

Written evidence submitted by Paul Mac Flynn, Co-Director, Nevin Economic Research Institute (NDE0002)

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Questionnaire: New Decade, New Approach agreement ***Stability of Devolution in Northern Ireland***

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

It has become quite clear in the years since the Brexit referendum that the absence of an Executive not only prevented Northern Ireland from having a strong voice in the negotiation process but also led to confusion over what the fundamental issues affecting Northern Ireland were. This became particularly acute during 2019.

The absence of an Executive allowed political parties to avoid consideration of what the practical impact of the policies that they espoused were. The absence of responsibility for governing Northern Ireland allowed politicians to make statements and propose policies that were, by any reasonable economic analysis, detrimental to the economy of Northern Ireland. It is quite clear that this misrepresentation of the interests of Northern Ireland also led to a sub-optimal outcome from the negotiations that ultimately determined the 'Ireland Protocol' in the Withdrawal Agreement.

The Ireland Protocol as envisaged in the first Withdrawal Bill put before the UK parliament was undoubtedly a superior arrangement for Northern Ireland's economy. Had the NI Executive, and a dedicated Brexit sub-committee, been in place, this would have given greater scope for the Withdrawal Bill to be discussed in terms of the effect it would have had on Northern Ireland's economy. Furthermore, it would have provided a mechanism whereby those who opposed the protocol on ideological grounds could have supported the bill on practical grounds.

In the forthcoming UK-EU trade negotiations, it is imperative that Northern Ireland articulates a clear and unambiguous statement of what it requires from any deal. Having an NI Executive and a Brexit subcommittee should at least provide a mechanism whereby that position can be arrived at. That political actors in Northern Ireland will be in key positions of responsibility for the Northern Ireland economy at this time should help to concentrate minds on the practical implications of any policy. It should also hopefully avoid the more irresponsible assertions which permeated the political response to the withdrawal agreement negotiations.

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?

I think the idea that the civil service was 'running' Northern Ireland is an unhelpful description of the position over the last three years. In all my interactions with civil servants it was quite clear to me that they were happy to carry out the functions and responsibilities that they have always exercised. However, they felt deep unease acting beyond existing ministerial instruction. The UK

legislation that gave permanent secretaries of departments in NI new powers to make decisions particularly with regard to departmental budgets, ameliorated this situation somewhat.

Whilst the situation in Northern Ireland during the absence of power sharing was not ideal, the system coped reasonably well. It also needs to be accepted that while caretaker ministers would have negated the need to empower permanent secretaries, the overall outcome would not have been drastically different.

In other jurisdictions, caretaker ministers are, by convention, limited in what decisions they can make, particularly with regard to financial matters. Caretakers ministers in Northern Ireland would therefore have exercised a role not dissimilar to that carried out by permanent secretaries over the last three years. As caretaker ministers have no democratic legitimacy, they face a similar constraint to permanent secretaries with regard to new policy or spending. They would be limited to decisions of day-to-day management of departments and it seems unlikely that they would have altered the governance of Northern Ireland dramatically over the last three years.

That caretaker ministers may provide a political incentive to restore the Executive is questionable given that all major political parties would be represented in both the outgoing and incoming executives.

UK Government Financial Commitments

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

While there are a number of references to ‘transforming public services’ in the New Decade, New Approach document, specific examples seem to be limited to existing reform programmes and reports or aspirational outcomes with regard to health, education or the criminal justice system. There is little detail on what exactly public services in Northern Ireland are to be expected to transform into.

Public services in Northern Ireland, like any other region of the United Kingdom have suffered from almost a decade of constrained finances. They are, at present, struggling to deliver the services that the public already expect from them. The suggestion that, without a significant injection of resources, public services can undergo major structural reform is not based in reality.

There are undoubtedly a significant number of reforms that could be undertaken to ensure the efficient and sufficient delivery of public services in Northern Ireland. These matters should be within the purview of ministers in the Executive who can undertake these reforms with the support of all stakeholders and representatives that will be impacted or otherwise affected by such reforms. In some cases, such as the Bengoa Report for the health service, large structural reforms are necessary. However, much of the work of public service reform takes place at the micro level and requires careful and diligent work over a long period of time. The process also requires coordination within government and buy-in from the public. It may take months to devise and years to implement such policies and they must be dynamic enough to change to meet unanticipated demands on services throughout the process.

A document such as New Decade, New Approach, is by its nature, confined to addressing short-term policy disagreements and funding shortfalls. That is as it should be. The reform of Northern Ireland’s public services should be left to the democratically accountable ministers in the NI Executive.

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

See above.

6. Is the UK Government's £2 billion financial commitment sufficient to support the delivery of the commitments made in the New Decade, New Approach document?

In short, no.

At least half of this £2bn represents the pre-announcement of Northern Ireland's likely UK budget settlement over the next four years. It is welcome that the projected path of UK spending will now see the block grant in Northern Ireland finally return to its 2010 level in real terms. However, the suggestion that this will ameliorate the pressure on Northern Ireland's public finances is misguided.

In the first instance, the effect of the previous 10 years of fiscal contraction and suppression have significantly impacted the ability of public services to deliver in Northern Ireland. A gradual return to their pre-2010 level, is a necessary but not sufficient measure to restore their capability.

Secondly, the growth of spending in the health service means that while overall levels of public spending may have recovered, this is not the case for the vast majority of individual services.

Thirdly, while departmental spending limits are set to be restored to pre-2010 levels, the same cannot be said for welfare spending. The significant cuts made to working age benefits in Northern Ireland are not set to be reversed. This matters because reduced benefit spending has increased pressures on departmental spending.

On the capital side, the shortfalls in expenditure can be seen in the infrastructural deficits across Northern Ireland, particularly in transport and energy. When calculating the effect of cuts to capital expenditure, it is necessary to look at cumulative loss, as the economic impact of foregone investment is compounded year on year.

Therefore, while departmental spending may see significant increase over the coming years, it is unlikely to have much impact in reversing the impact of the last 10 years.

New Decade, New Approach does provide specific funding for certain policy priorities and while the intention may be good, there are significant flaws with this approach. For example, the NDNA provided £200m to solve the recent industrial dispute in nursing. However, the money is not an on-going commitment. It provides support for 3 years and then runs out. Public sector pay increases are a continuous commitment of funds. This creates a public finance cliff edge where time-limited funds are committed to and on-going resource expenditure.

This was also the case with the welfare reform mitigations set out in the 'Fresh Start Agreement'. The mitigations were time limited and in order to maintain them, the executive had had to find the equivalent amount of money from the block grant in order to continue these policies.

This is not a responsible way to run any set of public finances. What Northern Ireland needs is long term financial security for the delivery of public services. Short-term, time-limited, quick fixes are no substitute for that.

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?

To add to the above, there is certainty regarding £1bn of the commitments, but their effect is likely to be short-lived. For the remainder, the certainty will come from the UK spending review this summer.

Scrutiny and Conditionality of Public Spending in Northern Ireland

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

In order to be effective, the independent fiscal council needs to be concerned with more than just simply costing government spending decisions as they arise in the budgetary process. By this I mean that an independent fiscal council needs to be able to evaluate the cost of policies that have not been chosen. In particular, the fiscal council needs to have a mandate to evaluate costings where Northern Ireland has chosen to implement a UK wide policy and where it has chosen to diverge and develop its own set of policies.

The latter obviously refers to the recent experience of the Renewable Heat Incentive scheme in Northern Ireland. Here, the NI executive elected to follow a different policy than that implemented by the UK government. It is clear from the inquiry into the RHI scheme that ministers and departmental officials were unaware that this would open a financial penalty for Northern Ireland should the profile of its scheme diverge from that of the projected spend of the UK-wide scheme.

An independent fiscal council also needs to be able provide distributional analysis of spending decisions in Northern Ireland, particularly with relation to income. The NI Executive has significantly limited revenue raising capability, but spending decisions have as much impact on income distribution as tax decisions. If an independent fiscal council is to be able to provide robust analysis of the Northern Ireland Executive, it must be able to evaluate the where money is spent, how and why it is spent in that way and to who's benefit.

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

An independent fiscal council should comprise of members appointed by the Northern Ireland Assembly with at least one external appointment made by either the Northern Ireland Office or HM Treasury. The Council should have a secretariat to carry out work as directed by the fiscal council.

An independent fiscal council must be located outside of any government department. It must not be, as is currently the case with the Northern Ireland Statistics and Research Agency, an executive agency within the Department of Finance. While collaboration between government departments and statisticians may be useful for the operations of NISRA, it would be better for the fiscal council to be a non-departmental public body sponsored by the DOF, as is the case with the OBR and HM Treasury.

As the fiscal council will be expected to criticise and evaluate government policies, the relationship between the council and government needs to be more distant.

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

If an independent fiscal council is set up and operates effectively, the Joint UK Government Executive Board should have the relevant analysis to be able to make judgements about long-term, sustainable use of public funds.

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 think this is an unnecessary and ill-conceived incentive mechanism. The political leverage that it might exercise will be far outweighed by the disruption and damage it will do to the effective and efficient operation of public services in Northern Ireland.

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