimes argued that the acceptability of a tax or charge increases if it is known that revenues raised are ring-fenced to a dedicated area of public spending. This situation is called a hypothecated tax. People might be happier to pay Vehicle Excise Duty or the duty on petrol or diesel if they knew the money raised would be used to eliminate pot holes etc. Or, it is argued, people do want more spending on the health service and so would pay a an additional NHS tax etc. etc. Traditionally, there has been resistance within the UK fiscal system to hypothecation, the Treasury disliking its "inflexibility". Designing a NHS tax for NI would be very challenging- not least because total health department spending exceeds the sum of the two biggest regional taxes combined, i.e. Income and VAT.[Note 1.]
- If you think a potential benefit of fiscal devolution is greater accountability you will be most concerned to devolve some of the bigger taxes (those with larger amounts of revenue raised). In NI the three largest taxes are: Income (about £2.9bn in 2018-19), National Insurance Contributions (NICs) (c. £2.7bn in 2018-19) and VAT (c. £3.4bn in 2018-19)- source: HMRC 20 December 2019, *A Disaggregation of HMRC Tax Receipts for England etc.*. However, see below re. specific comments about the desirability of devolving Income Tax and the feasibility of devolving VAT or NICs. In practice, the range of taxes in Northern Ireland where the feasibility of devolution is greatest tends to represent the smaller ones.
- Increasing accountability re. public expenditure decisions and the ability to raise additional revenues to fund plans for increased public spending are two arguments for increased tax varying powers. An increased ability to use tax variation to incentivize "good" behaviour or disincentivize "bad" behaviour is other important possible reason. Just as such tax policy can be pursued at a UK-wide level, it could also be operated at a devolved level. The public (and politicians) have become familiar with the concept of "sin taxes", e.g. the excises or duties or taxes on alcohol, cigarettes, disposable plastic bags and sugary drinks. Notwithstanding the important moral and philosophical debate about how far the state should making such paternalistic interventions to influence individuals behaviour ("nanny state"?) there is some statistical evidence that such taxes do work in the sense that higher sales prices lead to less consumption, less alcohol abuse etc. etc.

  We are likely to see even more taxation of behaviour which leads to environmental harm: production of greenhouse gases, congestion, production of waste. There are already some environmental taxes in place which are under-used at the UK level because of lack of political will, e.g. the provision to increase duties on petrol and diesel which has been unused for a decade as the rate has remained frozen at 57.95p per litre. There are also cases of taxes which have been billed as "green", but are not well designed from an environmental point of view: notably, the APD (because it is not strongly related to the amount of carbon being produced and does not necessarily incentivize airlines to operate well-filled and highly fuel efficient aircraft: see ***www.parliament.uk*** "Select Committee on Treasury Fourth Report, "environmental taxes"", accessed 21 April 2021).

Fiscal devolution: Which taxes and charges

- Domestic water charges. Placed at "the top of list" not because it necessarily the best piece of taxing and charging which could take place but because it is something that Stormont certainly has the power do and is **probably the one single change which could make the greatest impact in terms of extra revenue raised- over £200m** p.a. From an equity/fairness point of view it is worth reflecting that the *absence of that £200m+* from NI public spending probably impacts most on lower income groups (if one was concerned about the distributional effects of charging for water this could probably be addressed in various ways, e.g. an allowance of an amount of free water for lower income households). It is sometimes argued that it would be wrong to introduce such charges given that households "already pay for their water through their Rates". The evidence suggests this argument is not as convincing as it might seem given that the sum of Council Tax+ Water charges in GB far exceeds the Rates payments. For example, in 2018-19 the average Rates payment per household in NI was £970 but that contrasted to total household charges of £1826 in Wales, £1742 in England and £1516 in Scotland: Richard Ramsey 28 January 2020, "New approach isn't just for January", *Irish News*. Earlier but similar figures were produced by Department of Finance (November 2017, "Budgetary Outlook 2018-20").

- The Regional Rate. Stormont could raise **additional revenues by, for example, uplifting the annual increase above the inflation rate**. In 2017, for example, the Department of Finance estimated an increase of 5% in real terms for domestic Rates and constant real terms non-domestic Rates could raise £35m annually.
- Other Charges. Some commentators have suggested the total loss of revenue (annually) given so-called **"super parity" (i.e. the extent to which, on average households in NI are charged less for services than their counterparts in GB) amounts to £500m annually** (see Richard Ramsey 11 November 2014, "Next generation will pay for our "super parity" party", *Irish News*). Examples include the relatively low level of Tuition Fees and prescription charges (zero) as compared to England. Particularly, question begging is the free public transport for those aged 60-64.
- Income Tax. Of the big three taxes (in terms of revenue), i.e. Income, NIC and VAT, this is the one which is **most feasible to devolve**. This is indicated by the experience in Scotland and Wales. It would be very hard to devolve NICs whilst preserving parity in the UK welfare system and as regards VAT, EU law probably prohibits variations by region. NI probably remains subject to the EU rules. Careful thought needs to be given to any devolution of Income Tax. For many years the Scottish Parliament had some Income Tax powers and they remained unused. Even now, the extent to which Scotland's Income Tax schedule differs from that in the rest of the UK is still limited.[Note 2] Just under half of Scottish Income Tax payers now pay more (for most a little more), just over half pay less (for most a little less) and the net gain in terms of extra revenue raised has been small.

  Stormont needs to ask itself whether it would really wish to set its own Income Tax policy and if it does for what purposes. Answering the latter question may not be straightforward especially given likely policy conflicts or trade offs. For example, a redistributive policy might focus on cutting tax rates for lower incomes whilst raising those much further up the income schedule but that policy may not much increase the total amount of tax revenue collected. In theory, total revenue could even decrease. At the UK-wide level there has been the experience of the introduction of the 50% Additional Rate in April 2010 on incomes greater than £150,000. That rate was reduced to 45% in 2013. The additional yield from the 50% was much less than projected although there is dispute about how much of this was caused by "longer term" behavioural change and how much was the result of a one-off adjustment whereby £16b-£18bn of income was brought forward into the 2009-10 tax year. [Note 3.]

  If the priority was **to secure an increase in revenue raised that is most likely to come about by increasing the rate paid by many Basic Rate taxpayers** in NI to a level above the current 20%.

  The basis for these assertions is partly that the number of Higher (i.e. 40p) and Additional (i.e. 45p) taxpayers is very small compared to the number of Basic Rate payers: for 2020-21 62,000 and 5,000 compared to 714,000 (HMRC 26 June 2020, "Number of taxpayers by country").

- APD. Important to note this has already been *partially* devolved, i.e. for the long haul (such as trans-Atlantic). There **may be a case to go the whole way**. APD is not a large source of revenue in NI (about £70m p.a. in total prior to the Covid crisis) but there is likely to be some disincentive effect to air travel and growth of the tourism (and other) sectors from the implied higher cost of air tickets. To the extent that cutting APD led to increased air traffic there would be some environmental costs notwithstanding that APD was not optimally designed from the point of view of discouraging carbon production.
- SDLT and Landfill. Devolution is certainly doable (again, Scotland and Wales show this). "Small taxes" in terms of amount of revenue raised. **Possibly not very large policy gains from varying the NI rate from the UK one.** [Note 4.]
- Corporation Tax. The power to vary has been in place in 2016 but remains unused. A precondition of use is that the NI Budget is able to bear the strain of a reduction in the Block Grant. Two recent changes (Chancellor Sunak's increase in the UK rate back to 25% in 2023 and Biden's tax increase proposals for the USA) imply **there *is a case* in terms of improving business competitiveness for NI sticking at the current 19%** as rates increase elsewhere In the UK but the "price" of so doing would be a substantial reduction in the Block Grant. [Note 5.]
- Summary In terms of both feasibility and ability to improve the competitiveness and growth of the economy there is a case for using the Corporation Tax powers and devolving the rest of APD although the former has to be weighed against the loss of Block Grant and for the latter against any adverse environmental impacts. Stamp Duty and Landfill are feasible but that has to be weighed against the administrative cost and it is unclear whether there is scope for very dramatic outcome gains from varying rates from those in rUK. [Note 4.] In principle, the Assembly/Executive should **re-assess whether the current reliefs from Rates are fit for purpose. Also, there is scope to raise revenue through charging- notably but not only domestic Water charges.**

How much has changed since the 2013 NICVA Report on Fiscal Powers?

In broad terms, the arguments in this Written Statement are the same as those set out eight years ago in the NICVA/PwC Report *Fiscal Powers: A Review of the Fiscal Powers of the Northern Ireland Assembly.* If anything, the case for further fiscal devolution, and certainly for **more discerning use of existing powers, especially regarding charges**, has increased:

- Post-Covid increases in the **Block Grant (and Barnett consequentials) may be more limited**.
- The UK government (HM **Treasury) may be "maxed out"** in terms of scope for further (relatively generous) financial packages to NI.
- The experience of the NI Executive during 2013-21 might suggest there would be benefits from **increased fiscal self-responsibility and the associated fiscal discipline**.
- During the 2007-17 period devolution leant towards reducing taxes/charges relative to GB (hence creating a "super parity"), it may now be **necessary to lean in the opposite direction**.
- The external policy environment may be moving towards a situation which would imply the **benefits of creating a lower rate of Corporation Tax** in NI compared to rUK. The "pain" related to such a policy would probably be a reduction in the Block Grant- hence confirming the previous point about **the necessity to raise some other charges**.

Note 1

In the 2021-22 draft Budget the allocation to the Health Department for Resource (i.e. current) spending was £6451.9m and the capital allocation £326.5m, i.e. a total of about £6.8bn. The total revenue collected from the Income Tax and VAT in NI is unlikely to much exceed £6.5bn (the amounts in 2018-19 were £2.9bn and £3.4bn respectively and since then the 2020 recession will have reduced the amount of tax receipts).

Note 2

The Scottish Government has "bent" the tax schedule to make it a bit more "progressive" (i.e. higher rates on higher incomes, lower rates on lower incomes) than its "rUK" (i.e. England, Wales and Northern Ireland) counterpart. The first two thousand pounds above the Personal Allowance are taxed at 19% rather than the rUK's 20%. A rate of 21% kicks in at £25.3k. The higher rate (41% rather than 40% applies from about 44k rather than 50k (in both Scotland and rUK and additional rate applies from £150,000 onwards but that rate is 46% in Scotland and 45% in rUK). Fraser of Allander (FoA) Institute estimated that in 2020 anyone living in Scotland earning about £27,000 or less would be paying less Income Tax than his/her rUK counterpart. The converse was true for incomes above £27,200. The Scotland "penalty" in tax terms being about £125 on earnings of about £40,000 and £1540 for earnings of £50,000.

The Scottish Government estimated that the Scottish Income Tax differentials would have led to £591m of extra revenue collected (compared to using rUK rates etc.) all other things being equal but once behavioural changes were allowed for (less labour supply by the higher income, avoidance, migration) that gain was £456m in 2020-21. FoA also make the point that the true net gain to Scottish tax revenues through tax devolution was probably much less than £456m given that the Scottish income tax base was growing more slowly than rUK (i.e. England). Fraser of Allander Institute website 11 March 2020, "Higher income taxes and public spending in Scotland?", accessed 21 April 2021.

Note 3

There is great uncertainty about the impact on total revenue collected of various tax scenarios and that uncertainty may be even greater at the NI regional level.

It has been suggested at the UK level that the positive responsiveness of tax revenues to increased tax rates is low for very high rate Income Tax payers (see M. Brewer and J. Browne, "Can more revenue be raised by increasing Income Tax rates for the very rich?", *Institute for Fiscal Studies Briefing Note BN84*). This is because the very rich may engage in various behavioural responses which act to reduce the amount of Income Tax paid (e.g. work less, avoidance, emigration). Note 2 shows how in the case of Scotland a negative effect from behavioural change has been indicated as a result of raising Income Tax on above average incomes. At the NI level it might be asked how far an increase in the tax rate for high income individuals may lead to some of those individuals shifting their tax residence to GB or the Republic of Ireland?

Note 4

In terms of Landfill and waste there is an interesting question as to what might happen to the incentive to divert NI waste from landfill to exports (whether legal or illegal) to the Republic of Ireland. In the early 2000s a large increase in landfill charges in the Republic of Ireland contributed to 250,000 tonnes of waste being illegally dumped in NI.

Regarding Stamp Duty, at least before the current 2020 and 2021 "holiday" during the Covid recession, the existing £125,000 threshold is already quite high compared to the average level of house prices in NI. According to the official measure of prices (Department of Finance's for Quarter 4 2020) nearly half of transactions in NI would not be required to pay Stamp Duty in any case at the existing threshold: in Quarter 4 2020 the median house price was £146,000 and it was only in 2017 that the median price recovered sufficiently to rise above the £125,000 level.

Note 5

Interestingly, both the (never used) "2017-19 option" in terms of creating a NI-rUK Corporation Tax rate differential (i.e. going from the UK's 19% to the Republic of Ireland's 12.5%) and the "2023 option" (i.e. sticking at 19% rather than going up to 25%) are about (roughly) the same % point difference. However, as economists might put it, the effects may be "non-linear"- diminishing returns to the policy of cutting Corporation Tax may set in as rates get lower and lower (many countries and not just the Republic of Ireland now have low nominal and effective rates) but the relative "damage/harm" (e.g. in terms of discouraging inward investment) may increase disproportionally as rates start to go up again.

Irish Fiscal
Advisory Council

Background Submission to Committee for Finance, Northern Ireland Assembly

19 May 2021

1. Creation of the Irish Fiscal Advisory Council

The Irish Fiscal Advisory Council was established as part of wider reforms of Ireland's budgetary architecture. It was set up on an administrative basis in July 2011 and was formally established as a statutory body in December 2012 under the Fiscal Responsibility Act. The Act established the Irish Fiscal Advisory Council as a statutory body and legislated for the implementation of national and EU fiscal rules.

The introduction of the Act was part of a wider agenda of budgetary reform, benchmarked under the Programme for Government 2011 and the EU/IMF Programme of Financial Support for Ireland.

While the EU/IMF programme provided some of the impetus for the establishment of the Council, there were domestic drivers also. The aftermath of the global financial crisis inspired a domestic debate about fiscal councils as a method to improve domestic fiscal governance. In his report for Ireland's Joint Committee on Finance and the Public Service, Lane (2010) argued that the key to insulating the fiscal process is to find institutional devices that assist governments in maintaining an appropriate fiscal stance.[34] International organisations like the OECD and the IMF also recommended independent fiscal authorities as a useful innovation.

The Council was set up as part of the new EU framework for fiscal surveillance that appeared after the euro-crisis. The Council was part of an international trend: Independent fiscal institutions, fiscal councils or "fiscal watchdogs" emerged in a number of European countries. Yet similar bodies have existed for a long time in countries such as the Netherlands and the United States.

2. Mandate

The Council is an independent statutory body.

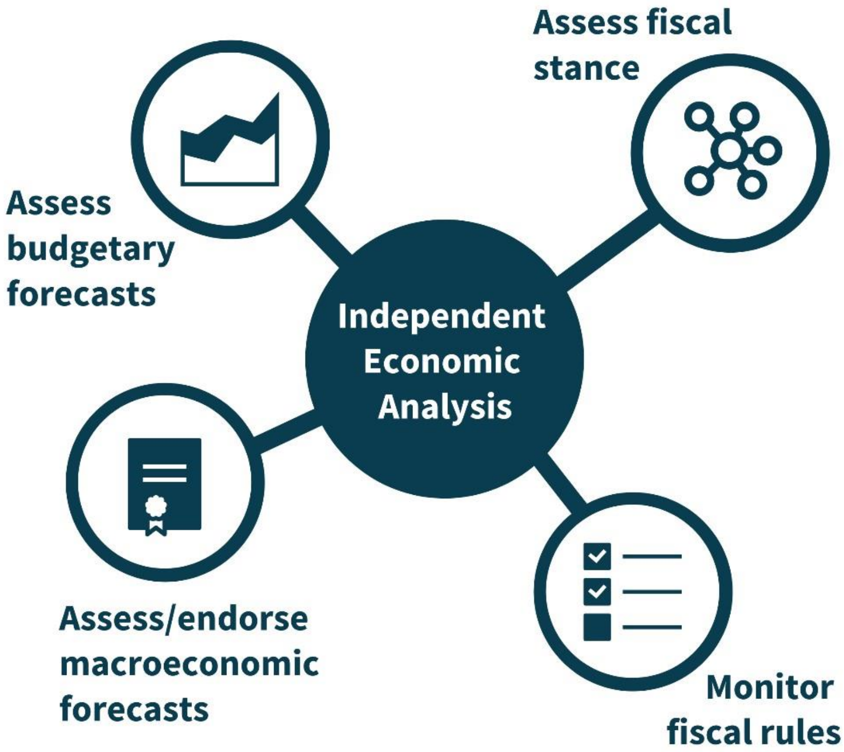
Its mandate is to:

- endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and Stability Programme Update are based;
- assess the official forecasts produced by the Department of Finance;
- assess government compliance with the Budgetary Rule;

3

[4] Lane, P. (2010) "Report on Macroeconomic Policy and Effective Fiscal and Economic Governance", Houses of the Oireachtas Joint Committee on Finance and the Public Service, Dublin.

- assess whether the Government's fiscal stance set out in each Budget and Stability Programme Update (SPU) is conducive to prudent economic and budgetary management, including with reference to the provisions of the Stability and Growth Pact.



3. Composition

The Irish Fiscal Advisory Council is made up of a five-person Council that operate on a part-time basis. The Council's Chairperson is Mr Sebastian Barnes (Organisation for Economic Co-operation and Development). Other Council members are Prof. Michael McMahon (Professor of Macroeconomics at the University of Oxford and Senior Research Fellow of St Hugh's College), Ms Dawn Holland (Visiting Fellow, National Institute of Economic and Social Research), Dr Adele Bergin (Economic and Social Research Institute), and Mr Alessandro Giustiniani.

Council members are appointed by the Minister for Finance based on a process managed by the Public Appointments Service. By law, Council members should have an appropriate background in economic or fiscal policy.

The Council is supported by a six-person Secretariat. This consists of Dr Eddie Casey (Head of Secretariat and Chief Economist), four economists and an Administrator.

4. Budget

The Council is a public body, with the terms of its funding set out in the Fiscal Responsibility Act. The Council's budget is paid directly out of the Central Fund. This arrangement protects the Council's independence and guarantees multi-annual stability of funding.

The Council's budget was originally capped in 2013 at a maximum of €800,000 per annum, with this ceiling adjusted each year by inflation as measured using the Harmonised Index of Consumer Prices (HICP).

5. Output

The main publication of the Irish Fiscal Advisory Council (the Fiscal Council) is the biannual Fiscal Assessment Report (FAR). The Fiscal Council also publishes a Pre-Budget Statement each year. More recently, it has published its first Long-term Sustainability Report, which looks at how the public finances would be expected to evolve over the long term (to 2050). It also publishes a number of Analytical Notes and Working Papers as well as Accounts and other Corporate Governance Reports.

The Council submits its main publications, its Fiscal Assessment Reports, to the Minister for Finance and within ten days releases them publicly. The Minister traditionally provides a formal response to the report after its release.

6. Interactions with the Oireachtas

The Council regularly appears before the Oireachtas to discuss its publications and to account for its functions. These engagements typically take place three times each year with the Committee on Budgetary Oversight and the meetings are timed to follow the publication of the Council's Fiscal Assessment Reports and its Pre-Budget Statement.

Transcripts of the engagements with Committees are available on the Council's website at https://www.fiscalcouncil.ie/oireachtas-committee/.

Tithe an Oireachtais
Houses of the Oireachtas

An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

Opening Statement of Annette Connolly, Director of the Parliamentary Budget Office, Houses of the Oireachtas Service

19th May 2021

I would firstly like to thank the committee for the opportunity to attend your meeting today to contribute on the introduction of a fiscal council to the public fiscal governance arrangements in Northern Ireland.

I would like to begin by setting out what the Parliamentary Budget Office does, and the differences between us and the Irish Fiscal Advisory Council.

The Parliamentary Budget Office or PBO is an in-house parliamentary body – set up by the Houses of the Oireachtas to provide it with tailored support for its role in the budgetary process. This means that we provide support for members in relation to the approval of spending, revenue raising legislation and oversight of the public finances and fiscal governance arrangements. Our work is aimed at Oireachtas member's needs in this area. It does this through publishing research and analysis and presenting its analysis to Committees of the Houses of the Oireachtas.

We currently have 8 staff but as we have a number of vacancies we will be recruiting some more in the coming weeks. Our mandate is set out in legislation and is in line with the OECD's principles for Independent Fiscal Institutions and PBOs.

The PBO originates in the need for Irish parliamentarians to have access to expertise to better understand and engage with their role in the budget process. While other reforms to the budgetary process were introduced in the early 2010s, the Oireachtas's role was unchanged. In 2015, the Oireachtas Service commissioned a report from the OECD on how parliamentary scrutiny of the Budget could be improved. It recommended setting up a Budget Committee so that the Oireachtas could have a specific forum to discuss budget issues in advance of the Budget and a Parliamentary Budget Office to support it, other committees, and members in general in their engagement on budgetary matters.

Accordingly, the PBO has a special relationship with the Committee on Budgetary Oversight. I regularly appear before the Committee to present the PBO's analysis of major Government budget related documents or the economic and fiscal situation. These sessions are held in private. This allows for an open exchange with Members. We also align our work programme to some extent with that of the Committee on Budgetary Oversight to assist in their work.

In contrast, the Irish fiscal council originates in the economic and fiscal crisis of the 2008 to 2012 period and a need for an independent check on the Government's fiscal plans. The EU fiscal rules mandate that an independent national institution either completes or verifies the Government's economic forecasts and checks compliance with the EU's fiscal rules.

The Irish Fiscal Advisory Council is focused on its role in endorsing the Irish Government's economic forecasts, evaluating compliance with the EU fiscal rules and assessing the fiscal stance of the Government's budget.

It does not work directly with the Oireachtas. However, the regular engagement it has, meeting with the Budgetary Oversight Committee on its Fiscal Assessment Reports are important in two ways. It allows the Council members a public forum to explain their assessment and the thinking behind it. It also allows Dáil members to gain a greater understanding of the issues by asking questions of and engaging in open dialogue with, informed, independent experts, on overall Government budgetary policy.

The PBO and the Fiscal Council have recently agreed a Letter of Understanding between ourselves to share information in areas of mutual benefit and to have regular contact. This will help us not to duplicate work.

In relation to the practicalities of setting up of a new independent fiscal institution, our experience may give you some insight.
As you know, the independence of fiscal institutions such as the PBO and the Fiscal Council is an important principal. As the OECD advise, they must be non-partisan and independent in their analysis and supported by statutory provisions to this effect. This allows them to operate in an area which will always be politically contentious.

Having access to skilled and expert staff is a pre-requisite for such a body. We have had issues with staff retention over the past few years. Many junior staff have left the PBO on promotion and recruiting the specialist staff to replace them has been a slow process. Individuals with the economic and statistical skills needed, along with the knowledge of budget processes, are not plentiful and are therefore in demand across civil service bodies.
Having a statutory right to request and access Government information is also important. Our legislation gives me, the Director, the right to request information from Government ministers and bodies, states that I have all such powers as are necessary or expedient for the performance of my functions. However, while co-operation with Government Departments with requests for information has in general been good, there have been instances where requests have been ignored or refused or informal consultation before a request was made indicated that no information would be forthcoming. This, in general, has not impeded the work of the Office and we can and do use our publications to highlight poor information, lack of information or lack of co-operation. However, it would be of greater concern if the PBO's remit on costing proposals is expanded.
On this issue, last year's Programme for Government for the new Irish Government made a commitment to explore extending the PBO's mandate to cost political party election manifestoes. In Ireland, the Government civil service currently does costings of political party budget and election proposals, but there are gaps as not everything is costed and there is no independent check on the costings. Implementing the Programme for Government commitment would require additional resources for the PBO, as well as, a closer working relationship between the PBO, Government Departments and perhaps other institutions. It would also require a change in the PBO's legislative functions. Such work is more probably suited to a parliamentary budget office than a fiscal council as PBOs operate closer to the political system. In our case, it could also potentially dilute the focus of the Irish Fiscal Council's mandate.

Thank you again for inviting me to contribute today. I am happy to address any questions you have.

NORTHERN IRELAND FISCAL COUNCIL SUBMISSION [1]

Sir Robert Chote
Chairman

info@nifiscalcouncil.org

2 June 2021

Finance Committee enquiry into the Fiscal Council and Commission

Many thanks to you and the Committee for the invitation to appear before you on 9 June to give evidence on the role of the Fiscal Council. In advance of that session, I wanted to update the Committee on the Council's engagements and thinking to date, and on our likely next steps.

Initial stakeholder engagement

As you know, the formation of the Council was agreed by the Executive on 11 March 2021 and announced to the Assembly on 12 March. Since then, we have been talking to a range of stakeholders to get their assessment of the strengths and weaknesses of public finance management, reporting and scrutiny in Northern Ireland and how best they think we can fulfil both the specific requirements placed upon us in our Terms of Reference (ToR) and our broader mission to bring greater transparency and independent scrutiny to the region's public finances. (At the same time we have also had the benefit of hearing the evidence given by witnesses to your current enquiry into the role of the Council and Commission.)

The ToR, drawing on the New Decade New Approach (NDNA) agreement, place two specific requirements on the Council in addition to our overarching mission. Namely to:

- "prepare an annual assessment of the Executive's **revenue streams and spending proposals** and how these allow the Executive to **balance their budget**"; and

- "prepare a further annual report on the **sustainability of the Executive's public finances**, including the implications of spending policy and the effectiveness of long-term efficiency measures".

As of writing, we have met over 20 different stakeholder organisations and individuals, including some members of the Committee. The consultation process is not yet complete and when it is we will publish a full (anonymised) report. In the meantime, the Annex attached to this letter gives a flavour of what we have heard to date. Three key themes recur:

- **Independence:** Stakeholders want to be confident that the Council will resist any political pressure it comes under from the Executive or the UK Government. Guarantees in legislation around appointments, funding, rights to information and rights to publish will all be important here, but at the end of the day fiscal councils earn their reputations for independence from the way in which they conduct themselves in practice.

- **Education:** Stakeholders believe that educating the public (and even MLAs and others with day-to-day involvement in the subject) about how NI's public finances work is just as important as the specific publications specified by the NDNA agreement and the Terms of Reference. As regards the publications, stakeholders had plenty of suggestions for topics to be covered by the 'sustainability' report, but they were less clear exactly what the 'balancing the budget' document might have been intended to cover.

- **Process:** Stakeholders expressed frustration with the Executive's budget process, notably in terms of the inadequacy, irregularity and unpredictability of periods of notice and consultation, and the difficulty of reallocating resources in the multi-party system when policy priorities change. A further frustration was that the Programme for Government and other strategies are not currently costed and linked clearly to specific budget allocations. While recognising that the Council is not primarily an advice-giving body, they hoped that it would highlight potential process improvements.

We hope to complete the consultation meetings this month, if stakeholder diaries permit, and then publish the consultation report as soon as possible but certainly over the summer. We hope this would also allow us to draw on the final report from the Committee's enquiry.

Work programme, Terms of Reference and legislation

The publication of the consultation report will also be an opportunity to set out a provisional work programme (which will depend crucially on what stakeholders tell us about the preferred timing of our flagship publications, given the Executive's Budget timetable) and to take up the opportunity we have been given to propose changes to our draft Terms of Reference.

As regards the ToR, stakeholders to date have raised few objections to the draft version published by the Department of Finance when the Council was set up, to the extent that they were familiar with what it would mean in practice. At this stage, we too do not see any particularly urgent need to change that draft – not least because the ToR will soon be superseded once the Assembly has legislated to put the Council on a statutory footing.

When the time comes to legislate, it will of course be for the Executive rather than the Council to put forward draft legislation for the Assembly to consider. But we will be happy to comment on it and to offer any assistance or advice we can to the Committee or other MLAs if that would be helpful. At this preliminary stage there are a few points perhaps worth making:

- The legislation (and any changes to the draft ToR in the meantime) need to reinforce both the substance and appearance of the Council's **independence** from potential political pressure, either from the Executive or from the UK Government. This will need to be reflected in: the procedures for the appointment and dismissal of Council members; the stability and transparency of the Council's budget; the right of the Council to examine any issue that it believes would have an impact on the Executive's finances (including the impact of UK Government decisions); and the right of the Council to issue publications without vetting by the Executive or the UK Government. (On this last point, the Council may well wish to share draft material for fact checking and be content to provide early access to facilitate ministerial statements in the Assembly.)

- Some stakeholders believe it would be desirable for the Council to publish **macro-economic forecasts** for Northern Ireland, to inform public debate and policy decisions. We are certainly not going to be resourced to do this in the first instance and it is far from clear that this would contribute to our core task of assessing the Executive's finances. Pending any further devolution of tax-raising powers, or more radical departures from parity in the operation of the welfare system, developments in the NI economy have a relatively weak relationship to the Executive's income and spending so the need for a forecast is less obvious for that purpose. That said, some discussion of the economic context for near- and longer-term Budget decisions might well be worthwhile and could draw on existing forecasts and analysis produced by academics and/or the private sector. There may of course be wider arguments for an official NI forecast and in the longer term the Council might be a potential provider.

- The most frequent complaint from fiscal councils around the world is that they find it difficult to get access to information from within government departments and other public bodies with the quality, detail and timeliness that they require to fulfil their role properly. It is important not only that fiscal councils have a legal **right of access to government information**, but also that this has political backing from the ministers in question and that the analytical functions within departments are adequately resourced to provide the information and to assist in its use. This will be particularly important if the Council here is to demonstrate that it has the teeth to make a real difference.

An introductory publication

One consistent theme from the stakeholder consultation has been the need to increase understanding of the NI public finances, to inform both the public and even relatively sophisticated stakeholders, and to provide data and reference material that people can draw upon. To that end, before turning to the ToR publications we plan to produce an introductory guide to the Northern Ireland public finances that subsequent publications will be able to build upon and refer back to. We would then intend to update this over time and draw upon it to produce outputs with wider or different appeal, for example via social media. The intention at present is for this to cover: the roles of the different layers of government in NI; the overall revenue and public spending picture in NI; where the Executive gets its money from; what the Executive spends its money on and; how the Budget process and reporting works.

We hope that this activity and our future work will be of interest and value to the Committee. We look forward to appearing before you next week and to subsequent interactions.

Sir Robert Chote

Chair of the NI Fiscal Council

Annex: Stakeholder consultation – emerging themes

Stakeholders are being asked a series of six questions, but encouraged to offer views on other topics or issues that they think we should take an interest in. Some of the views expressed to date are summarised below:

What do you see as the main strengths and weaknesses of current reporting and scrutiny of Northern Ireland's public finances? How might we expand or improve the public finances data that are currently available?

1. **Lack of multi-year budgeting:** Many stakeholders lamented the absence of multi-year budgeting by the Executive, while recognising that this was largely the consequence of the UK Government's failure to set out a multi-year Spending Review that would give clarity regarding its block grant income. The perceived detrimental impacts of single-year budgets included uncertainty for businesses and departments and greater difficulty for the Executive in addressing long-term, strategic challenges. Stakeholders noted that it was important for the Executive not to use the lack of a multi-year UK spending review as a justification for downplaying meaningful medium-term planning.

2. **Monitoring rounds:** Many stakeholders felt that the post-budget monitoring round process could be improved, even in the context of single-year budgets – where additional money may be allocated and then neither spent nor made available for future years. Some worried that by facilitating short term interventions at the end of the financial year, strategic problems went unaddressed and remained as a result.

3. **Lack of end of year flexibility in spending:** The requirement for departmental underspends against budget to be 'handed back' to the UK Government (except in so far as the Treasury allows them to be carried forward to future years under its 'Budget Exchange' scheme) creates an incentive for departments to spend up to their limits even when this offers poor value for money. It was suggested that the Executive should be given the power to reschedule spending and funding within three-year periods.

4. **Insufficient detail in Estimates:** The Executive is not sufficiently transparent when setting out spending plans for approval by the Assembly, because even large departments like Education have their spending allocations set out in only one or two categories rather than in detailed programme lines. (Some stakeholders said that this reflected the relative autonomy given to ministers to allocate funds within their departments under the multi-party coalition system.) Scrutiny of spending plans by the Assembly therefore tends to take place after allocation, at least for those committees whose departments provide adequate detail on budgets, planned expenditure and monitoring round returns. Generally stakeholders wanted to see greater consistency between departments on how budget issues are reported. Many stakeholders reported that the Estimates are hard to read and understand and that they are not something that the press and public engage with. Stakeholders also wanted to see more detail of the use of 'sole authority', under which departments can rely on a Budget Act to allow spending on functions that there is no existing legislative approval for. In these instances stakeholders were keen to see the rationale for dependence on the Budget Act made transparent in the Estimates documents.

5. **Lack of linkage to the Programme for Government and of scope for cross-departmental prioritisation:** Stakeholders said that it was important for the Executive to make clear in its budgets how spending allocations would link to particular objectives and performance indicators in the Programme for Government (PfG). The current draft PfG is not synchronised with the budget at this stage and is therefore in effect not costed. Many stakeholders said it was hard to prioritise properly across the Executive without a costed PfG, especially given the tendency to perceive political winners and losers in departmental reallocations. Similar to the

PfG, other Executive strategies being developed were mentioned as not properly costed or reviewed from a budgetary perspective. This also encouraged siloed working in the NI civil service.

6. **Lack of comparable time-series data reporting:** Several stakeholders said that the transparency and scrutiny of the Executive's finances was hampered by the lack of consistent data showing how funding and spending evolves from year to year and within any given year from initial plans to final outturns.

How should we assess "the Executive's revenue streams and spending proposals and how these allow the Executive to balance their budget"? When in the year (or during the budget process) would this be most useful?

1. **Limited control over revenue:** Stakeholders noted that the vast majority of funding for the Executive's spending comes from the block and AME grants from Westminster, with the regional rate being the only significant (but still much smaller) revenue stream under its own control. There was specific reference to the need for greater clarity and reporting around AME by a number of consultees. That said the Executive also foregoes revenue (and arguably impedes efficient service provision) by being reluctant to charge for water [and other services] that are paid for in this way in the rest of the UK. As a result, the Executive does not take meaningful decisions on revenue and spending in parallel, but rather allocates spending against a revenue (and very modest borrowing) constraint largely determined in Whitehall. This tends to focus political attention unhealthily on the adequacy or otherwise of UK government funding rather than policy choices in NI.

2. **Timing of the Council's reports:** A common criticism from stakeholders was that the Executive should publish a draft budget in September rather than January-March. They wished that the timetables for the publication and agreement of the Budget by the Executive and Assembly respectively were clearer, earlier and adhered to. A small number felt there was a potential role for the Council in ensuring compliance with deadlines in the budgetary process. Stakeholders thought the Council's report on the annual budget position would be a helpful contribution, especially if accompanied by proper departmental reporting to Assembly committees. Most stakeholders wanted the report to be published either in time to inform the draft budget or as soon after the draft budget as possible to inform the final budget. But they recognised the challenge of delivering to a predictable timetable when it was hard to know when the Executive would agree a draft or final Budget in any given year. The Council's initial view is that would make a more substantive contribution by reacting to and commenting on the draft budget. This would also be more consistent with the ToR/NDNA's instruction to report on the Executive's spending *proposals*. But it will be important to show flexibility here, especially when the gap between the draft and final budget is a short one.

3. **Transparency around the Block Grant and borrowing powers:** Several stakeholders highlighted the potential for greater transparency and education around the operation of the Block Grant. Stakeholders also wanted to see more transparency around the use of Reinvestment and Reform Initiative (RRI) borrowing (for capital spending), with some believing that more use could be made of that facility. Stakeholders were also interested in how effective the use of RRI had been in the past.

How best can we assess "the sustainability of the Executive's public finances"? How would you interpret sustainability in this context? When would publication of this analysis be most useful?

1. **General and specific:** Stakeholders noted that there was scope to discuss the sustainability of Executive's finances both in general terms (for example the implications of different potential medium-term spending plans at the UK level for the Block Grant, or the impact of an aging population) and particular sources of potential spending pressure. So each report might combine general discussion with a particular special topic. The specific issues mentioned most frequently were: health, education, water (and service charging more generally), wider capital investment, lack of multi-year budgets, lack of longer-term planning, limited revenue-raising by the Executive and climate change.

2. **Service delivery and reform:** Several stakeholders felt it would be desirable for the Council's consideration of sustainability to have "a broad definition" including service delivery. Several argued that while the Council should highlight particular sources of budget pressure, it should hesitate to advocate specific reforms in specific services. Many stakeholders argued that health services in NI would not be financially sustainable without major reforms, given the combination of long waiting lists with already relatively high spending. Education provision and the cost of duplicating provision for this and other services for different communities were also raised. Rationalisation in all sectors was seen to have been difficult and not to be delivering huge savings. Transformation overall was judged to be at a very slow pace.

3. **Lack of long-term planning or scenario building:** Some stakeholders saw a role for the Council's sustainability report in encouraging the Executive to undertake more long-term planning, notwithstanding the problems created when the UK government has no medium-term spending review plans. This could be based on flat-cash assumptions or alternative scenarios for the UK spending path. But others pointed to the difficulty of longer-term planning because of differing policy positions across the 5-party coalition. It was recognised that long-term planning had been particularly difficult recently, with the Executive only back in operation in January 2020 and then confronted almost immediately by the service challenges and financial uncertainty of the pandemic.

Given the requirement placed on us to assess "the effectiveness of long-term efficiency measures", what sorts of measures should we aim to look at and should we try to quantify their effectiveness?

1. **Not spoilt for choice:** This question received the fewest and least detailed responses, as many stakeholders struggled to identify positive examples of long-term efficiency measures in the past or of current examples. Stakeholders felt that this had not been a priority area for the Executive. They noted the lack of data on departmental websites, and the fact that there were very few departmental or Executive-wide plans (with the exception of the Department of Finance's initiative to reduce the number of Arms-Length Bodies, which was mentioned by a few). Even in Health, stakeholders pointed to a lack of recent serious work on efficiencies. Some speculated that the lack of interest might reflect the fact that the wage bill accounts for most spending in most departments.

Are there any other ways in which you think we could increase public awareness and understanding of the public finances?

1. **Basic education:** Most stakeholders felt that understanding of public finance issues was low, even on the basis of realistic expectations. Some argued that even among MLAs there was a lack of understanding of how the public expenditure system works. Some suggested that an explanatory publication or a Q&A on the Council's website to explain to the public where expenditure went and how it was funded would be useful as a first step. Others said that the

Council could usefully explain the Block Grant and Barnett formula, the AME/DEL distinction, the Executive's borrowing powers and the Budget process in general.

2. **Stakeholder engagement:** Several stakeholders said that social media should be a key tool to drive engagement and understanding. A lot of information had been developed at UK level, and even at the level of cities in GB, but the equivalent information had never been produced in the same way for NI audiences before. Positive examples included the breakdown of rates bills and tax returns to show where money goes and the Department of Health's Covid dashboards. The latter were held up as an exemplar that had proved surprisingly effective in engaging the public with figures and statistics.

Do you have any suggestions regarding the long-term structure and role of the Fiscal Council that the Executive and Assembly should take into account when the time comes to prepare its underpinning legislation?

1. **Public confidence:** Stakeholders welcomed the creation of the Council and its membership (with one regretting the preponderance of economists). They felt that this sent a strong signal regarding independence that the Council would have to sustain and build upon. Several said that the Council would need to be accountable and responsive to the Assembly and to ensure that the Executive could make good use of its reports.

2. **Support to the Assembly:** Many stakeholders were interested to know what engagement the Council would have with the Finance Committee and the rest of the Assembly. Some asked whether the Council would provide reports to the public at the same time as to the Assembly, whether the Council would give evidence to the Finance Committee regularly, and whether it might help MLAs through briefing sessions. Many felt the Fiscal Council should support MLAs to scrutinise decisions about public finance and help MLAs have more informed conversations with the public on what spending decisions mean. There was a particular focus on the relationship between the Council and the Finance Committee, which was seen as a key stakeholder for the Council and its findings. Some felt accountability to the Assembly should be recognised in the underpinning legislation.

3. **Legislation:** Stakeholders recognised the importance of giving the Council a firm legislative foundation to increase public confidence, to protect it from political pressure and to ensure that it is accountable and responsive. It was recognised that many fiscal councils have seen their remits change over time to reflect changes to devolution or other circumstances, which is sometimes reflected in secondary or (more rarely) primary legislation. Some stakeholders wanted the Council placed on a legislative footing as quickly as possible, while others were more relaxed. Some wanted the legislation to be very detailed across a range of issues, while others saw dangers in being too specific and therefore inflexible. Important priorities for the legislation included term limits and the mechanism for appointments; the timing of the Council's publications and; its right to information. It was noted that while a formal right of access to information is essential (including from the UK Government), the government entities involved also need to have the political will and adequate resources to provide the information requested and to advise on its use impartially.

4. **Resources:** Stakeholders noted that while the Executive is smaller than the UK and Scottish Governments – and that its fiscal council might therefore be expected to be smaller than theirs – there would be a minimum level of staffing and other resources required for it to do a proper job. By way of comparison, the Scottish Fiscal Commission has resources of around £2 million p.a., the OBR around £2.7 million and the NI Fiscal Council around £0.5 million. Most stakeholders felt that more resources would be required over time than the Council

currently has available (even if its remit does not expand) and they welcomed the Department of Finance's commitment to provide resources as needed. The Council may not have to undertake economic and fiscal forecasts or engage in ex ante policy scrutiny, but it will still require significant analytical resources, both in-house and able to be commissioned from outside. If a decision is made to add to the Council's remit, that will have further resourcing implications. Similarly, any decision in the medium to longer term to add to the Executive's fiscal powers (e.g. through devolving additional tax varying powers) would have similar resource implications.

COMMITTEE FOR AGRICULTURE, ENVIRONMENT AND RURAL AFFAIRS SUBMISSION

Northern Ireland Assembly

Committee for Agriculture, Environment and Rural Affairs

Room 244

Parliament Buildings

Tel: +44 (0) 28 905 21475

From: **Nick Henry, Clerk Committee for Agriculture Environment and Rural Affairs**

To: Peter McCallion, Clerk to Committee for Finance

Date: 3rd June 2021

Subject: Independent Fiscal Council for Northern Ireland

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1. The Finance Committee's correspondence regarding the establishment of an independent Fiscal Council for Northern Ireland of 21 May 2021 has been shared with the Committee for Agriculture, Environment and Rural Affairs (AERA).

2. AERA Committee Members were asked to consider the proposals for the Fiscal Council in terms of the parameters as set out in the Finance Committee's correspondence and to provide their views to the Clerk.

3. The key considerations provided by AERA Committee Members in relation to the proposed role and function of the Fiscal Council are as follows:

    - Independence/Engagement with Executive Departments – important that the Council has sufficient degree of autonomy to hold Departments to account for planning and spend, but also that there is appropriate balance for Departments to retain ostensible authority to plan and allocate resources as they see fit

    - A role for the Fiscal Council in supporting the Executive to develop future economic strategies alongside multi-year budgets would be welcome

    - The Fiscal Council should ideally have the latitude to support future economic planning across different sectors and to identify pathways for sustainable funding in specific sectors

    - There should be sufficient flexibility within the system for Executive Departments to respond to emergent issues financially as required

Regards

COMMITTEE FOR INFRASTRUCTURE SUBMISSION

Northern Ireland Assembly

Committee for Infrastructure
Room 416
Parliament Buildings
Tel: +44 (0) 28 905 21448

From: **Alison Ross, Clerk to the Committee for Infrastructure**

Vincent Gribbin, Clerk to the Committee for Infrastructure

To: **Peter McCallion, Clerk to Committee for Finance**

Date: **3rd June 2021**

Subject: **Independent Fiscal Council for Northern Ireland.**

Dear Peter,

At its meeting yesterday the Committee for Infrastructure considered your correspondence regarding an Independent Fiscal Council for Northern Ireland. The Committee agreed to write to you in respect of a possible role for an Independent Fiscal Council in multi-year budgeting; in conjunction with the Infrastructure Commission; and in formulating a more sustainable funding model for NI Water.

I would be grateful for a response by 17 June 2021.

Regards,

Vincent Gribbin & Alison Ross
Clerks to the Committee for Infrastructure

COMMITTEE FOR THE ECONOMY SUBMISSION

Northern Ireland Assembly

Committee for the Economy

Dr Steve Aiken OBE MLA
Chairperson
Committee for Finance
(via email)

4th June 2021

Our Ref: EC412/21

Dear Steve,

Re: Independent Fiscal Council

The Committee considered your correspondence of 21st May regarding the above, at its meeting on 26th May. The Committee welcomes the Finance Committee's work regarding the Fiscal Council, and Members appreciate the opportunity to contribute. Members agreed that I should respond below, as per the format you requested.

1. ***Functionality** – should the Fiscal Council's functions be limited to scrutiny, explanation and commentary on the reasonableness of the fiscal plans of the Executive or should it do this and provide its own forecasts which the Executive might be obliged to work to? Should these forecasts include economic as well as financial matters?*

The Committee had had limited discussions around the Fiscal Council as Members were aware of the work that the Finance Committee was undertaking and did not want to cut across it. The Committee welcomes the establishment of the Council and understands and agrees that the core work of such a body would be scrutiny and analysis of the Executive's fiscal plans. The Committee does not have a view regarding the Council's functionality beyond this.

2. ***Discretion** – should the Fiscal Council be permitted to produce reports on whatever fiscal or economic topics it chooses (with some exclusions e.g. commentary on party manifestos or alternatives to Executive policies) and at whatever times it chooses as well as being required to produce some regular reports at fixed intervals?*

The Committee's understanding of the Council is that it would respond to the Executive's fiscal plan as and when these are brought forward. The Committee does not have a view on further discretionary powers being given to the Council.

3. ***Powers** – should the Fiscal Council have meaningful powers to compel data, assumptions and methodologies from the Executive and be permitted to have MoUs in this regard with HM Treasury, HMRC etc. perhaps supported by an annual data requirement statement? Should the data requirement statement be backed-up by legal powers in order to limit evasions through redactions or obfuscation?*

The Committee appreciates the need for the Council to be effective and for its function to provide value for money for the public purse. The Committee does not have a view regarding the powers that the Council should have to ensure effectiveness and value for the public purse.

4. ***Independence** – should there be legislation which makes the Fiscal Council a body which is legally independent of the Executive and NICS which has a full-time (or part-time) appropriately qualified chairperson who might be appointed either by the Assembly or with the Assembly's oversight or subject to confirmation hearings at the Assembly? Should the Fiscal Council also have a circumscribed multi-year budget which cannot be adjusted by the Executive and which might require Assembly cross-community or two thirds+ sign-off from the Assembly etc. for alterations?*

The Committee is aware of the operation of other scrutiny, or integrity, bodies, such as the NI Audit Office and the Office of the Public Services Ombudsman. Members understand that legislation may be required to ensure that the Council is effective and provides value for the public purse. The Committee does not have a view regarding the specifics of this and Members would need to see detailed and costed proposals to come to a view.

5. ***Competence** – should legislation provide for an appropriately qualifies Fiscal Council board composed of economists, accountants, perhaps representatives of business and the community and voluntary sector etc. which might be appointed by the Assembly or with the Assembly's oversight as well as a full-time and appropriately qualified secretariat in order to ensure consistency of output?*

Again, the Committee does not have a view on this. Members would, again, need to see detailed and costed proposals before coming to a view. However, the Committee believes that the Council should be effective and provide value for the public purse, as stated previously. It is important that assumptions are not made about competence before a clear and detailed picture of what the Council will do is formed.

6. ***Credibility** – should legislation provide for dedicated communication channels in order to allow the Fiscal Council to establish its own identity and thus support its perceived impartiality and including a mechanism for external evaluation e.g. as the Scottish Fiscal Commission has been recently assessed by OECD?*

Again, the Committee believes that it is key that the Council is effective to justify the cost of its operation to the public purse. The Council's nature as an independent body should mean that, like the NIAO and the Office of the NIPSO, it undertakes its work in such a way that is beyond the suggestion that it is subject to inappropriate influence or pressure. The Committee appreciates and supports the need to consider best practice, both locally and internationally, with respect to the development of the Council and its role, function and operation.

7. ***Assembly engagement – should legislation specify access and a meaningful linkage with the Executive's budget process and the Assembly in order to ensure that Fiscal Council reports inform the budget debates by MLAs and the wider engagement of the public with the budget process? Might this be supplemented by requiring additional quarterly engagement with the relevant Assembly committee(s)?***

Many Members on the Committee are familiar with the development of the legislation which supported the establishment of the Office of the NIPSO during the Assembly's 2011-16 mandate under legislation developed and taken forward by the former OFMdFM Committee. The Committee believes that many important lessons will have been learned from that experience and should be utilised to ensure that errors are avoided in the development and establishment of the Council. Logic would suggest that the purpose of the Council in scrutinising and analysing Executive fiscal plans, would mean that its work would be of direct relevance to Assembly Statutory Committees with respect to their role in scrutinising Executive departments. A key part of that should be the budget process and, again, this would be of specific interest to the Statutory Committees of the Assembly. Again, the Committee would need to see detailed plans to come to a view on the outline of engagement provided to come to a view. How engagement with the wider public around the budget process would have to align with the existing budget consultation process and not create nugatory work. Any legislative proposal would be subject to Assembly/Committee scrutiny and would, therefore, allow appropriate public debate.

I hope that this response is helpful. As you will appreciate, and as I indicated at the outset, the Committee has not pursued significant discussion around the Council as the Finance Committee had indicated its intention to undertake such work.

The Committee stands ready to contribute to the process of developing and establishing the independent Fiscal Council as work progresses and more details emerge.

Yours sincerely,

CArchibald

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Dr Caoimhe Archibald, MLA
Chairperson
Committee for the Economy

Committee for the Economy
Northern Ireland Assembly
Room 371, Parliament Buildings, Ballymiscaw, Stormont, Belfast, BT4 3XX
Email: *Committee.Economy@niassembly.gov.uk*
Tel, No. 028 9052 1799

COMMITTEE FOR THE ECONOMY SUBMISSION ADDENDUM

Northern Ireland

Assembly

Committee for the Economy

Dr Steve Aiken OBE MLA
Chairperson
Committee for Finance
(via email)

10th June 2021

Our Ref: EC419/21

Dear Steve,

Re: Independent Fiscal Council – addendum to previous correspondence (EC412/21)

At its meeting on 9th June 2021, the Committee for the Economy reflected again on its previous correspondence (EC412/21) regarding your request for views on the Independent Fiscal Council.

With respect to the independence of the Council, the Committee agreed that I should write to provide an addendum to Members' previous correspondence, indicating that the Committee very much welcomes that the Council will be independent.

I would grateful if you could associate this letter with the Committee's previous response.

Yours sincerely,

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Dr Caoimhe Archibald, MLA
Chairperson
Committee for the Economy

Northern Ireland Assembly
Room 371, Parliament Buildings, Ballymiscaw, Stormont, Belfast, BT4 3XX
Email: *Committee.Economy@niassembly.gov.uk*
Tel, No. 028 9052 1799

COMMITTEE FOR COMMUNITIES SUBMISSION

Northern Ireland

Assembly

COMMITTEE FOR COMMUNITIES

Paula Bradley MLA
Chairperson
Committee for Communities
Room 430
Parliament Buildings
BELFAST
BT4 3XX

7 June 2021

Steve Aiken OBE MLA
Chairperson
Room 430, Parliament Buildings,
Ballymiscaw, Stormont,
Belfast, BT4 3XX

Dear Steve,

An Independent Fiscal Council for Northern Ireland

At its meeting on 3 June 2021, Members considered correspondence from the Committee for Finance seeking the Committees insight on the establishment of an independent Fiscal Council for Northern Ireland.

The Committee considered the potential role and powers for the Council.

The Committee agreed that I write to you to express their support of a Fiscal Council for NI.

To assist budgetary scrutiny, the Committee wish to highlight the need for further work to be done on cross cutting expenditure and to monitor outcomes. The Fiscal

Council will need to be able to review the effectiveness of cross cutting expenditure and to monitor the impact of such expenditure on outcomes.

Yours sincerely,

Paula Bradley
Chairperson
Committee for the Communities

NORTHERN IRELAND FISCAL COUNCIL SUBMISSION [2]

Northern Ireland Fiscal Council

Sir Robert Chote
Chairman

info@nifiscalcouncil.org

Peter McCallion
Clerk to the Committee for Finance

30 June 2021

Update on the work programme of the NI Fiscal Council

Thank you for your letter of 25 June.

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

Your letter notes the Minister's statement regarding the two New Decade New Approach (NDNA) agreement commitments (in addition to our overarching mission), which are reflected in the Council's initial Terms of Reference (ToR), namely to:

- "prepare an annual assessment of the Executive's **revenue streams and spending proposals** and how these allow the Executive to **balance their budget**"; and
- "prepare a further annual report on the **sustainability of the Executive's public finances**, including the implications of spending policy and the effectiveness of long-term efficiency measures".

As we said during the evidence session, we anticipate completing the consultation process soon, and will publish a full (anonymised) report when we have done so. However, the completion of the consultation depends on stakeholder availability, and unfortunately it has not been possible to complete it this month as we had hoped. As you will appreciate, among other respondents we want to allow all political parties represented in the Assembly to have a chance to speak with us.

One of the three key themes raised with us so far has been the importance of public education. Stakeholders believe strongly that educating the public (and even MLAs and others with day-to-day involvement in the subject) about how NI's public finances work is just as important as the specific publications specified by the NDNA agreement and the Terms of Reference.

An introductory publication

Relating directly to this feedback, the Council's first publication this autumn will be a relatively comprehensive introduction to NI's public finances, from which the NDNA publications and other outputs can build. The aim of this guide will be to provide a regularly updated reference point to which interested stakeholders can refer and from which we can draw (and suitably tailor) material for more casually interested audiences. Reflecting the feedback we have received, the guide will cover: the roles of the different layers of government in NI; the overall revenue and public spending picture in NI; where the Executive gets its money from; what the Executive spends its money on and; how the Budget process and reporting works. The Council has already gathered extensive information to inform this work, and is in the process of agreeing a Memorandum of Understanding with the Department of Finance (and other departments) to enable us to continue to develop a comprehensive profile of data and evidence to inform our future work programme.

Work programme

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

Budget publication

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

Most stakeholders wanted the Council's budget report to be published either in time to inform the draft budget or as soon after the draft budget as possible to inform the final budget. But they recognised the challenge of delivering to a predictable timetable when it was hard to know when the Executive would agree a draft or final budget in any given year.

The Council's initial view is that we would make a more substantive contribution by reacting to and commenting on the draft budget. This would also be more consistent with the ToR/NDNA's instruction to report on the Executive's spending proposals. But it will be important to show flexibility here, especially when the gap between the draft and final budget is a short one.

As regards the content of this publication, stakeholders had plenty of suggestions for topics to be covered by the 'sustainability' report, but they were less clear exactly what the 'balancing the budget' document might have been intended to cover.

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

Sustainability publication

In this publication, stakeholders noted that there was scope to discuss the sustainability of Executive's finances both in general terms (for example the implications of different potential medium-term spending plans at the UK level for the Block Grant, or the impact of an aging population) and particular sources of potential spending pressure.

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

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

- Of the specific issues mentioned, health was frequently the first and highest priority, with others including education, water (and service charging more generally), wider capital investment, lack of multi-year budgets, lack of longer-term planning, limited revenue-raising by the Executive and climate change.

- Many stakeholders argued that health services in NI would not be financially sustainable without major reforms, given the combination of long waiting lists with already relatively high spending.
- On efficiencies many stakeholders struggled to identify positive examples of long-term efficiency measures in the past or of current examples. Stakeholders felt that this had not been a priority area for the Executive. Even in Health, stakeholders pointed to a lack of recent serious work on efficiencies. They noted the lack of data on departmental websites, and the fact that there were very few departmental or Executive-wide plans.

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

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

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

Sir Robert Chote

Chair of the NI Fiscal Council

APPENDIX 4

PAPERS FROM THE DEPARTMENT OF FINANCE

Department of
Finance
An Roinn
Airgeadais
www.finance-ni.gov.uk

Private Office
2nd Floor
Clare House
303 Airport Road West
BELFAST
BT3 9ED
Tel: 028 9081 6216
Email: private.office@finance-ni.gov.uk

Mr Jim McManus
Finance Committee Clerk
Northern Ireland Assembly
Parliament Buildings
Stormont
Belfast BT4 3XX

Our reference: *GM-1560-2020*
GM-1574-2020

Date: *21st September 2020*

Dear Jim,

UPDATE ON ESTABLISHMENT OF A FISCAL COUNCIL / TERMS OF REFERENCE FOR THE FISCAL COUNCIL

Thank you for your recent correspondence in relation to the Fiscal Council. Firstly, the Committee is seeking an update in relation to the establishment of the Council and secondly has also requested its terms of reference.

You will be aware that the Committee was provided with briefing in relation to the Fiscal Council back in May 2020 (GM-1311-2020), where officials had indicated that this work had to pause as the Department had to focus on the immediate COVID-19 response. In recent weeks however, officials in the Department are now actively refocussing on this issue, and consideration is being given to what the Council's terms of reference might be, and how members could be appointed.

The Finance Minister has said that he remains committed to establishing a Fiscal Council as set out in New Decade New Approach and has indicated that his key objective is to put a Fiscal Council in place that has the right people with the right expertise to perform a well-defined role. A clearer indication on how this will be taken forward will be possible once the work of officials has been sufficiently advanced.

With regards to the terms of reference for the Fiscal Council, as a starting point, the New Decade New Approach document indicates that the new Council should prepare an annual:

- Assessment of the Executive's revenue streams and spending proposals; and
- Report on the sustainability of the Executive's public finances.

Officials expect to provide the Committee with progress updates as this work continues to develop.

Yours sincerely,

Ciara McKay

CIARA McKAY DEPARTMENTAL ASSEMBLY LIAISON OFFICER

Mr Jim McManus
Finance Committee Clerk
Northern Ireland Assembly
Parliament Buildings
Stormont
Belfast BT4 3XX

Private Office
2nd Floor
Clare House
303 Airport Road West
BELFAST
BT3 9ED
Tel: 028 9081 6216
Email: private.office@finance-ni.gov.uk

Our reference: *GM-1757-2020*
Date: *26th November 2020*

Dear Jim,

ROLE AND REMIT OF INDEPENDENT FISCAL INSTITUTIONS

At its meeting on 11th November, the Finance Committee agreed to forward the Research and Information Service (RaISe) briefing paper on *the Role and Remit of Independent Fiscal Institutions* to the Department of Finance for information. In addition, the Committee has requested a response on the scrutiny points raised in the research paper.

The Finance Minister welcomes the report provided by RaISe on fiscal institutions and officials in the Department of Finance will be considering the report and its scrutiny points as they take forward further work in the considerations around the establishment of the Fiscal Council. The RaISe report very usefully highlights the broad range of functions and designs of Independent Fiscal Institutions across OECD countries, and the important role they can play in relation to the scrutiny and transparency of public finances.

The Finance Minister remains committed to the establishment of a Fiscal Council as envisaged in New Decade New Approach, and as you will be aware from the update provided to the Committee on 21 September 2020 (GM-1560-2020), officials are now actively refocussing on this matter. Consideration is being given to what the Council's terms of reference might be, and how members could be appointed. This work by officials continues to be ongoing and similar to the RaISe report, is drawing on arrangements of others bodies elsewhere, as well as consideration of OECD research and reports on fiscal institutions.

Many of the scrutiny points set out in the RaISe paper relate to the role, mandate and functions of the Fiscal Council here in the North. These will become clearer as the Terms of Reference are fully developed as will the decisions around funding and the establishment of the Council.

While it is unfortunate that the work to examine how a Fiscal Council could be established had to be paused earlier this year as the Department quite rightly had to focus on the COVID-19 response, it should also be recognised that a Fiscal Council will become more relevant when multi-year budgets are implemented by the Executive, accompanied by multi-year funding which the Department would like to see the Treasury commit to as agreed in NDNA.

Finally, the RaISe paper highlights that the Executive's fiscal powers are more limited than the Scottish Parliament, and you will be aware that the Finance Minister has indicated that he would like to establish a Fiscal Commission to examine what further tax powers the Executive might seek. This could in turn shape the role the Fiscal Council might play going forward. So it is important that any decisions taken now about establishing a Council are cognisant of that also.

Officials have committed previously to provide the Committee with substantive progress updates as this work continues to develop and will do so in due course.

Yours sincerely,

Ciara McKay

CIARA MCKAY DEPARTMENTAL ASSEMBLY LIAISON OFFICER

Department of Finance
An Roinn Airgeadais
www.finance-ni.gov.uk

Mr Peter McCallion
Finance Committee Clerk
Northern Ireland Assembly
Parliament Buildings
Stormont
Belfast BT4 3XX

Private Office
2nd Floor
Clare House
303 Airport Road West
BELFAST
BT3 9ED
Tel: 028 9081 6216
Email: private.office@finance-ni.gov.uk

Your reference: *2021: 058*
Our reference: *GM-0079-2021*

Date: *5th February 2021*

Dear Peter,

ESTABLISHMENT OF FISCAL COUNCIL

At its meeting on 27th January, the Finance Committee agreed to seek an update on the likely timescale for the establishment of the Fiscal Council and clarification as to the necessary agreements that are required in order to permit the Fiscal Council to be established.

Preparations for the Fiscal Council are now at an advanced stage and the Finance Minister plans to bring a paper to the Executive very shortly outlining his proposals for establishing the body.

New Decade New Approach indicates that the Terms of Reference and membership of the Council should be agreed with the British Government and the Minister therefore intends engaging with Chief Secretary to Treasury on this.

The Finance Minister has indicated that he is confident that the Fiscal Council can be established before the end of this financial year and the Department will keep the Committee updated on this as arrangements are firmed up.

Yours sincerely,

Ciara McKay

From the Minister of Finance

Dr Steve Aiken OBE MLA
Chairperson to the Committee for Finance,
committee.finance@niassembly.gov.uk

Private Office
2nd Floor
Clare House
303 Airport Road West
BELFAST
BT3 9ED
Tel: 028 9081 6216
Email: private.office@finance-ni.gov.uk

Our reference: *CORR-0382-2021*

Date: *22 February 2021*

Dear Steve

ESTABLISHMENT OF THE FISCAL COUNCIL

Thank you for your correspondence of 12 February 2021 regarding the establishment of the Fiscal Council.

Since you wrote we had a positive meeting on 16 February and where I updated you on the latest position regarding the establishment of both the Fiscal Council and Fiscal Commission. As agreed at that meeting, once the Terms of References and membership of both bodies have been agreed by the Executive I will forward copies of these to the Committee.

While I have sought Executive agreement on an initial Terms of Reference for the Council, it is my view that these should be further refined in light of views of stakeholders during the initial set-up period, including those of the Finance Committee. As we discussed, I expect that the Chair and members of both bodies will engage constructively with the Committee at the outset as they take forward their work programmes.

As we discussed, other fiscal institutions across these islands have initially been established on a non-statutory basis, but over time had their roles formalised in legalisation. Once the Council is established, my department will work with it to explore options for doing this locally. This would need to take account of how the role to the Council might evolve depending on any decisions by the Executive to seek the devolution of further fiscal powers following the recommendations of the

Commission. Clearly there would be an important role for the Committee in all of this and my officials and I look forward to engaging with you on this in the time ahead.

Is mise le meas

Conor Murphy.

CONOR MURPHY MLA MINISTER OF FINANCE

From the Minister of Finance

Dr. Steve Aiken OBE MLA
Chair of Finance Committee

Private Office
2nd Floor
Clare House
303 Airport Road West
BELFAST
BT3 9ED
Tel: 028 9081 6216
Email: private.office@finance-ni.gov.uk

Your reference:
Our reference: *EXEC-0055-2021*

Date: *12 March 2021*

Dear Steve,

FISCAL COUNCIL AND FISCAL COMMISSION

I am writing to notify you of my intention to make a written statement via urgent procedure on the Fiscal Council and Fiscal Commission later today.

The written statement is appended to this letter.

Is mise le meas,

Conor Murphy.

CONOR MURPHY MLA MINISTER OF FINANCE

WRITTEN MINISTERIAL STATEMENT

CONOR MURPHY MLA

MINISTER OF FINANCE

12TH MARCH 2021

Introduction

I wish to provide Members with an update on the arrangements I have taken to establish both a Fiscal Council and a Fiscal Commission.

Background

New Decade New Approach (NDNA) included a commitment to establish an Independent Fiscal Council that would "*assess and report on the sustainability of the Executive's finances and spending proposals".*

Separately, no comprehensive formal review of all of our options for further fiscal devolution has ever been completed or published here and we have a very limited suite of fiscal levers in comparison to the other Devolved Administrations. As we seek to rebuild both our economy and wider society as we emerge from the COVID-19 pandemic, it is now more important that we consider what powers are needed here.

Officials within my Department had therefore begun work early 2020 in examining the options for establishing a Fiscal Council and a Fiscal Commission, but our focus on responding to COVID-19 meant that this work was paused. I am however now pleased to announce the arrangements that have been put in place for these two important bodies.

Fiscal Council Terms of Reference

The Fiscal Council will be a permanent, independent organisation which will bring transparency and scrutiny to the state of the Executive's finances.

The Terms of Reference for the Council are as outlined in the NDNA document and have been developed in line with the OECD's Principles for Independent Fiscal Institutions and taking account of the experience of other areas with similar bodies.

The initial Terms of Reference are attached to this statement and published on my

Department's website. I expect that these Terms of Reference will develop over time.

Fiscal Council Membership

As the OECD principles state, the right membership with the right leadership is essential if a fiscal institute is to be effective. All members should be independent of political influence, competent, and have a strong government or academic background in economics and public finances.

That is the requirement we set, and I am pleased to announce that Sir Robert Chote has agreed to act as the Chair of the Fiscal Council. Robert was previously Chairman of the OBR – the British Government's independent fiscal council – for ten years from October 2010 to October 2020. Robert is also the Chair of the external advisory group to the Irish Parliamentary Budget Office.

Robert has agreed to take up this role of Chair for the set up period. He is clearly an outstanding person to Chair the Commission and possesses all the qualities required by the OECD. His experience and expertise will enable the Council to hit the ground running. After the set up period Robert has also agreed to assist with the appointment of a permanent Chair going forward.

Alongside Robert, I am appointing three highly experienced individuals to act as Council members for a three year term. They are:

Dr Esmond Birnie, currently senior economist at Ulster University who will bring to the Council significant research experience on the local economy as well as in budgetary and fiscal matters.

Maureen O'Reilly, an independent economist and current advisor to a number of both private sector and public bodies, who will bring a wealth of experience in economic research and advice; and

Professor Alan Barrett, Chief Executive Officer of the Economic and Social Research Institute in Dublin and previously a member of the Irish Fiscal Advisory Council.

Future development of the Fiscal Council

The Council will now be able to begin its work. However going forward, and in line with best practice, I have instructed my officials to examine how the role and standing of the Council can be put into legislation. Other fiscal institutions across these islands have initially been established on a non-statutory basis, but over time evolved into non-ministerial departments or statutory arm's length bodies. I believe we should do the same here to demonstrate and safeguard its independence. Consideration should also be given to the appointment process for Members.

Fiscal Commission Terms of Reference

Turning now to the Fiscal Commission, given the lead role I have in relation to fiscal devolution and liaison with Treasury on taxation and budgetary matters, I am also separately establishing an independent Fiscal Commission that will examine the tax varying powers available to the Executive.

A considerable amount of work has been taken forward on the possible devolution of Corporation Tax, Air Passenger Duty and also on smaller areas such as Aggregates Levy, Stamp Duty Land Tax and Landfill Tax.

However no comprehensive formal review of all of our options for further fiscal devolution has ever been completed or published here and we have a very limited suite of fiscal levers in comparison to the other Devolved Administrations. Both Scotland and Wales have each have assumed greater powers following the recommendations of independent Commissions which examined the case for greater devolution.

Therefore, I am announcing today that a Fiscal Commission has been established to review the case for increasing fiscal powers to the Assembly. The terms of reference for the Commission are attached and available on the Department's website.

I envisage that it would take approximately 9 months for the Commission to complete its work. The report will be provided to me as Finance Minister and published before the end of this mandate.

Fiscal Commission Membership

In terms of Membership, I am pleased to announce that like the Fiscal Council, the Fiscal Commission also has an eminent Chair. Paul Johnson, Director of the Institute for Fiscal Studies has agreed to Chair the Commission.

Paul has worked and published extensively on the economics of public policy, particularly on the areas of income distribution, public finances and tax. He is a high calibre economist who will bring the credibility, expertise and independence required for the important role he will play on the Commission. He will be supported by three other members:

Professor Iain McLean, a Professor of Politics at Oxford University with extensive research interests in public policy and devolution, including related issues in taxation and public expenditure such as the Barnett Formula.

Professor Cathy Gormley-Heenan, currently Deputy Vice-Chancellor at University of Ulster and a serving board member for a number of organisations.

Dr Lisa Wilson, a Senior Economist at the Nevin Economic Research Institute whose research focuses on public expenditure, living standards, income distribution, poverty, and well-being.

Resourcing and support

Both the Council and the Commission will need to be supported by a small secretariat. It will be able to undertake research but also to commission input from external expertise. Staff will initially be seconded from the Civil Service but as the Council moves to a permanent footing I envisage that it would have the ability to recruit its own staff.

It is estimated that the Commission will cost in the region of £400k during the 9 month period it will be set up for. This includes costs for remuneration of members, and its share of the staffing costs for the secretariat, as well as an external research budget.

On a similar basis, the cost of the Council is expected to be in the region of £350k in 2021/22, however, this may increase in subsequent years if the Council's remit is broadened. Costings for both the Council and the Commission are estimates at this stage until all the arrangements are finalised and the members can meet to agree their respective work programmes.

Conclusion

The establishment of both the Fiscal Council and the Fiscal Commission represents a real step forward. We have secured very distinguished Chairs and members for these important pieces of work.

As we hopefully begin to emerge from the pandemic, rebuilding and restoring our economy and wider society is that task in front of us. If we are to deliver on our social and economic priorities, it is vital that we have all the levers we need at our disposal.

The work of the Fiscal Commission will inform that important discussion.

And with ever increasing demands on public spending, and in time, increased fiscal powers, the transparency and independent scrutiny of the Executive's finances that the Council will bring is something that I warmly welcome.

FISCAL COUNCIL – BRINGING TRANSPARENCY AND INDEPENDENT SCRUTINY TO PUBLIC FINANCES

TERMS OF REFERENCE, MARCH 2021

Mission Statement

1. The Fiscal Council is a permanent body which will bring greater transparency and independent scrutiny to the current and future state of Northern Ireland's public finances.

Principles of Independent Fiscal Organisations

2. In 2014, the OECD set out nine broad recommendations' principles for

Independent Fiscal Organisations, drawing on the work of the network of Independent Fiscal Institutions across the organisation's members. This piece of work was partly assessing the nature of these organisations across the world (and acknowledging their heterogeneity) but at the same time coming up with a set of recommendations that all these types of organisations could aspire to.

3. This Terms of Reference for the Fiscal Council has been developed in line with these principles, which are set out in the attached **Annex**.

Remit

4. The Fiscal Council will have an immediate focus to take forward the New Decade New Approach (NDNA) commitments to:

- prepare an annual assessment of the Executive's revenue streams and spending proposals and how these allow the Executive to balance their budget; and
- prepare a further annual report on the sustainability of the Executive's public finances, including the implications of spending policy and the effectiveness of long-term efficiency measures.

5. As per NDNA the membership and terms of reference of the Fiscal Council will be agreed with the UK Government.

Local Ownership

6. The commitment to a Fiscal Council was included in the New Decade New Approach document published alongside the restoration of the political institutions at that beginning of 2020. The Executive has agreed this Terms of Reference setting out the remit of Council on its establishment, and how it will be developed going forward. This has ensured local ownership and that local needs will be met by the functioning of the Council.

Independence and non-partisanship and transparency

7. It will act objectively, transparently and impartially, free from any political perspective, and on the basis of current NI Executive policy. It will examine the impact on the public finances of decisions made by the Executive and have a focus on the sustainability of public finances by considering the Executive's budget decisions in light of its ability to deliver on the Programme for Government. The Council should not however comment on the merits of individual policies, or examine alternative policy scenarios. This will protect the independence of the Fiscal Council and ensure a clear separation between analysis (which is the role of the Fiscal Council) and policy making (which is the responsibility of the ministers).

8. The Council will publish all the documents it produces in an accessible manner and should comply with the Code of Practice for Official Statistics in line with good practice.

Access to information

9. For the Council to perform its duties accurately and efficiently, close working with the NI Executive and Departments will be essential, as will timely data / information sharing. Arrangements will be put in place to ensure this. Members will also be required to observe the standard confidentiality rules in relation to policy information and data sharing.

Communications

10. Upon establishment, the Chair and members of the Fiscal Council will develop a communications plan to clearly articulate the remit of the Council and engage with relevant stakeholders. This will include a range of consultations with the Executive and MLAs, Government officials, economic commentators including the media, business and their representative bodies, although this is not exhaustive.

Mandate and relationship with the legislature

11. It is expected that the role and Terms of Reference of the Fiscal Council will be expanded once the Council has been established and is delivering on the above requirements. Such a wider remit is anticipated to include economic / financial modelling for example. The expanding nature of Independent Fiscal Institutions can also be seen from experience elsewhere in the UK and internationally where their remit over time has not been static.

12. Like other similar bodies elsewhere, the Council will be initially set up as a nonstatutory body. Following its establishment, work will be undertaken to examine how the role and standing of the Council can be further formalised and legislated for on a statutory basis, so that its independence is safeguarded going forward.

13. This will include putting a competitive public appointments process in place to select future members that would maintain the required expertise and independence of the Council, and that would be conducted in line with the CPANI Code of Practice

14. That legislation will need to include how the role of the Fiscal Council interacts with the Assembly and relevant Committees including the Finance Committee where relevant, including on the future appointments process.

Resources - membership and staffing

15. The Fiscal Council will comprise four individuals, including a chair, appointed by the Finance Minister. Robert Chote will become the Council's Chair for the set up period of around 6-9 months as we seek to formally establish the Council.

16. The other members, who will be appointed for a three year term will be:

- Dr Esmond Birnie, senior economist at Ulster University;
- Alan Barrett, Chief Executive Officer of the Economic and Social Research Institute; and
- Maureen O'Reilly, Independent Economist.

17. DoF will also put in place a full time permanent secretariat and support staff who will be recruited purposely to perform that function, headed by a G5 Chief of Staff, As well as supporting the Chair and members, the secretariat would have the capacity to undertake its own research and analysis and also contract out specialist pieces of work to external experts where required.

External Evaluation

18. In line with good practice an independent external evaluation will be conducted four to five years after the Council's establishment. This will include progress towards adhering towards the OECD principles and recommendations on way forward to further aspire to these. This evaluation could be undertaken by OECD or another independent Fiscal Institution which is now well established. Key stakeholders, in particular the Finance Committee, would be consulted on the process for appointing an external evaluator, and the Terms of Reference for the evaluation.

Annex

<u>OECD PRINCIPLES FOR INDEPENDENT FISCAL INSTITUTIONS (IFIs)</u>

Source: OECD, 2014, Recommendations on Principles for Independent Fiscal Institutions - https://www.oecd.org/gov/budgeting/OECD-Recommendation-on-Principles-for-Independent-Fiscal-Institutions.pdf

The twenty-two Principles for Independent Fiscal Institutions (fiscal councils and independent parliamentary budget offices) proposed below are grouped under nine broad headings: (1) local ownership; (2) independence and non-partisanship; (3) mandate; (4) resources; (5) relationship with the legislature; (6) access to information; (7) transparency; (8) communication; and (9) external evaluation.

1. Local ownership

1.1. To be effective and enduring, an IFI requires broad national ownership, commitment, and consensus across the political spectrum. While a country seeking to establish an IFI will benefit from the study of existing models and experiences in other countries, models from abroad should not be artificially copied or imposed. Regional or international authorities may provide valuable support and protection.

1.2. Local needs and the local institutional environment should determine options for the role and structure of the IFI. Design choices may also have to take into account capacity constraints, particularly in smaller countries. The basic characteristics of an IFI, including specific protections, should be informed by the country's legal framework, political system, and culture. Its functions should be determined by the country's fiscal framework and specific issues that need to be addressed.

2. Independence and non-partisanship

2.1. Non-partisanship and independence are pre-requisites for a successful IFI. A truly nonpartisan body does not present its analysis from a political perspective; it always strives to demonstrate objectivity and professional excellence, and serves all parties. This favours that IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship.

2.2. The leadership of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation. The qualifications should be made explicit – including professional standing and relevant government or academic experience. Qualifications should include proven competence in economics and public finances and familiarity with the budget process.

2.3. Term lengths and the number of terms that the number of terms that the leadership of the IFI may serve should be clearly specified in legislation as should be the criteria and process for dismissal for cause. The leadership's term should optimally be independent of the electoral cycle. Independence may be enhanced by defining the term span beyond the electoral cycle.

2.4. The position of head of the IFI should be a remunerated and preferably full-time position. Strict conflict- of-interest standards, particularly for institutions with council members employed on a part-time basis, should be applied equally vis-à-vis other employment in the public or private sector.

2.5. The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws.

2.6. Staff should be selected through open competition based on merit and technical competence and without reference to political affiliation. Conditions of employment should be along the lines of that of the civil (or parliamentary) service.

3. Mandate

3.1. The mandate of IFIs should be clearly defined in higher-level legislation, including the general types of reports and analysis they are to produce, who may request reports and analysis, and, if appropriate, associated timelines for their release.

3.2. IFIs should have the scope to produce reports and analysis at their own initiative, provided that these are consistent with their mandate. Similarly, they should have the autonomy to determine their own work programme within the bounds of their mandate.

3.3. Clear links to the budget process should be established within the mandate. Typical tasks carried out by IFIs might include (but are not limited to): economic and fiscal projections (with a short to medium-term horizon, or long-term scenarios); baseline projections (assuming unchanged policies); analysis of the executive's budget proposals; monitoring compliance with fiscal rules or official targets; costing of major legislative proposals; and analytical studies on selected issues.

4. Resources

4.1. The resources allocated to IFIs must be commensurate with their mandate in order for them to fulfil it in a credible manner. This includes the resources for remuneration of all staff and, where applicable, council members. The appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies, such as audit offices, in order to ensure their independence. Multiannual funding commitments may further enhance IFIs independence and provide additional protection from political pressure.

5. Relationship with the legislature

5.1. Legislatures perform critical accountability functions in country budget processes and the budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work. Regardless whether an independent fiscal institution is under the statutory authority of the legislative or the executive branch, mechanisms should be put in place to encourage appropriate accountability to the legislature. These may include (but are not limited to):

1) submission of IFI reports to parliament in time to contribute to relevant legislative debate; 2) appearance of IFI leadership or senior staff before the budget committee (or equivalent) to provide responses to parliamentary questions; 3) parliamentary scrutiny of the IFI budget; and 4) a role for parliament's budget committee (or equivalent) in IFI leadership appointments and dismissals.

5.2. The role of the IFI vis-à-vis parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation. Preferably, the IFI should consider requests from committees and sub-committees

rather than individual members or political parties. This is particularly relevant for those IFIs established under the jurisdiction of the legislature.

6. Access to information

6.1. There is often asymmetry of information between the government and the IFI – no matter how well an IFI is resourced. This creates a special duty to guarantee in legislation – and if necessary to reaffirm through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals. Information should be provided at no cost or, if appropriate, sufficient resources should be provided in the IFI budget to cover analysis obtained through government actuarial services.

6.2. Any restrictions on access to government information should also be clearly defined in legislation. Appropriate safeguards may be put in place as regards protection of privacy (for example, taxpayer confidentiality) and of sensitive information in the areas of national defence and security.

7. Transparency

7.1. Given that promoting transparency in public finances is a key goal of IFIs, they have a special duty to act as transparently as possible. Full transparency in their work and operations provides the greatest protection of IFI independence and allows them to build credibility with the public.

7.2. IFI reports and analysis (including a full account of the underlying data and methodology) should be published and made freely available to all. As noted in 5.1, all IFI reports and analysis should be sent to parliament in time for legislative debate and the leadership of the IFI should be given the opportunity to testify before parliamentary committees.

7.3. The release dates of major reports and analysis should be formally established, especially in order to co-ordinate them with the release of relevant government reports and analysis.

7.4. IFIs should release their reports and analysis, on matters relating to their core ongoing mandate on economic and fiscal issues, in their own name.

8. Communications

8.1. IFIs should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders. Given that the influence of IFIs in fiscal policy making is persuasive (rather than coercive by means of legal sanctions or other punitive measures), media coverage of their work assists in fostering informed constituencies that may then exercise timely pressure on the government to behave transparently and responsibly in fiscal matters.

9. External evaluation

9.1. IFIs should develop a mechanism for external evaluation of their work – to be conducted by local or international experts. This may take several forms: review of selected pieces of work; annual evaluation of the quality of analysis; a permanent advisory panel or board; or peer review by an IFI in another country.

FISCAL COMMISSION – OPTIONS FOR THE DEVOLUTION OF TAXES

TERMS OF REFERENCE, MARCH 2021

Context

1. The Department of Finance has a long standing role to lead the work to consider the opportunities and proposals for further fiscal devolution. A considerable amount of work was taken forward on the possible devolution of Corporation Tax, Air Passenger Duty and also on smaller areas such as Aggregates Levy, Stamp Duty Land Tax and Landfill Tax. However no comprehensive formal review of all of our options for further fiscal devolution has ever been completed and published and we have a very limited suite of fiscal levers in comparison to the other Devolved Administrations.

2. Therefore as we seek to rebuild both our economy and wider society as we emerge from the COVID-19 pandemic, it is now more important that we consider what powers are needed here. This need has been highlighted again as Budget 2021 has made a significant increase in the rate of corporation tax and led to many calls for our work to devolve corporation tax to be revisited. A review of Air Passenger Duty has also been announced as a means of improving regional connectivity. The Minister of Finance is therefore establishing an independent Fiscal Commission given the lead role he has in relation to fiscal devolution and liaison with Treasury on taxation and budgetary matters.

3. The role of the Commission will be to carry out research and provide independent advice to the Finance Minister on options for the devolution of taxes from Westminster, as well as other revenue raising measures.

4. This will inform the recommendations / proposals the Minister, or future Finance Minister in the next Assembly mandate, could put to the Executive in relation to developing fiscal policy.

Remit

5. The Fiscal Commission should:

> *"Review the case for increasing the fiscal powers to the NI Assembly, advising the Finance Minister on powers which could enhance the Assembly's fiscal responsibilities, increase its ability to raise revenues to sustainably fund public services, and provide additional policy instruments. As part of this, the Commission should consider the need for additional budgetary tools to manage any increased financial responsibility.*
>
> *The Commission should carry out research and put forward recommendations to the Minister of Finance that are realistically implementable within the NI context and drawing from the experience of Scotland and Wales, including what has worked well, and where challenges have been encountered in those administrations. This should include the potential costs incurred and realistic timescales of any of any new powers proposed.*

In addition, the Commission should also consider how the spending power of the NI Block can be protected if more powers are devolved."

6. The Fiscal Commission will be set up for a period of 9 months and will prepare a report with recommendations to be presented to the Minister of Finance within that timeframe. Any recommendations which the Minister of Finance wishes to progress will be brought to the Executive for discussion and agreement as necessary.

Membership and staffing

7. The Fiscal Commission will comprise 4 individuals, including a Chair, appointed by the Finance Minister. Paul Johnson, Director of the Institute for Fiscal Studies (IFS), has agreed to chair the Commission, which will also comprise:

a. Professor Iain McLean, Professor of Politics at Oxford University.

b. Professor Cathy Gormley-Heenan, Deputy Vice-Chancellor, University of Ulster.

c. Dr Lisa Wilson, Senior Economist at the Nevin Economic Research Institute (NERI)

8. DoF will also put in place a secretariat and support staff which as well as supporting the Chair and members, would have the capacity to undertake its own research and analysis and also contract out specialist pieces of work to external experts where required.

Department of Finance
An Roinn Airgeadais
www.finance-ni.gov.uk

Mr Peter McCallion
Finance Committee Clerk
Northern Ireland Assembly
Parliament Buildings
Stormont
Belfast BT4 3XX

Private Office
2nd Floor
Clare House
303 Airport Road West
BELFAST
BT3 9ED
Tel: 028 9081 6216
Email: private.office@finance-ni.gov.uk

Your reference:
Our reference: *SUB-0286-2021*

Date: *7th June 2021*

Dear Peter

FRASER OF ALLANDER INSTITUTE REPORT: A FISCAL COMMISSION OR COUNCIL - LESSONS LEARNED FROM ELSEWHERE IN THE UK AND IRELAND

The Department of Finance commissioned the Fraser of Allander Institute (FAI) to undertake a short piece of research to produce a report on lessons that could be learnt in establishing the Fiscal Council and Commission in Northern Ireland, which the Committee will be interested in.

The report will be published by FAI on 8th June on their web-site which will be available at www.fraserofallander.org/publications/a-fiscal-commission-or-council-for-northernireland.

I have also attached a copy for your convenience.

Yours sincerely

Andy Monaghan

ANDY MONAGHAN
DEPARTMENTAL ASSEMBLY LIAISON OFFICER

A Fiscal Commission or Council for Northern Ireland

Lessons Learned from elsewhere in the UK and Ireland

Mairi Spowage

Fraser of Allander Institute

Drafted February 2021

Finalised & Published June 2021

Executive Summary

In 2020, the New Decade New Approach (NDNA) agreement restored power sharing in Northern Ireland. It was designed to represent a fair and balanced basis upon which to restore the institutions that had been created by the Belfast (Good Friday) Agreement.

The period since power sharing collapsed has seen significant powers transferred to the Scottish and Welsh Parliaments, following comprehensive reviews of the devolution settlements for each country. No such comprehensive review has been carried out for Northern Ireland, where the purpose is to increase the financial accountability of the parliament.

The Commissions in Scotland and Wales are discussed in this document, with the lessons learned from these processes drawn out in detail. This includes a discussion of what devolution has meant in practice, what the wider infrastructure implications are, and what the impact has been on the budgets of devolved governments when these new powers were exercised.

Enhancing and improving fiscal management, credibility and planning is also a key part of NDNA. An explicit part of the agreement is to establish a Fiscal Council. We discuss the principles which should be considered in setting up such an institution, such as transparency, accountability, independence and look at examples of such bodies in the UK and Ireland.

The Fiscal Council for Northern Ireland can serve the purpose required of it by the Executive and Assembly to increase the confidence in fiscal responsibility. However, while it may have a different remit, there is much to learn from the other bodies in the UK and Ireland, particularly around remit, membership, resourcing, relationship with government and information sharing. We discuss these lessons and what they could mean for the new NI Fiscal Council.

Fraser of Allander Institute
February 2021

Contents

1 Introduction

The Northern Ireland Department of Finance commissioned the Fraser of Allander Institute to carry out a lessons learned analysis on the establishment of Fiscal Councils and Commissions.

This has been motivated by two aims:

- To discuss the issues to consider in order to meet the commitment in the New Decade New Approach (NDNA) document to establish a permanent Fiscal Council; and
- To discuss the issues to consider if the NI Executive wished to establish a temporary Commission to consider new fiscal powers for NI, including the role of the permanent Fiscal Council in this, beyond the requirements as set out in the NDNA.

This document is set out as follows:

- The first section sets out the current situation as regards to devolution across the UK;
- The second section discusses the history of commissions to consider further powers in Scotland and Wales, and what can be learned from how devolution has worked in practice;
- The third section discusses the options for a Fiscal Council in Northern Ireland, drawing on experience across the OECD, elsewhere in the UK and in the Republic of Ireland.

1.1 About the Author

Mairi Spowage is a Principal Knowledge Exchange Fellow and the Interim Director of the Fraser of Allander Institute. Her areas of expertise include economic policy, economic statistics, national accounting, public sector finances, and economic and fiscal forecasting.

Previously, Mairi was the Deputy Chief Executive of the Scottish Fiscal Commission and the Head of National Accounts at the Scottish Government, and has over a decade of experience working in different areas of statistics and analysis, including transport, household surveys and performance measurement.

Mairi was in Government during the formation and operation of the Smith Commission in Scotland, following which she led the setup of the Scottish Fiscal Commission. This involved research on the experience of other countries in setting up and operation of Fiscal Councils in order to ensure the organisation was as effective as possible.

2 Current Devolution in the UK

Devolution in the UK is asymmetric and has evolved irregularly, with different levels of devolution to the three devolved nations, and to the city regions and local authorities of England. In broad terms, devolution of spending powers has happened more readily than powers over tax: but in recent years some major tax powers have been devolved, particularly to Wales and Scotland.

Tax devolution to the devolved parliaments in Scotland and Wales has been driven by the desire to increase the fiscal accountability of the parliaments, as well as to incentivise the Governments to consider policies which can stimulate the economy and grow their tax base. Wider political events and changes have also driven devolution, such as the independence referendum in Scotland in 2014.

In Northern Ireland, the tax devolution debate has focussed on fiscal levers to grow the economy, a particular issue in Northern Ireland. In considering the implementation of such powers, comparisons to the tax regime in the Republic of Ireland have been considered (IFG, 2020b).

2.1 Devolved tax powers

Scotland

- Stamp Duty Land Tax (SDLT), Landfill Tax, and the power to set all rates and bands of Income Tax (except for the personal allowance) have been devolved and are now directly affecting the resources available to the Scottish Government. SDLT has been renamed Land and Buildings Transaction Tax (LBTT) and Landfill Tax had been renamed Scottish Landfill Tax (SLfT).
- Air Passenger Duty (APD) and the Aggregates Levy are due to be devolved at a future date. In both cases devolution has been held up by legal issues relating to state aid.
- Half of VAT receipts collected in Scotland are also due to be ‘assigned’ to the Scottish government, but the implementation of this change has been delayed until the UK and Scottish governments can agree upon a method to estimate Scottish VAT receipts. We discuss the issues around VAT assignment further in section 3.

Wales

- Stamp Duty Land Tax and Landfill Tax have been devolved and are now directly affecting the resources available to the Welsh Government. SDLT has been renamed to Land Transaction Tax, and Landfill Tax has been renamed Landfill Disposals Tax (LDT).
- Partial Income Tax powers are also devolved. UK Income Tax rates have been reduced by 10p in each band, on top of which the Welsh Government sets its own Welsh rate of Income Tax for each band.

Northern Ireland

- Long-haul Air Passenger Duty was devolved and subsequently abolished in 2012.
- Legislation was passed in 2015 to devolve Corporation Tax to Northern Ireland, so that tax rates could be reduced to the lower rates applying south of the Border. However, the plans to bring this reform into effect were postponed following the collapse of power-sharing and it remains uncertain whether this tax will eventually be devolved.

2.2 Devolved Spending Powers

As outlined above, the powers over spending tend to be much more extensive than the powers over taxation. Figure 1 below outlines the level of devolved responsibility covered by the different devolved administrations (IfG, 2020a).

Figure 1: Level of devolution in different policy areas

Percentage of UK Government departments' spending responsibility that is devolved IfG

Department	Scotland	Wales	Northern Ireland
Education	100%	100%	100%
Housing, Communities and Local Government	100%	100%	100%
Health and Social Care	100%	100%	100%
Environment, Food and Rural Affairs	97%	97%	97%
Transport	92%	37%	95%
Digital, Culture, Media, and Sport	68%	68%	70%
Justice	100%	1%	100%
Home Office	74%	2%	74%
Work and Pensions	20%	0%	98%
Business, Energy and Industrial Strategy	7%	7%	7%
HM Revenue and Customs	4%	4%	3%
HM Treasury	0%	0%	0%
Cabinet Office	0%	0%	0%
Defence	0%	0%	0%
Foreign, Commonwealth and Development Office	0%	0%	0%
International Trade	0%	0%	0%

Source: Institute for Government analysis of the HMT Funding Statement

The source for this is the HMT Statement of Funding Policy (HMT, 2020), which outlines in great detail the different spending lines and how "devolved" they are. These percentages also determine the level of funding that flows from devolved spending in England through the Barnett formula, which generates so-called Barnett consequentials.

The devolution of tax powers that has taken place in recent years has retained the Barnett formula, with adjustments to the resulting block grants made to reflect the revenue foregone by the UK Government in the devolution of the tax. Therefore Barnett still forms the basis of the funding settlements for the devolved administrations in the UK.

3 A Fiscal Commission on Further Devolution

Despite the series of Commissions and reports examining the package of powers devolved to the Scottish and Welsh parliaments, there has not been a comprehensive review of the settlement for the NI Assembly.

This section sets out the experience of such Commissions in other parts of the UK, what such a Commission could consider, and lessons that have been learned in practical terms from the devolution of powers to the Scottish and Welsh Parliaments.

3.1 Experience of Commissions in Scotland and Wales

3.1.1 Scotland: The Smith Commission

Following the Independence referendum in 2014, the Smith Commission was set up to explore new options for devolution in Scotland. This had followed the infamous "Vow" that had been made a few days in advance of the referendum by the Prime Minister, the Deputy Prime Minister and the Leader of the Opposition that if there was a "No" vote in the Referendum, there would be a significant new package of powers devolved to the Scottish Parliament.

Following the No Vote, David Cameron appointed the cross bench peer, Lord Smith of Kelvin, to lead the Commission on 19th September.

The members of the Commission were taken from all political parties in Scotland, and included the following:

- Annabel Goldie MSP, Scottish Conservative and Unionist Party
- Adam Tomkins, Scottish Conservative and Unionist Party
- Maggie Chapman, Scottish Green Party
- Patrick Harvie MSP, Scottish Green Party
- Gregg McClymont MP, Scottish Labour
- Iain Gray MSP, Scottish Labour
- Tavish Scott MSP, Scottish Liberal Democrats
- Michael Moore MP, Scottish Liberal Democrats
- John Swinney MSP, Scottish National Party
- Linda Fabiani MSP, Scottish National Party

The cross party nature of these talks was a particular strength; buy in from all political parties is essential to ensure the package proposed can be implemented successfully and is owned by the whole parliament.

A secretariat was also formed of officials from the Scottish Government, the Scottish Parliament and the UK Government. The role of the Secretariat was to work with the political representatives to ensure that the talks ran smoothly and were informed by evidence and analysis from the Scottish and UK Governments.

At the outset, the Commission set out a number of principles that the package of powers should:

- form a substantial and cohesive package of powers, enabling the delivery of outcomes that are meaningful to the people of Scotland.
- strengthen the Scottish devolution settlement and the Scottish Parliament within the UK (including the Parliament's levels of financial accountability).
- aim to bring about a durable but responsive democratic constitutional settlement, which maintains Scotland's place in the UK and enhances mutual cooperation and partnership working.
- not be conditional on the conclusion of other political negotiations elsewhere in the UK.
- not cause detriment to the UK as a whole nor to any of its constituent parts.
- cause neither the UK Government nor the Scottish Government to gain or lose financially simply as a consequence of devolving a specific power.
- be implementable; be compatible with Scotland's and the UK's international obligations, including EU law; and be agreed with a broad understanding of the potential associated costs.

The final agreement included a number of provisions, including ensuring the permanence of the Parliament and the Government, the Sewel convention and Inter-Governmental Cooperation. A large part of the package was the range of financial powers proposed to be devolved to the Scottish Parliament. A good overview of the recommendations was produced by the Scottish Parliament Information Centre (SPICe, 2015a).

This culminated in the Fiscal Framework negotiations and ultimately the agreement between the UK and Scottish Government that then underpinned the Scotland Act 2016. The Fiscal Framework (HMG & SG, 2016) set out how these new powers would operate in practice, particularly with reference to the retention of Barnett alongside the devolution of major taxes and social security powers. It also set out arrangements for administration and implementation costs, the principle of "no detriment", and a dispute resolution mechanism.

In summary then, the Scotland Act 2016 (Scotland Act, 2016):

- declared that the Scottish Parliament and the Scottish Government are considered permanent parts of the UK's constitutional arrangements and will not be abolished without a decision of the people of Scotland. It also recognises that the UK Parliament will not normally legislate in relation to devolved matters without the consent of the Scottish Parliament, whilst retaining the sovereignty to do so;

- gave increased autonomy to the Scottish Parliament and the Scottish Ministers in relation to the operation of Scottish Parliament and local government elections in Scotland;
- gave increased autonomy to the Scottish Parliament in relation to the power to amend sections of the Scotland Act 1998 which relate to the operation of the Scottish Parliament and the Scottish Government within the United Kingdom;
- increased the financial accountability of the Scottish Parliament through devolution of the rates and bands of Income Tax, Air Passenger Duty and Aggregates Levy, and assignment of VAT revenues;
- increased responsibility of welfare policy and delivery in Scotland through the devolution of welfare powers to the Scottish Parliament and / or the Scottish Ministers;
- gave significant responsibility to Scotland for areas such as road signs, speed limits, onshore oil and gas extraction, consumer advocacy and advice, amongst others by devolution of powers in relation to these fields to the Scottish Parliament and the Scottish Ministers; and

increased scrutiny for the Scottish Parliament of specific bodies and increased the ability of the Scottish Government to design schemes relating to energy efficiency and fuel poverty by the devolution of functions to the Scottish Ministers.

3.1.2 Previous Efforts in Scotland – the Calman Commission

The Smith Commission was prompted by the independence referendum, but the route to the referendum initiated the previous Commission to consider devolution in Scotland and ultimately recommended the devolution of powers (culminating in Scotland Act 2012).

The Calman Commission was proposed by the three opposition parties at Holyrood in response to the newly elected SNP Government's launch of "The National Conversation" (Scottish Government, 2007) in 2007. It was formally launched by the Secretary of State for Scotland in March 2008. The Commission was to consider options for further devolution to Scotland within the UK.

It was welcomed cautiously by the Scottish Government as a contribution to the National Conversation, but was criticised by them for explicitly ruling out independence as a possible future for Scotland (House of Commons Library, 2010).

The final report was published in 2009, and a response was published by the Secretary of State later in 2009 (Scotland Office, 2009). This led to the provisions in the Scotland Act 2012 which devolved new tax powers on Stamp Duty Land Tax and Landfill Tax to the Scottish Parliament.

The announcement of the devolution of these powers preceded the Holyrood election in 2011. This led to an unprecedented majority SNP Government being elected; so it is perhaps fair to say that these provisions did not whet the Scottish electorate's appetite for further powers for the Scottish Parliament. This led to the Edinburgh Agreement in 2011 and ultimately the Independence Referendum in 2014.

3.1.3 Wales – Silk I, Silk II and the St David's Day Agreement

The experience in Wales has followed in the wake of the processes in Scotland to a certain extent.

The Holtham Commission was established by the Welsh Executive in 2008, partly in response to the establishment of the Calman Commission in Scotland. The Holtham Commission was led by Gerald Holtham, Professor of Regional Economy of Cardiff Metropolitan University, and he was joined by Professor David Miles (an economist at Imperial College London) and Professor Paul Bernd Spahn (Professor of Public Finances at Goeth University in Frankfurt).

The Commission published 2 reports, with the final report published in July 2010 (Holtham

Commission, 2010). The report reaffirmed the first report's proposals for funding reform in Wales, as well as considering the limited devolution of tax powers and the Assembly Government's ability to borrow to fund capital expenditure. It concluded that the devolved government should be funded by a combination of a reformed block grant based on needs and revenue raised by increased powers of taxation.

The recommendations were widely accepted across the political spectrum in Wales, and led to the establishment of the Silk Commission by the Secretary of State for Wales in 2012 (House of Commons Library, 2012). The Commission was named after the Chair, the now Sir Paul Silk.

The Commission published in two parts, the first in November 2012 (Commission on Welsh Devolution, 2012) and the second in March 2014 (Commission on Welsh Devolution, 2014). These reports have become known as Silk I and Silk II.

Silk I led to the Wales Act 2014 which devolved Stamp Duty Land Tax and Landfill Tax to the then Welsh Assembly, along with some limited Income Tax rate varying powers.

Silk II was much more comprehensive and wide ranging, and dealt with some of the fundamental issues with the model of Welsh devolution. One of the main recommendations was around the move to a "reserved powers model", like the Scottish Parliament, rather than the "conferred powers model" that currently existed. This means that instead of particular powers being given (or "conferred") to the devolved parliament, that the devolved government has responsibility for everything except those powers that are explicitly reserved.

This culminated in the document "Powers for a Purpose: Towards a Lasting Devolution Settlement for Wales", published by the Secretary of State for Wales, also known as the St David's Day Agreement (SoS for Wales, 2015). As well as accepting most of the recommendations in Silk I and Silk II, it also considered the recommendations of the Smith Commission in Scotland, to examine where it was possible for elements of this to be devolved to Wales.

A similar process to the new Scottish powers for agreeing the fiscal arrangements around new powers led to a fiscal framework agreement being produced in December 2016 (HM Government & WG, 2016). Importantly though, the agreement on the mechanism for adjusting the block grant to reflect devolution of tax to Wales was different from the Scottish model.

Following on from the recommendations of the Holtham Commission, this ensured the introduction of a reformed block grant for Wales, taking account of needs. This essentially introduced a funding floor, below which the level of funding for the now Welsh Government cannot go below: at 115% of the UK average level. This was to address the long-held belief that the Barnett formula had historically benefitted Scotland and Northern Ireland while disadvantaging Wales (see Trench, 2013, for a good discussion of this debate).

The Wales Act 2017 followed, with similar provisions around permanence of the Welsh Parliament and Government, and the Sewel Convention, as in the Scotland Act 2016.

3.2 Lessons for a future commission in Northern Ireland

3.2.1 Buy in, Commission Lead & Membership

The Commissions that have ultimately led to significant change in the devolved settlements in Scotland and Wales have been supported by both the devolved administrations and the UK Government. They also drew members from all political parties in the parliament.

Therefore, the first step could be for the Northern Ireland Assembly to agree with the UK Government that such a Commission should take place: and going by the experience of Smith and Silk, it could be formally established by the Secretary of State for Northern Ireland.

An ideal Commission lead could be a cross bench peer, as was the case for the Smith Commission. Lord Smith of Kelvin was also respected across the political spectrum in Scotland, and given he grew up and was educated in Glasgow he understood the political landscape and history.

The Members of the Commission could be drawn from all political parties in the parliament to ensure buy in to the ultimate agreement. In the case of the Smith Commission, this was from the five political parties in the chamber.

The party landscape in the NI Assembly is of course more complex, but it would be important to have all-party buy in to the process if it is to be seen as a parliament wide view.

There are of course, options for the first step to fiscal devolution to follow the route in Wales, whose recent devolution journey began with the Holtham Commission. Therefore, this would be a Commission led by a respected academic in Northern Ireland. It would be important to ensure that the lead of such a Commission would be respected across the political spectrum, and is seen as an expert on Northern Ireland's economic and fiscal arrangements.

Following the model in Wales, academic contributors can be drawn from international settings to draw lessons from other countries. It will be important if an academic Commission is established that there is expertise on the experience in Scotland and Wales.

While this could be the first step though, it is likely that it would set the foundation for a political Commission as discussed above, rather than replace it. The benefits were clear in Wales of having this as the foundation of their ultimate devolution settlement, with the reform of the block grant in the 2016 Fiscal Framework flowing from the recommendations of the Holtham Commission in 2010.

3.2.2 Secretariat & Advisors

A Secretariat formed of officials with backgrounds in public finances, taxation (including policy costing and tax practitioners), constitutional law, economics, economic measurement and analysis of the UK and NI economy is likely to be required to ensure the smooth operation of the Commission. This secretariat will have an important role to provide analysis and intelligence to the Commission to allow it to consider options in an informed way. Depending on the constitution of the Commission this may be officials sourced from NI Executive departments, and perhaps the UK Government if appropriate.

To some extent, of course, the make-up of the Secretariat depends on the scope of the Commission, and the Commission should have the freedom to bring in others to provide analysis on particular issues as their discussion evolves. The Secretariat will require this flexibility to ensure that decisions are evidence based and keep in mind the practicality of implementation of particular options.

The Commission may wish to draw on advisors as part of their work, whether this is through a period of consultation on initial proposals, to commissioning pieces of work on particular issues. It will be important to draw on those who were involved in the Commissions in Scotland and Wales to help the Commission learn from these experiences, to ultimately deliver the principles that will be set out.

3.2.3 Principles and terms of reference

The principles and terms of reference will and should be a matter for the members of the Commission. In the establishment of the Commission, it should not be limited in the comprehensive review of options for the reform of devolution in Northern Ireland. In this section, we provide the terms of reference that have been used in previous commissions: The Holtham Commission in Wales and the Smith Commission in Scotland.

The Holtham Commission's terms of reference were to:

i) look at the pros and cons of the present formula-based approach to the distribution of public expenditure resources to the Welsh Assembly Government; and

ii) identify possible alternative funding mechanisms including the scope for the Welsh Assembly Government to have tax varying powers as well as greater powers to borrow.

The Smith Commission's principles were to:

- Form a substantial and cohesive package of powers, enabling the delivery of outcomes that are meaningful to the people of Scotland.
- Strengthen the Scottish devolution settlement and the Scottish Parliament within the UK (including the Parliament's levels of financial accountability).
- Aim to bring about a durable but responsive democratic constitutional settlement, which maintains Scotland's place in the UK and enhances mutual cooperation and partnership working.
- Not be conditional on the conclusion of other political negotiations elsewhere in the UK.
- Not cause detriment to the UK as a whole nor to any of its constituent parts.
- Cause neither the UK Government nor the Scottish Government to gain or lose financially simply as a consequence of devolving a specific power.
- Be implementable; be compatible with Scotland's and the UK's international obligations, including EU law; and be agreed with a broad understanding of the potential associated costs.

Whatever the scope of the Commission, and however it is constituted, it is likely that there will be an explicit undertaking to review the devolution settlements in Wales and Scotland: to see what can be learned and where equivalent powers may make sense for Northern Ireland.

3.3 Wider infrastructure Considerations

There would be a number of considerations for the wider infrastructure in Northern Ireland if similar taxes were devolved as has happened in Scotland and Wales. The costs that have been incurred and the issues raised can be used to inform the work of a Commission in Northern Ireland to ensure these are set up in the most effective way possible.

It is important that these issues are considered alongside any package of new powers to ensure that realistic timescales and costs can be set out for devolution of further powers.

3.3.1 Revenue Authority for Collection

The experience in both Scotland and Wales has led to the establishment of tax collection authorities, Revenue Scotland and Revenue Wales respectively. In this section, we discuss the experience of Revenue Scotland specifically and the lessons it may hold for the establishment of an equivalent body in Northern Ireland.

Revenue Scotland was first established following the enactment of the Scotland Act 2012, which fully devolved two minor taxes (Stamp Duty Land Tax and Landfill Tax) to Scotland. These were first collected by Scotland in the financial year 2015-16.

The imperative for the new tax collection authority was to be a credible and competent tax collection authority, demonstrating to taxpayers that they would charge the right amount of tax and collect it safely, whilst closely protecting confidential taxpayer information. With this in mind, the legislative basis for Revenue Scotland took a very risk averse view of use of taxpayer information, and set themselves up very much in the same way as HMRC.

At the same time, the investment in an internal statistical analysis function was fairly limited initially, although this has grown to around 3 FTE in more recent years. This limits the amount of use that can be made of taxpayer information to inform policy costing and outlook.

Of course, in terms of budgetary importance, these taxes are dwarfed by the partial devolution of Non-Savings Non-Dividend (NSND) income tax. Given the partial nature of devolution, it was agreed by the Scottish and UK Governments that HMRC would continue to collect the tax on behalf of the Scottish Government. Whilst again understandable from a tax collection point of view, this has had serious implications for the access of data, which has knock on effects for both the Scottish Government and the Scottish Fiscal Commission in policy making, policy costing and forecasting.

We discuss further the implications this has had for the operating model for the Scottish Fiscal Commission in section 4 below.

3.3.2 Fiscal Councils & Parliamentary Budget Offices

Of course, another consideration in the devolution of any powers is the Independent Fiscal Institution infrastructure within Northern Ireland. Within the UK, different models have been adopted: with a statutory body being set up in Scotland, and the Welsh Parliament choosing to draw on the OBR for this advice.

It was initially envisaged that the Scottish Fiscal Commission would be closer in remit to the model adopted by the Irish Fiscal Council, continuing the non-statutory role they had had since 2014 on a statutory basis to challenge and certify the Scottish Government's economic and tax forecasts. However, during the passage of the Scottish Fiscal Commission Act 2016 (SFCA, 2016), the remit was changed to give the organisation responsibility for producing their own forecasts.

More discussion about the role of a fiscal council can be found in section 4 below.

3.3.3 Capacity within Government and Parliament & Data Availability

The capacity of Government and Parliament needs to be examined in deciding how implementable the devolution of certain powers are: and, if implementable, how much capacity may need to be built and what that may cost. This can also have a knock on effect to data availability, the production of statistics, and the development of modelling capability in particular areas.

For example, one of the borrowing powers proposed through the Smith Commission and enacted in the Scotland Act 2016 was an additional resource borrowing function in the event of a "Scotlandspecific economic shock", as measured by the Scottish Government's National Statistics GDP series, and/or forecast by the Scottish Fiscal Commission.

This has many consequences:

- Firstly, there is for the first time a legislative imperative to produce and invest in the economic statistics for Scotland, and in this measure in particular;
- The requirement to model and forecast the Scottish economy, both for this purpose and for forecasting Income Tax, drives particular requirements for the production of economic statistics in Scotland. We were somewhat lucky in Scotland that the production of Quarterly National Accounts was already in place, which form the basis for the data which feeds in to economic models.
- Given the SFC's requirement to model and forecast the Scottish economy, these tools had to be developed. Again, there was already a Scottish Government model of the Scottish Economy that could be used initially (although it was not perfectly designed for this purpose). After a few years the SFC have now built their own model to use: but this is after 4 years of operation.
- The overall capacity for Government officials and the staff in the new fiscal council to be comfortable modelling and forecasting for these purposes takes time to build up. Similarly, there have been challenges in the capacity of parliament to be comfortable with the uncertainties inherent in economic and fiscal forecasting.

This is just one example, but illustrates the knock-on effects that the devolution of new powers can have, and of the true implementation challenges and costs that must be considered.

3.4 Key Lessons from devolution experience in the UK

A Commission on Northern Ireland, as discussed above, is likely to consider the experience of devolution in Scotland and Wales, and how applicable these provisions are to the situation in Northern Ireland.

In particular, Northern Ireland can benefit from many of the lessons that have been learned, and – frankly – the areas that have not worked so well.

The practicality of any new package, and the implications in reality are important factors to be considered by a Commission on a new package of powers.

3.4.1 Devolution – theory vs reality

The experience of devolution may not of course, always match the level of autonomy or level of responsibility that is sometimes envisaged. For example, after the Smith Commission and Scotland Act 2016, the then Prime Minister David Cameron suggested that the Scottish Parliament would be one of the most powerful devolved parliaments in the world.

Of course, this depends on how much power the parliament actually has, and how "devolved" the powers in question actually are. Generally, the measure of fiscal decentralisation that is used is devolved revenue as a proportion of devolved spending. For the Scottish Parliament this was around 50% if Income Tax and VAT are included in the calculation. But should they be?

What is actually devolved is the power over Income Tax rates and bands, for Non-Savings NonDividend Income Tax only. So the parliament has no control over the personal allowance, the tax base, or tax which is raised from savings or dividend income. This has meant that despite the tax changes that have happened in the rates and bands in recent years, for most earners these are completely outweighed by the impact of personal allowance changes by the UK Government. In addition, there are real issues around tax motivated incorporation taking people out of the devolved tax space altogether.

Therefore, it is more correct to call Income Tax a partially devolved tax.

The proposal for VAT was also not giving responsibilities to the Scottish Parliament: rather, it was attempting to link a proportion of the Scottish Budget to the performance of the Scottish economy. The practical problems of this assignment have been well discussed (see below) but it does not seem sensible to make out that it increases the fiscal responsibilities of the parliament.

VAT Assignment has also, it seems, failed the implementability test after many years of investigation. We have written on this on many occasions (FAI, 2018). It was always the case that measuring VAT raised in Scotland with enough precision to allow a portion of the Scottish budget to be determined by it was going to be challenging. This has now been paused due to the concerns about the reliability on such an estimate. This will now be discussed as part of the Fiscal Framework review, due to take place later in 2021. It is likely that this could lead to the idea of VAT Assignment being scrapped.

As discussed in section 2, much of the responsibility for Social Security in Northern Ireland lies with the Northern Ireland Executive. However, the approach to social security has broadly been to ensure parity between GB and NI. There are some exceptions to that, such as some of the provisions around Universal Credit and a mitigation package to soften some of the provisions in the Welfare Reform Act. But in reality the Executive is limited in changes that can be made to the social security system without the means to raise revenue to fund different choices.

3.4.2 Overall revenue implications

The Scottish Government has used the powers devolved on Income Tax to create a new 5 band income tax system. This has been designed to ensure that those who earn less than £27,000 (around the median income) pay less tax than they would in the rest of the UK (although the maximum benefit is around £20), whereas those who earn more than that pay more, in some cases significantly more.

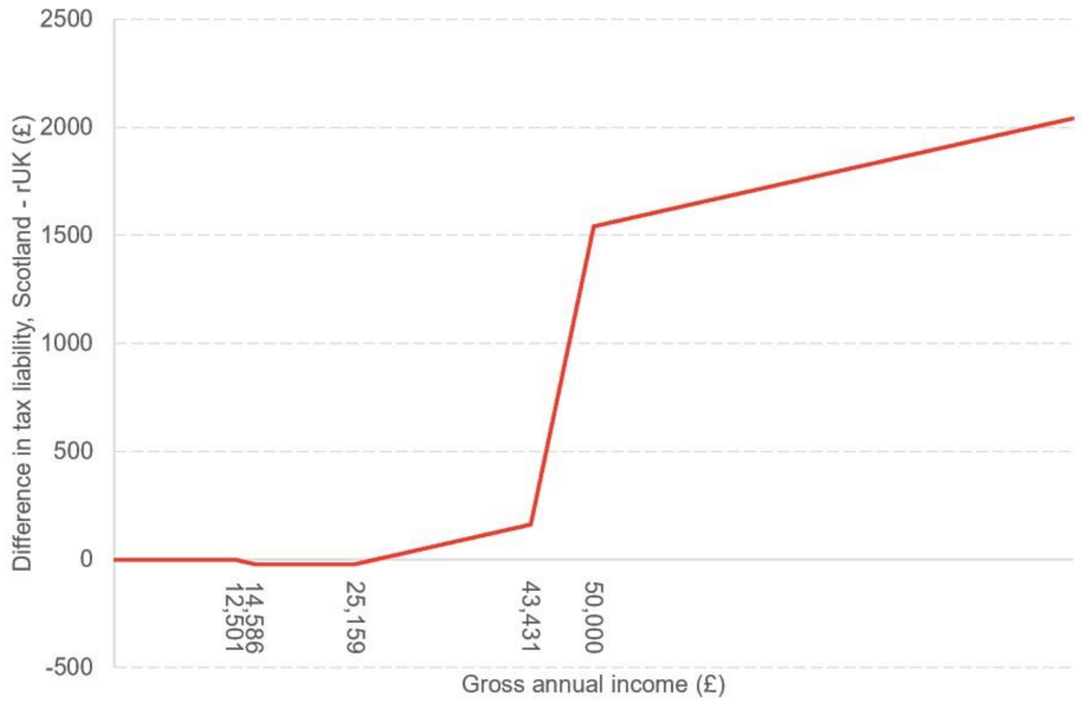
Table 1: The Scottish 5 band income tax system

Bands	Band name	Rate
Over £12,500* - £14,585	Starter Rate	19%
Over £14,585 - £25,158	Scottish Basic Rate	20%
Over £25,158 - £43,430	Intermediate Rate	21%
Over £43,430 - £150,000**	Higher Rate	41%
Over £150,000**	Top Rate	46%

* assumes individuals are in receipt of the Standard UK Personal Allowance.
** those earning more than £100,000 will see their Personal Allowance reduced by £1 for every £2 earned over £100,000.

This leads to the following differences in liability for earners in Scotland, compared to the levels seen in the rest of the UK.

Figure 2: Tax policy divergence: Difference in liability, Scotland - rUK



Source: FAI calculations

This policy was introduced in order to make the income tax system more progressive, and to raise more revenue to fund services in Scotland.

To reflect the revenue the UK Government has foregone due to devolution of the tax to Scotland, a deduction is made from the block grant. This is done on the basis of the increase in tax rates per head in the rest of the UK (or, properly, after devolution to Wales, in England and Northern Ireland).

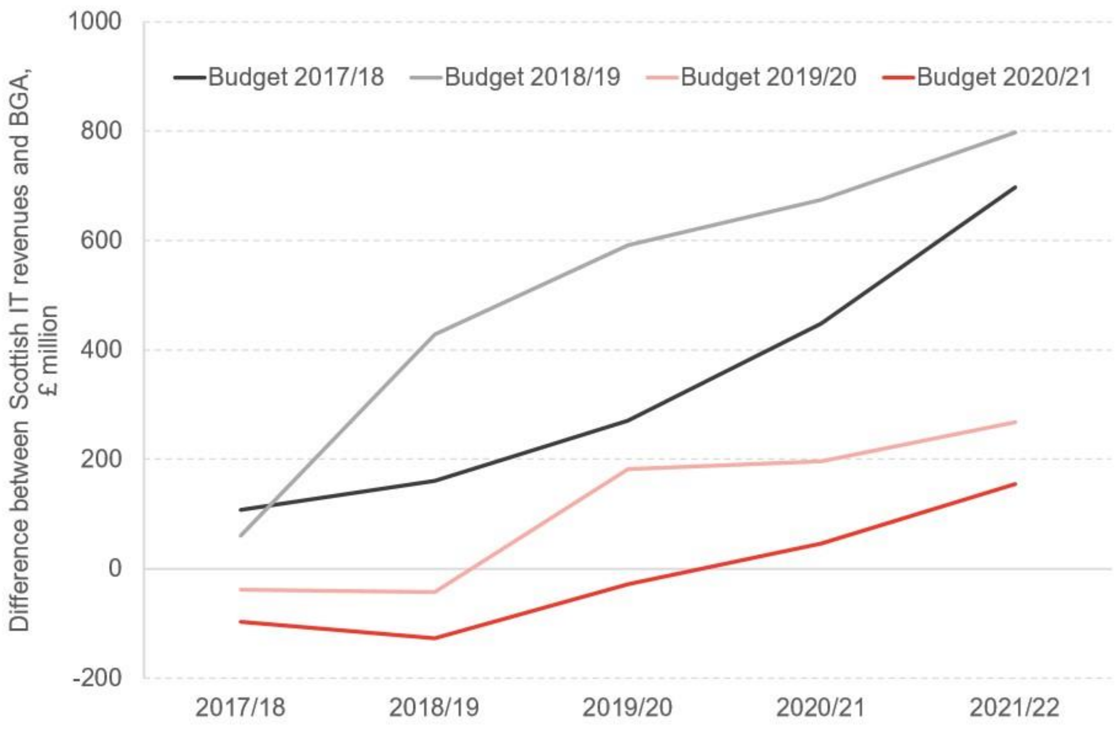
So broadly, all else being equal:

- If Scottish tax receipts per head grow more quickly than those in the rest of the UK, the Scottish budget will be better off;
- If Scottish tax receipts per head grow more slowly than those in the rest of the UK, the Scottish budget will be worse off.

This is before taking account of policy differences: which in this case are designed to raise additional revenues to spend on services.

So, what has the overall impact on the budget been? The chart below shows the difference between the forecast for revenues raised compared to the forecast for the block grant deduction. So, a positive number means that the Scottish budget is better off than if the tax had never been devolved.

Figure 3: Net impact on the Scottish budget



Source: FAI calculations

Looking at the dark red line, we can see that despite the higher tax rates in Scotland for high earners raising more revenue, the Scottish budget is barely any better off. This is due to a poorer outlook for Scottish wages than was assumed in previous years, particularly compared to the rest of the UK. So essentially, the Scottish tax base is growing more slowly, and is less tax rich than the rest of the UK.

There are a number of data challenges which have exacerbated the uncertainty of the outlook prior to outturn data being available for Scottish taxpayers.

So despite the higher tax rates, the Scottish Budget in 2020-21 was essentially no better off than if the tax had not been devolved. This situation changed in Budget 21-22, which showed the budget was around £300 million better off due to Income Tax policy in Scotland – but this was still much lower than had been originally forecasted.

Now, the overall impact on the budget is not the only consideration when examining the desirability of a particular power being devolved. Wider considerations of accountability to their electorate are obviously a big part of it. However, it is worth flagging the Scottish experience given the desire to make more revenue available has not been realised.

3.4.3 Devolved Budgeting

The devolution of fiscal powers is designed to increase power and accountability of the devolved parliaments. Instead of the vast majority of their budget being determined by the block grant from Westminster, larger portions of their budget are determined by taxes raised in their jurisdiction, drawing a more solid link between actions to support the economy and country and the resources available to spend.

However, in reality the devolution of significant powers has increased the interdependencies between fiscal events at the UK and devolved level.

As well as the outlook for the block grant, which is generally fairly predictable, resources are now determined by revenues raised in the area (determined by the official forecaster, e.g. the Scottish Fiscal Commission) and the block grant adjustments (determined by the UK official forecaster, e.g. the OBR). Devolved processes are generally less flexible than at the UK level, with a number of bills having to be passed before the start of the financial year in order to collect revenue.

Essentially, devolution of major taxes has meant that it is more important than ever that the UK budget is done in a timely manner, in order for the Governments to have a good understanding of the spending envelope available to them.

This is particularly true given the very limited borrowing powers the devolved administrations have to cover any funding uncertainties.

3.4.4 Wider than just fiscal issues….

We have focussed particularly on the packages of fiscal powers that have been devolved. But the Scotland Act 2016 and the Wales Act 2017 also included wider measures that could be considered in a Commission for Northern Ireland.

3.4.4.1 Permanence

Both of the Acts established the Scottish and Welsh Parliaments (and their respective Governments) as permanent parts of the UK constitutional arrangements. Given the sovereignty that the UK retains over its institutions however, this was described as "legally vacuous" by one Scottish legal expert (SPICe, 2015b).

3.4.4.2 Sewel Convention

The Sewel Convention was enshrined in statute in both the Scotland Act 2016 and the Wales Act 2017. This states that:

> "…it is recognised that the Parliament of the United Kingdom will not normally legislate with regard to devolved matters without the consent of the [Scottish/Welsh] Parliament"

Despite this, the UK Government has passed legislation recently in devolved areas without the consent of the Scottish and Welsh Parliaments (an example would be the Internal Market Bill). The important clause here is **normally**. The thought behind the inclusion of this in the acts was of course to put the Sewel Convention on a more formal footing, but in reality the UK Government can and does legislate in devolved areas without consent.

This is likely to continue to be an area of controversy as we go forward, with the continued fall out from Brexit in devolved areas, including how spending is carried out through the UK Shared Prosperity Fund.

4 A new Fiscal Council for NI

4.1 Background

The "New Decade New Approach" agreement set out, in the Section on Transparency, accountability and the functioning of the Executive:

> "Ministers and civil servants, including special advisers, each have a part to play in rebuilding the trust of citizens in the operation of a future administration. The parties reaffirm their commitment to greater transparency and improved governance arrangements that are aimed at securing and maintaining public confidence. This is particularly important in light of the public inquiry into the RHI [Renewable Heat Incentive] scheme."

The measures to do this included the "establishment of a fiscal council which would assess and report on the sustainability of the Executive's finances and spending proposals".

This document set out that the Council would have the following role:

> "This will provide scrutiny and expert advice to the Executive and the Assembly on fiscal and budgetary matters, with a particular focus on sustainability. The Fiscal Council will also provide independent monitoring and reporting on the Executive's performance in delivering the Programme for Government."

This section discusses the issues to consider when setting up a Fiscal Council for Northern Ireland, drawing on principles set out by the OECD and experience across the UK and Ireland.

4.2 Principles for Independent Fiscal Institutions

The first point to make is a Fiscal Council for Northern Ireland can carry out whichever functions the Assembly and Executive feel are necessary to improve fiscal scrutiny and accountability (limited of course by resources that are available). While there are principles that should be generally followed for the nature of their operation, the remit must be tailored to local circumstances.

Firstly though, we examine Independent Fiscal Institutions across the world. In 2014, the OECD set out a number of Recommendations on Principles for Independent Fiscal Organisations (OECD, 2014). This was part of the work of the network of Independent Fiscal Institutions (IFIs) across the organisation's members, many of which had grown up in the aftermath of the financial crisis in 2008/09.

This piece of work was partly assessing the nature of these organisations across the world (and acknowledging their heterogeneity) but at the same time coming up with a set of recommendations that all these types of organisations could aspire to. The full set of 22 principles are set out in the report, but these are summarised below under the nine broad headings with the most relevant issues highlighted for application to Northern Ireland:

- **Local Ownership** – an IFI requires broad national ownership, commitment, and consensus across the political spectrum. While a country seeking to establish an IFI will benefit from the study of existing models and experiences in other countries, models from abroad should not be artificially copied or imposed. Local needs and the local institutional environment should determine options for the role and structure of the IFI. Design choices may also have to take into account capacity constraints, *particularly in smaller countries*.

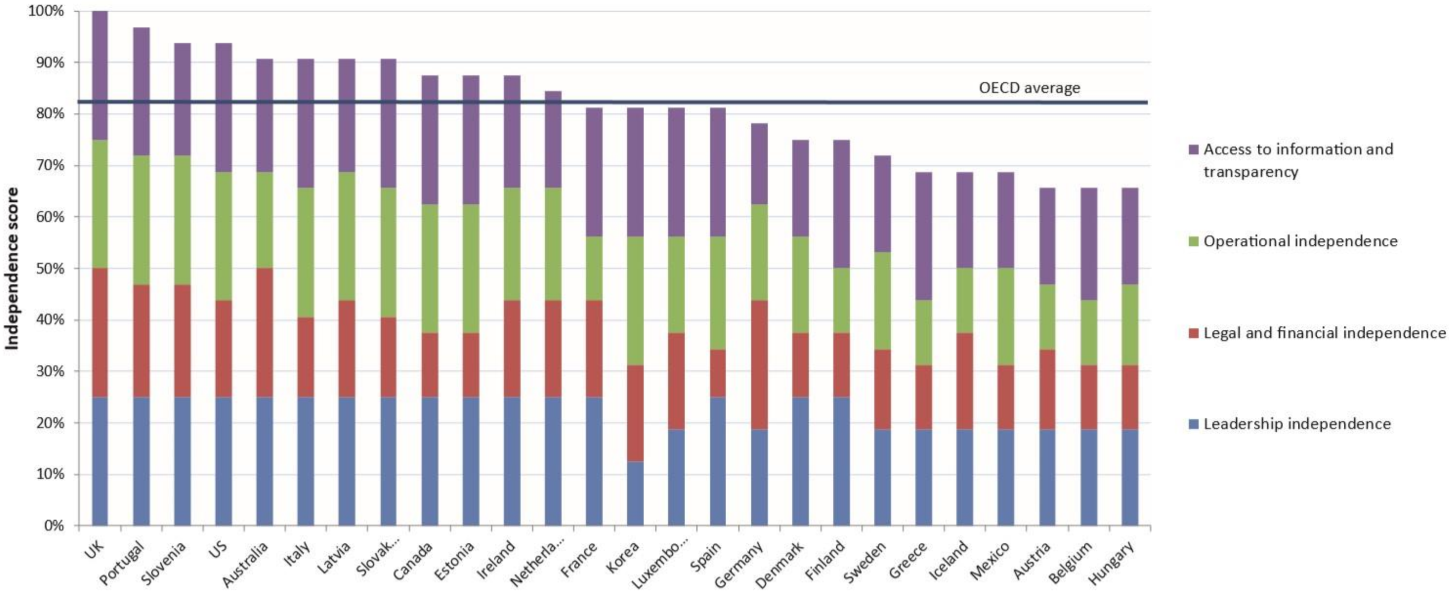
- **Independence and non-partisanship** – Non-partisanship and independence are prerequisites for a successful IFI. This favours that IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship. The position of head of the IFI (in the UK, this is generally referred to as the "Chair", Dame Susan Rice for the SFC, for example) should be a remunerated and preferably full-time position.
- **Mandate** - The mandate of IFIs should be clearly defined in higher-level legislation, including the general types of reports and analysis they are to produce, who may request reports and analysis, and, if appropriate, associated timelines for their release. IFIs should have the scope to produce reports and analysis at their own initiative, provided that these are consistent with their mandate. Similarly, they should have the autonomy to determine their own work programme within the bounds of their mandate.
- **Resources** - The resources allocated to IFIs must be commensurate with their mandate in order for them to fulfil it in a credible manner. Multiannual funding commitments may further enhance the IFI's independence and provide additional protection from political pressure.
- **Relationship with the legislature** - The role of the IFI vis-à-vis parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation.
- **Access to information** - Guarantee in legislation – and if necessary to reaffirm through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals.
- **Transparency** - Given that promoting transparency in public finances is a key goal of IFIs, they have a special duty to act as transparently as possible. Full transparency in their work and operations provides the greatest protection of IFI independence and allows them to build credibility with the public.
- **Communications** - IFIs should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders.
- **External Evaluation** - IFIs should develop a mechanism for external evaluation of their work to be conducted by local or international experts.

4.3 Fiscal Councils and PBOs across the world

The OECD maintains a database on 36 national and sub-national IFIs across the OECD (and Brazil) (OECD, 2019). This includes the most recently established IFI in the UK, the Scottish Fiscal Commission. As touched upon above, the heterogeneity of these institutions is very stark, with the organisations meeting the needs of the fiscal landscape in their own countries, and perhaps to particular political or financial events.

In 2018, the OECD assessed the current database of IFIs against the principles we have discussed, to give each institution an independence "score".

Figure 4: Index of IFI Independence



Source: OECD

The OBR in the UK was seen to meet all 22 principles that had been set out, and therefore was the only institution which received a score of 100%.

Incidentally, the model of the OBR is quite unusual across the world. That it produces its own forecasts that must be used by Government in determining its fiscal position and assessment of its fiscal rules, rather than certifying government forecasts or producing alternatives, this is quite an unusual set up. Given this is what we are used to in the UK, this has flowed through to the Scottish Fiscal Commission's role. The wider infrastructure does mean that the OBR and SFC operate in different ways, which we discuss below.

This makes both the OBR and SFC very powerful organisations by international standards.

4.4 The Fiscal Councils and Parliamentary Budget Offices in UK and Ireland

The most relevant examples for Northern Ireland to consider are those in the UK and Ireland. In this section, we focus in particular on:

- The Office for Budget Responsibility (OBR)
- The Scottish Fiscal Commission (SFC)
- The Irish Fiscal Council
- The Houses of the Oireachtas Parliamentary Budget Office

We will also briefly discuss the role of Financial Scrutiny Units in the Westminster, Scottish and Welsh Parliaments and in the NI Assembly.

4.4.1 Office for Budget Responsibility

The Office for Budget Responsibility (OBR) was created in 2010 to provide independent and authoritative analysis of the UK's public finances. They have 5 main roles:

- Economic and fiscal forecasting to accompany the Autumn Budget and Spring Statement;
- evaluate the Government's performance against its fiscal targets;
- assess the long-term sustainability of the public finances and analyse the public sector's balance sheet;
- evaluate fiscal risks from 2017; and
- scrutinise tax and welfare policy costings at each Budget.

Importantly, the OBR provides its forecasts on the basis of government policy, and cannot produce alternative costings which deviate from this.

In practical terms, the OBR draw heavily upon analysts in HMRC Knowledge, Analysis and Intelligence (KAI) Directorate for tax policy costing and forecasting, and the OBR's role is to interrogate and challenge these costings and forecasts, until they are happy that they can be certified. Similar processes are followed for Social Security Forecasting with the Department for Work and Pensions (DWP).

Economic forecasting is carried out by the OBR in various rounds and the determinants provided to HMRC to inform the forecasts.

4.4.2 The Scottish Fiscal Commission

The Scottish Fiscal Commission (SFC) was set up as a non-statutory body in 2014 to support the scrutiny of the Scottish Government's forecasts of the taxes that were devolved through the Scotland Act 2012. Following the Smith Commission and the Scotland Act 2016, the SFC was established on a statutory basis in April 2017.

The SFC has the following roles:

- Forecasting Scottish Government revenue from fully and partially devolved taxes and devolved social security spending;
- Forecasting onshore Scottish GDP;
- Providing an assessment of the reasonableness of the Government's borrowing projections.

The forecasts are used to inform the Scottish Budget, and the policy costings produced by the SFC must be used to determine how much changes to tax will actually raise or cost.

It is quite common to describe the SFC as "the Scottish OBR". It is true that they have the same provisions that their forecasts are directly used to inform the resources available, and that they have the same restrictions in terms of costing the policy of the Scottish Government and not alternative policies.

However, as discussed in section 3, there is not the same infrastructure in terms of the HMRC analytical function in Scotland, and so the SFC carry out the modelling and costing themselves, which requires more internal resources, and also poses some challenges around sharing of information with Government during fiscal events. On the upside, it does give the SFC more control over the content and development of tax and social security forecasting models.

In more recent times, the SFC have attempted to publish more information (SFC, 2020c) about the overall budget situation to inform the broader debate about Scottish finances, to some extent to enhance transparency where the Government's information can be lacking.

4.4.3 The Irish Fiscal Advisory Council

The Irish Fiscal Advisory Council (IFAC) was established on an interim basis in 2011 and put on a statutory footing in 2012 by the Fiscal Responsibility Act, which legislated for the implementation of national and EU Fiscal Rules.

Further EU regulations resulted in the Council being assigned the role of the independent body that would endorse the macroeconomic forecasts that underpin the budgetary outlook.

The IFAC has the following roles:

- To endorse, as they consider appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and Stability Programme Update are based.
- To assess the official forecasts produced by the Department of Finance. These are the macroeconomic and budgetary forecasts published by the Department twice a year—in the Stability Programme Update in the spring and in the Budget in the autumn.
- To assess whether the fiscal stance of the Government is conducive to prudent economic and budgetary management, with reference to the EU Stability and Growth Pact (SGP). The SGP is a rule-based framework that aims to coordinate national fiscal policies in the economic and monetary union.
- To monitor and assess compliance with the budgetary rule as set out in the Fiscal Responsibility Act. The budgetary rule requires that the Government's budget is in surplus or in balance, or is moving at a satisfactory pace towards that position.
- In relation to the budgetary rule, to assess whether any non-compliance is a result of "exceptional circumstances". This could mean a severe economic downturn and/or an unusual event outside the control of Government which may have a major impact on the budgetary position.

The IFAC operates in a different way to the SFC and the OBR. The SFC and the OBR have a small number of members (3 or 4 – albeit the OBR members have a much larger time commitment than the SFC) with a significant staff (25 for the SFC, 36 for the OBR) supporting the members with advice, analysis and modelling.

The IFAC has a Council of 5, with a secretariat of 6 supporting them.

4.4.4 The Houses of the Oireachtas Parliamentary Budget Office

In 2016, the OECD carried out a Review of Budget Oversight by Parliament in Ireland (OECD, 2016). A key recommendation is for the creation of an Irish Parliamentary Budget Office to provide specialist analytical support to parliamentarians so that they can carry out a more effective oversight and scrutiny role.

The key objective of the Parliamentary Budget Office (PBO) is to support the Houses of the Oireachtas and its committees in relation to fiscal issues and the management of the public finances. The PBO provides regular publications on the following issues:

- The EU fiscal rules including the Stability and Growth Pact (SGP), the Expenditure Benchmark (EB), the Medium Term Objective (MTO), and the EU Semester process;
- Irish and international macro-economic developments;
- The national budgetary process and rules including the Medium Term Expenditure Framework (MTEF);
- The composition and sustainability of the revenue base; and
- The efficiency, effectiveness and value for money of public services especially in the context of voted expenditure.

4.4.5 Fiscal Scrutiny units in the Westminster Parliament, Devolved Parliaments and Assemblies

As well as the bodies set out above, there are to different degrees units in the UK and devolved parliaments/assemblies who are there to support the Budget or Finance related Committees and the wider base of representatives in holding the Government to account on fiscal matters.

The support that these units provide gets more important as new powers are devolved to countries and regions in the UK, and fiscal arrangements get more complex. As the experience in Ireland has shown, in order for parliamentary scrutiny to be effective, appropriate resources must be made available to support this.

The proposals in the NDNA document have a mixture of roles that might be traditionally thought of as Fiscal Council or PBO roles. Despite this, it will be important to consider the overlap between this new body and the unit in the Assembly.

4.5 Key Considerations for a Northern Ireland Fiscal Council

4.5.1 Remit

As has already been discussed, the remit of the Fiscal Council should be driven by the needs locally to support fiscal responsibility and management. In the first instance, it will be important that the Fiscal Council fulfils the requirements in the NDNA agreement.

Translating this into a remit, the Fiscal Council could initially have responsibility for:

- Fiscal sustainability analysis, including sustainability of the tax base and an analysis of longterm pressures on the budget;
- Endorsement of and commentary on the outlook for currently devolved tax and social security payments, flagging potential fiscal risks;
- A role in the monitoring of the Programme for Government (PfG). This is the most tricky (and in terms of a Fiscal Council, unusual) of the roles, and it would have to be specified what the scope, frequency and nature of this would be. The NDNA sets out that the “Council

  will also provide independent monitoring and reporting on the Executive’s performance in delivering the Programme for Government”. It would be more usual for an organisation of this type to comment on how budgetary decisions could exacerbate or ameliorate fiscal risks, whether in the short, medium or long-term, and to assess the performance vis-à-vis fiscal rules. However, a Fiscal Council would not usually assess performance of every commitment in a PfG. It may be difficult for it to do this without straying into the detail of policy debates, potentially violating the principle of independence and non-partisanship.

In time, and perhaps alongside further devolution to the Assembly following a Commission, the role could evolve to include:

- Production and/or certification of economic forecasts for Northern Ireland; □ Production and/or certification of fiscal forecasts for the new powers; □ Monitoring of fiscal rules as determined by the NI Executive.

The experience in the UK and internationally is that the remit of an Independent Fiscal Institution is not static, and is likely to expand over time as the benefits of independently provided analysis is felt by those across the system.

4.5.2 Status of body & operating model

The recommendations from the OECD clearly set out that the role of the IFI should be set out in legislation, and that the body should be established as clearly independent from Government. Accountability and a statutory relationship to parliament is also an important factor.

With that in mind, the OBR and the SFC have been set up as Non-Ministerial Departments. This importantly gives the bodies the public status, which comes with obligations as it should for public reporting, without making them beholden to Ministers.

A key issue to decide upon is the operating model of the Fiscal Council. This may be (as it was in Scotland) driven by the will of the parliament in fulfilling the spirit of the remit of the body. So, the SFC moved from being a certifier of forecasts to a producer of forecasts during this process. This operating model determines the relationship and interaction with Government, and also influences the number, and the type of staff required by the Council in discharging its duties.

4.5.3 Membership and Appointments Process

The membership of the Fiscal Council depends of course on the remit of the Council. In the early years, it is of course preferable that the Chair or Leader of the Fiscal Council should be experienced in the working and operation of a Fiscal Council, so as to quickly establish its credibility. This could be considered as an interim appointment whilst the permanent Council is set up, and perhaps while the Council is being put on a statutory footing. This was the experience in Scotland, with credible appointments made quickly to the non-statutory Commission, before open competitions for new Commissioners since then.

However, it is important in general to consider those who are experienced in the field of assessment or forecasting which makes up the remit of the Council *specifically*. So, this often means in the field of public sector finances and public sector budgeting. For example, if the Council has the remit to either produce or to certify economic forecasts for Northern Ireland, it is important that the members have expertise in forecasting for the purposes of practical use for public sector budgeting, rather than for academic endeavour.

In line with the principles set out by the OECD, the appointments process should be open and transparent. This would point to using the public appointments process, as is used by the OBR and the SFC. It is worth saying, as touched on above, that initial appointments for the SFC were not openly advertised, and the original Chair (Dame Susan Rice) has been appointed for a second term (which must end in 2022). However, this reappointment was approved by parliament, as all Commissioner appointments must be.

The commitment of members must also be determined. The OBR’s Budget Responsibility Committee (BRC) has a full time chair, with the other two members being 0.6 FTE. In contrast, the SFC’s Commissioners are 0.3 FTE. Obviously, both the 0.6 & 0.3 time commitment is not spread out evenly over the year, with the majority of time being used in the run up to fiscal events.

This decision has a number of implications, including the role of the head of the staff in the Council, and also the diversity of members of the Council. In the 2019 OECD Review of the Scottish Fiscal Commission (OECD, 2019b), the OECD set out that:

> *“The Commissioners work part-time and have a time commitment of 78 days a year (approximately 0.3 FTE). Given that the SFC’s mandate and functions are likely to grow, the possibility of having a full-time Chair (or Commissioner) should be considered. This can be done under the current legislation. Part-time positions may be more attractive to certain candidates, for example, those towards the end of their career or academics. The option for the Commissioners or Chair to be part or full time could help widen the diversity of candidates in the future. In addition, some stakeholders expressed that they would like to have more interaction with the Chair and Commissioners but that this was difficult due to the part-time nature of their positions and the fact that they are not necessarily based locally.“*

4.5.4 Transparency

It is essential that the new body must both be seen to be, and actually be, transparent in its operation. Part of this is to publish all documents that the IFI produces in an accessible manner.

To demonstrate transparency, the SFC proactively sought to voluntarily comply with the Code of Practice for Official Statistics, despite not being an official statistics producer (SFC, 2018). These principles are very much in line with the principles for IFIs, but provide a practical framework for making information accessible and engaging with users in an open and transparent manner.

4.5.5 Resourcing

The resourcing of the Fiscal Council must be in line with the scope of its responsibilities – as set out by the OECD, “commensurate with their mandate in order for them to fulfil it in a credible manner”. As already discussed, the numbers of members and staff vary markedly between different bodies depending on their remit and how this is discharged.
The budget for the OBR in 2020-21 is £2.775m, and the budget for the SFC is £2.048m. The cost of the IFAC in 2019 was approximately EUR 815,000.

4.5.6 Interlinkages with Government & Access to Information

Relationships with many parts of Government are key to the effective operation of an IFI. These relationships should be put on a formal footing to ensure they are appropriate, through documents such as a Memorandum of Understanding (MoU).

The OBR has a MoU with HM Treasury, the Department for Work and Pensions and HM Revenue & Customs (OBR, 2011). As they put it on their website, this sets out the formal “rules of the game” for working with them as they seek to produce their forecasts.

Likewise, the Scottish Fiscal Commission sets out a statutory Framework Document, which governs the formal relationship between the SFC, the Scottish Government and the Scottish Parliament (SFC, 2019a). A much more detailed Protocol sets out the engagement between the SFC and the Scottish Government, especially during forecast periods, and covers things like notice periods, timescales for sharing information, and the mutual expectations they have for each other (SFC, 2020a).

In addition, the SFC have agreed MoU with the DWP (SFC 2019b), HMRC (SFC 2019c), the OBR (2019d) and Revenue Scotland (2019e).

One of the issues that is central to these MoUs discussed above is of course the access to information. The OBR has a statutory right of access (to reasonably carry out their duties) to all bodies in the UK: one of the gaps in the rights of the SFC is while it has a statutory right of access to Scottish public bodies, it has no statutory right of access to information from UK bodies.

The principles for IFIs state that the right of access to information should be enshrined in law. However, agreements like MoUs will always be required to supplement these to set out mutual expectations. For example, even though the OBR has a statutory right of access to information from HMRC, that does not mean that HMRC have unlimited resources to devote to OBR requests.

The OECD reviewed the situation across IFIs in terms of access to information (OECD, 2020). It concluded:

> *“Informal, frequent, two-way contact at all levels between the IFI and information provider is hugely important. Good working relations foster better understanding of needs and practicalities and avoid unnecessary bureaucracy and delay. Working groups, contact points, agreed timescales and formats for delivery of information all help.”*

This informal engagement and relationship building is essential to ensure that relationships are constructive and helpful and not just functional and transactional.

In the early days of its operation, the SFC found some challenges in getting access to the data that they required. Following an inquiry by the Scottish Parliament's Economy Committee into Economic Data in Scotland, they began to publish an Annual Statement of Data Needs, which allows progress in accessing data to be highlighted, along with existing or new areas of concern (SFC, 2020b).

4.5.7 Review

The OECD Principles set out that an IFI should submit itself for review – and indeed, it is often the OECD that carries out such reviews to provide an assessment of how well organisations are meeting the principles, and recommendations about improving adherence.

In the SFCA 2016 which set up the SFC, it committed to the first review after two years, and a review every 5 years thereafter. We would recommend that longer than 2 years should generally elapse before a review should be carried out.

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From the Minister of Finance

Dr Steve Aiken OBE MLA Chairperson to the Committee for Finance
committee.finance@niassembly.gov.uk

Private Office
2nd Floor
Clare House
303 Airport Road West
BELFAST

Dear Steve

BT3 9ED

Tel: 028 9081 6216
Email: private.office@finance-ni.gov.uk

Our reference: *CORR-0973-2021*

Date: *15 June 2021*

FISCAL COUNCIL/FISCAL COMMISSION PROGRESS

Thank you for your correspondence of 4 June 2021 regarding the Fiscal Council and Fiscal Commission. Specifically, at its meeting of 2 June 2021, the Committee agreed to seek an update on the work of the Fiscal Council and Commission. The Committee is also seeking an update on the progress of the relevant legislation in relation to the Fiscal Council.

As both the Fiscal Council and Fiscal Commission have been established as independent bodies, I would suggest that update requests regarding their work are sought directly from each. I know my officials have already provided the Committee Clerk with relevant contact details and I understand that the Chair and members of the Fiscal Council provided a written briefing and oral evidence on their work to date to the Committee on Wednesday 9 June 2021.

In terms of legislation, my Department is currently considering the options available regarding the approach and a possible legislative timetable to put the Fiscal Council on a statutory footing, including what could be feasibly achieved in the current mandate. The Department welcomes the willingness expressed by you, as Chair of the Committee for Finance, to consider this also and officials will engage with the Committee Clerk on this matter.

Is mise le meas

Conor Murphy.

CONOR MURPHY MLA MINISTER OF FINANCE

APPENDIX 5

BACKGROUND PAPERS

Links to:-

OECD Evidence Session:

Access to Information for IFIs

OECD Review of SFC

IFS Evidence Session:

Excerpt from the IFS paper 'The New Fiscal Framework: An Assessment'

IFS submission, from 2019, to the Treasury Committee's Inquiry on 'The impact of business rates on business'

Excerpt - The Taxation of Land and property

SFC Evidence Session:

Scotland's Economic and Fiscal Forecasts January 2021 Summary

Public Statement of Data Needs September 2020

NICVA and UUEPC Evidence Session:

PwC: A Review of the Fiscal Powers of the Northern Ireland Assembly, 2013

IFAC Evidence Session:

Non-Technical Summary December 2020

Long-term Sustainability Report July 2020

PBO Evidence Session:

Presentation: Demystifying Scrutiny of the Revised Estimates for Public Services

Analysis of Voted Spending on Public Services at end-October 2020

OBR Evidence Session:

Budget Responsibility and National Audit Act 2011

HM Treasury: Charter for Budget Responsibility – Autumn 2016 Update

Framework Document HMT and OBR

OECD Review of OBR 2020

MoU Welsh Government and OBR

ToR Between Welsh Government and OBR

Financial Framework Between Welsh Government and OBR

Welsh Taxes Outlook December 2020

APPENDIX 6

RESEARCH PAPERS

Link to:-

Roles and Remits of Independent Fiscal Institutions: United Kingdom and Ireland. NIAR 259-20

This Report can be made available in a range of formats including large print, Braille etc. For more information please contact:

Peter McCallion
Clerk
Committee for Finance
Room 373
Northern Ireland Assembly
Parliament Buildings
Ballymiscaw
Stormont
Belfast BT4 3XX

Telephone: 028 90 521821

Email: *committee.finance@niassembly.gov.uk*

Twitter: @NIAFinance