

Written evidence submitted by Dr Esmond Birnie, Senior Economist, Ulster University Business School (NDE0001)

1. *Does the New Decade, New Approach (NDNA) agreement adequately address institutional flaws that have contributed to the periodic breakdown of devolved government?*

The NDNA did secure a return to devolved government after a gap of 3 years. That achievement is welcome but nevertheless the institutional changes in NDNA were comparatively small. NI continues to face the challenge of operating a very unusual form of government: a five Party coalition some of which is mandatory. To the extent that the breakdown in 2017 was caused by “culture” (i.e. *how* the Parties, particularly the two largest Parties) operated the institutions as much as by the institutions themselves it remains to be seen how much is different this time round.

As an economist I would wish to comment on the financial aspects of the devolution settlement. Here several points are relevant: (1.) “money” (or the lack of it) played a part in creating instability along with the impact of any institutional weaknesses and lack of a culture of co-operation and common purpose (e.g. the unbalanced Executive Budget in 2014, disagreements over welfare reform during 2015, RHI 2016-17), and (2.) I see only limited evidence that in NDNA Stormont’s financial settlement and its relationship with HM Treasury is any sounder than it was before.

2. *What effect will the institutional reforms in the New Decade, New Approach deal have on collective responsibility and cross-departmental working in the Executive?*
 - *What effect will the reform of the Petition of Concern have on unity in the Executive?*

I would repeat my point from Question 1- the changes in the institutions may be of lesser significance than whether there is now a new, more co-operative, collegiate culture or spirit between the Executive Parties and particularly the DUP and SF: true collective responsibility (and responding to the current COVID-19 situation will be a very important test case).

3. *What effect will the establishment of a Brexit sub-committee have on the Executive’s ability to handle issues derived from Brexit?*

Given that Brexit is an important and cross-cutting issue the establishment of such a sub-committee makes a lot of sense. Here are some observations:

- To a certain extent it should be possible to reach consensus across the 5 Executive Parties notwithstanding previous differences pro or anti-Brexit in principle: general agreement that frictions to trade in both directions (East-West and North-South) should be minimised.
- There could be a danger, perhaps evidenced in earlier Executives’ Programmes of Government, of a lowest common denominator and a bias to the *status quo*. I would imagine the Executive will feel that it should, for example, press to continue previous provision for relatively easy access of low wage migrant labour into NI and a high level of farm support subsidy. Whether those policies which existed during our membership of the EU were really in the long term interest of the NI economy is much less clear to me.

- Even if the Executive can better articulate NI priorities re. Brexit, it remains to be seen how far the UK central government will be receptive. Even if NI-specific points are included in the UK government's position it remains to be seen how far they would be successfully included in the outcomes in terms of the final deal on the long term trading relationship.

4. *Does the introduction of reforms allowing "caretaker" Ministers to remain in place following a breakdown in power-sharing mean that the civil service will never again have to run Northern Ireland?*

This reform weakens a bit (in the sense that the effect is felt much less quickly) the ability of either of the two largest Parties to collapse the institutions by a walk-out. However, that power is still there. Obviously, one would like to think that NDNA has been accompanied by a sea change in political culture and attitudes so that all of this becomes rather theoretical. Only time will tell.

As an economist I believe that decision makers, in this case politicians, do respond to incentives- carrots and sticks. Unfortunately that would probably imply that the UK government (and perhaps the Dublin government too) needs to think about how it indicates to the Stormont Executive politicians that in the event of any future walkout/collapse the consequences of that would be less favourable for their Party's position than those of continuing to operate the institutions. Basically the UK Government needs to credibly signal to either the DUP or SF, whichever is threatening to leave the Executive, that any administration of NI beyond devolution whether full Direct Rule or otherwise will not be an attractive outcome for them.

5. *Will the New Decade, New Approach agreement achieve its stated aim of transforming public services in Northern Ireland?*

- *Does the Agreement have the level of ambition required to reform public services in Northern Ireland?*

There is certainly a lot in NDNA re. achieving more and better outcomes for NI citizens. There is a bit (see next question) re. how to fund that. However, the two key words in this question are "transforming" and "reforming" and I don't see much detail in NDNA about how to do public services differently in order to achieve "more for less" or "better for the same". I don't think there is much ambition in the text although perhaps there is some below the surface- the NDNA contains many admirable quantitative targets (e.g. "No one waiting more than a year for treatment...etc.") but there is a lack of detail about how these would be attained. It might be objected that the detail of reform is something for Departments' operational plans- well, time will tell when we see those plans. Certainly, the recent publication of the recent Report on RHI provides an opportunity to look at and improve the governance of NI's civil service and public sectors.

Much will depend on the contents of the Executive's Programme for Government (PfG)- both in Year 1 terms and a longer-term/multi-year document (of note and commendably because this has not happened before the latter will be linked to Budgets). The PfG will be a good indicator of how far things are actually being done differently.

6. *Is the UK Government's £2bn commitment sufficient to support the delivery of the commitments made in NDNA?*

- *Can you explain the thinking underpinning your assessment that some £5bn is required to reform public services in Northern Ireland?*

In January 2020 I attempted to add up the various shortfalls in public spending (unfunded spending pressures) identified by senior officials, the NI Audit Office and other public agencies. This is not quite the same as what is been asked for in this question, i.e. a costing of the commitments made in NDNA and the required investment needed to “reform” but nevertheless there is a lot of over-lap. My reckoning was a funding shortfall in January 2020 of at least £4.5bn for capital spending (i.e. once off projects notably in terms of health reform and clearing waiting lists and in terms of investing in the NI water and sewerage system) and at least £0.5bn for recurrent or annual current spending (notably schools and health service pay and running costs): see *Belfast Telegraph* 14 January 2020

Following the restoration of devolution we have seen a bidding war between the various Stormont Departments as Ministers, Permanent and Under Secretaries have stated their needs. This has implied that almost certainly the figure for total indicated funding “needs” is even higher:

Unfunded Capital spending pressures		
Item	Amount-approximately	Source of estimate/comments
Roads maintenance	£1.2bn	NI Audit Office. For context compare to Chancellor’s Budget 2020 announcement of £2.5bn to “fill” 5m pot holes across England. https://www.belfasttelegraph.co.uk/news/northern-ireland/12bn-hole-in-budget-needs-filled-to-bring-roads-up-to-standard-audit-report-reveals-37949820.html
NI health-clear waiting lists and implement Bengoa reform	£1.1bn	Health Permanent Secretary. £50m p.a. for 7 years to clear waiting lists. £150m p.a. for 5 years to do Bengoa. https://www.bbc.co.uk/news/uk-northern-ireland-48281652 http://www.irishnews.com/news/healthcarenews/2019/06/12/news/nhs-will-require-entire-ni-budget-by-2039-without-reform-health-chief-warns-1639928/
Water-particularly water treatment and sewerage system	£1.5bn-£2.5bn	Northern Ireland Water (NIW). Range depends on quality of output desired. Over 6 years 2021-27. https://www.belfasttelegraph.co.uk/news/northern-ireland/ni-water-warns-half-northern-ireland-treatment-plants-will-reach-full-capacity-by-2027-38881726.html
York Street Inter-change	£0.2bn	(Major junction redesign in Belfast connecting NI’s two main motorways.) As stated previously in the Confidence and Supply agreement.
Other improved roads, railways	£0.1bn	My estimate, perhaps “modest”. Difficult to ascertain because there are several big roads projects in the pipe-line but sometimes behind schedule (money was in earlier capital budgets but remained “under spent”)
School buildings	£0.4bn	Education Minister
Digital- ultra high speed	£0.2bn	As in Confidence and Supply

Capital total	£4.8bn- £5.8bn	
Unfunded Current or recurrent spending pressures		
Education-pay, SEN	£0.4bn	Education Minister
Social housing in NI (NIHE)- maintenance and new builds	£0.5bn	Communities Minister estimate of maintenance and new build requirements- £3bn total over 11 years plus £4.1bn total over 30 years. https://www.belfasttelegraph.co.uk/news/northern-ireland/housing-executive-raises-rents-in-bid-to-tackle-funds-shortfall-38975405.html
Universities and FE Colleges	£0.1bn	Previously (2016) the Employment and Learning Minister identified that a combination of lower block grant support and lower tuition fees implied a funding shortfall to NI HE of £50m p.a. I am adding a modest amount for FE estate plus training provision.
Police pay, police numbers, Court Service, Translink operating subsidy	£0.1bn	https://www.belfasttelegraph.co.uk/news/northern-ireland/millions-needed-to-avoid-imminent-collapse-of-northern-ireland-public-transport-network-38970997.html
Health pay	£0.1bn	https://www.bbc.co.uk/news/uk-northern-ireland-51100349
Making up likely reduction in UK government transfer to NI for support payments to farming compared to previous EU	£0.2bn	My estimate- comparing £300m now (as per EU Single Farm Payment etc.) to NI's population share (3%) of UK farming support spending of £3bn (and that latter figure may go down too)
Putting in place infrastructure etc. to achieve carbon zero by 2050	£0.4bn	The Infrastructure Department have argued that £0.3bn p.a. is required to shift public transport vehicles to renewables. Also some money for putting in place charging points etc.
Welfare reform mitigation	£0.1bn	The previous four year package (ending March 2020) was £125m p.a. (although large under-spends).
The new institutions (Commissio	£0.1bn	

ns etc.) in NDNA		
Current total	£2bn	

A number of observations could be made about these figures:

- Many (most?) of the figures are somewhat approximate but there can be no doubt that when they are totalled up the combined sums are enormous- compared to baseline spending in 2020-21 of £1.7bn for capital and £11.5bn for current (as in the HM Treasury March 2020 *Budget* document).
- There has to be some suspicion that Ministers or their officials have sometimes given worst case scenarios as part of their bidding for extra funds: “bleeding stumps”. Even allowing for this, the sums remain very large.
- A lot of these funding requests look like doing more of the same rather than supporting transformation.
- Sometimes the line between current and capital is questionable. Some of the capital spend could be spread over a number of years. Strictly, the £7.1bn bid for the NI Housing Executive is partly capital (to build new houses) but given the suggested spread over 10-30 years has been included here under “current”.
- I cannot judge whether the NI political Parties really went into the NDNA negotiations seriously believing that the UK government would provide an extra £5bn of resources- if that was their expectation disappointment was almost inevitable.
- The analysis in the Table might prompt the question as to what the Executive should do given that its stated aspirations have clearly exceeded resources. A response could contain the following elements:
 - Ask (negotiate with) HM Treasury for more money. Worth trying but do not expect any easy victories. Remember that the Executive and HM Treasury are in a long term relationship and the past performance of the Executive has probably reduced the credibility of the Executive (perhaps viewed by HM Treasury as irresponsible and suffering from the moral hazard produced by a history of soft budget constraints).
 - Seek more generous terms and conditions from HM Treasury, e.g. in terms of the various loans, NIHE debt etc.
 - Priority setting. This may need to be ruthless- you can’t have everything and you certainly can’t get it this year or next! What in France are called *Grand Projets* are off the table.
 - Efficiency of spend. The NI Audit Office (December 2019) recently reported on a weak record in terms of major public procurement projects: <https://www.niauditoffice.gov.uk/publications/major-capital-projects-0>
 - Recognise that used imaginatively and in a cost effective manner private capital *could* play a role, e.g. a change in the status of the NIHE housing stock (85,000 dwellings) could perhaps enable borrowing from private capital markets. A strategic review for the Social Development Department in 2011 recommended that stock move to a social enterprise landlord:

http://www.niassembly.gov.uk/globalassets/documents/social-dev/housing/nihe-review/pwc_report.pdf

- (Perhaps the main response but also the hardest one to do) revenue raising- since 2007 the devolved administration's focus was on keeping regional taxes and charges at a low level which has produced a major gap compared to revenue raising in GB (perhaps £300m-£500m annually):
<https://www.nicva.org/resource/review-fiscal-powers-northern-ireland-assembly>. Whilst the rationale of this policy in terms of protecting household disposable income is understandable it has become a luxury we can no longer afford.
 - Clearly, the analysis summarised in the Table is pre-COVID-19. Importantly, the UK government has taken a "we will do whatever it takes attitude" accompanied by considerable fiscal resources. The latter reads across to the NI Executive as Barnett consequentials (to date about £900m). Obviously, the Executive faces choices and dilemmas as to how far when it receives such money it simply copies GB spending patterns or does it shift the allocation of spending (e.g. spend relatively more on welfare benefit protection as opposed to support to businesses and hence employment and wages levels- I would counsel caution about doing so). In terms of this NIAC Inquiry an interesting and worrying question is whether the economic and human costs of the virus will have "scarring effects"- new and "permanent" unfunded spending pressures. It seems quite probable there could be some of these (e.g. higher unemployment leads to an increase in long term unemployment and consequent social and health distress).

7. *Does the Executive have clarity and certainty on the funding that will be made available to it to meet the commitments set out in the Agreement?*

There is some clarity albeit that has been developed over time. Certainty as to total amounts of resources is elusive given that as we have already seen in terms of the 2020 Budget a number of Barnett consequentials will come along over time. The Annex to the NDNA agreement did set out what bits of funding would be provided by the UK government and what bits would relate to Barnett consequentials which were coming in any case. That position was further clarified a few days later in terms of the UK government statement about the "£2bn".

8. *What powers will the Independent Fiscal Council (IFC) need to improve the long-term sustainability of Executive finances?*

- *What are the barriers to the effective operation of the Independent Fiscal Council?*

A number of considerations are relevant:

- For the IFC to work well it will need a good and strong working relationship with both HM Treasury and the NI Department of Finance (DoF)- notably in terms of timely and user-friendly provision of data- but it must be absolutely independent of both and be seen to be independent.
- The previous point has implications for resourcing- this cannot be done properly on the cheap. For comparison, the Scottish Fiscal Commission has 4 Commissioners (2 of the 4 might be described as having careers which have mainly been located in

Scotland) as well as a staff of 25- just because NI's population is about one-third that of Scotland's it would be a mistake to assume an IFC could function with "only" eight staff.

- As part of its evaluation of the sustainability of the Executive's fiscal plans IFC will probably wish to use forecasts for the growth of the NI economy. This raises the question whether the IFC performs such modelling in-house or does it form a relationship with one of the existing regional economic forecasters (e.g. Danske Bank, EY, Oxford Economics, PropertyPal, PwC, UUEPC)?
- The IFC will need to establish its credibility. If necessary through robustness of its conclusions.
- Whilst comparisons with existing institutions (the OBR and the Scottish Fiscal Commission) are useful it is worth noting that NDNA envisages a broader scope for the IFC-not just questions of fiscal sustainability but having a role monitoring the implementation of the NI Executive's Programme for Government. Previous PfGs were associated with the publication of some useful and timely data relating to the extent to which PfG targets were attained or not through a "RAG" framework (i.e. Red, Amber, Green). For an analysis of the 2008-11 PfG in this regard see a report by PwC in 2011: <https://www.pwc.co.uk/assets/pdf/ni-gov-futures-prog-for-gov.pdf>

9. *What effect will the creation of the Joint UK Government-Executive Board have on long-term, sustainable use of public funds*

It should be beneficial but what we see here is a classic policy making trade off. In an ideal world Stormont would not have needed this degree of oversight but RHI and other difficulties in the Executive's relationship with HM Treasury imply it is necessary. The Board could imply that HM Treasury becomes a bit of a back-seat driver as far as policy making in NI is concerned. This cuts across the spirit of devolution but past experience suggests the Executive needs oversight and would benefit from an external institution willing and able to exercise a challenge function.

10. *What effect will linking funding for public services to the formation of the Executive have on the future stability of the Executive and governance in Northern Ireland?*

I am not sure what this question means but I will interpret it as follows, "In January 2020 the NI Parties were presented with NDNA as something of a take it or leave it position from the UK and Dublin Government- agree to this and devolution comes back and you get some extra money but if you don't agree the unsatisfactory status quo continues and there is no extra money". A number of observations follow:

- Was there an element of "bribe" in all of this? Yes, or to put it another way, the UK and Dublin Governments established a credible threat of walking away which left the NI Parties the two alternatives of agree on the stated terms or also walk away and face the prospect of Stormont being out of operation for an indefinite duration.
- Could there be some undesirable consequences from this approach? Yes, there could. The NDNA was clearly put together in haste and it sometimes shows.
- Was this use of incentive/threat necessary? A difficult question but perhaps it was necessary in the sense that without it no agreement would have been reached. It must also be recognised that in the context of the health sector pay parity dispute and strikes public opinion in NI was strongly pushing the NI Parties to agree to restore devolved government.

There may be a grim irony here (perhaps appreciated only by economists and game theorists!) that all of this reduced the ability of the NI Parties to make a credible threat to walk away from the negotiations and hence their bargaining power relative to the UK Government was reduced.

- Importantly, pp. 54-55 of NDNA states a conditionality of future additional funding for Stormont in terms of:
 - The IFC needs to be established.
 - From 2021/22 the Executive must establish multi-year Budgets.
 - The UK Government considers the implications of the RHI Report.

19 March 2020