



Northern Ireland
Assembly

Committee for Finance

OFFICIAL REPORT (Hansard)

Draft Budget 2021-22: Pivotal

10 February 2021

I have been the director of Pivotal since its launch in September 2019. Previously, I was a civil servant in London and that includes 10 years spent in the Treasury and four years in the Cabinet Office. I have first-hand experience of three spending reviews in the Treasury, albeit some years ago now. Most recently, before joining Pivotal, I was the head of the Electoral Commission in Northern Ireland.

My comments on the draft Budget are in two halves. First, I will talk about the allocations for next year and, secondly, some points about how the process needs to improve for the future. The Treasury did not confirm the overall funding envelope until the end of November, which made this year's Budget timetable much more compressed. Therefore, this is a very rushed process, and the result, unfortunately, will be allocations that are less refined by scrutiny and challenge. A related point is that there is a lack of detail in the Budget statement and the document.

The figures provide total allocations to Departments but nothing more detailed about how the money will be used. The growth rates for resource DEL that are given vary hugely from 0.7% to 24.3%, but there is no explanation of the reasons for the differences. Apart from some specific headline announcements, there is no information about how Departments' allocations will be spent. We are not told anything about what is new, what funding might be spent differently or what spending might stop. The lack of detail may be attributed to the lack of time to prepare the documentation, but, unfortunately, the result is that those who wish to scrutinise the draft Budget have limited information on which to work.

Given that and looking at the information provided, I offer the following comments on the allocations for next year. Obviously, the settlement is extremely tough for resource DEL. Flat cash does not offer much room for manoeuvre, particularly in challenging times. The finance packages that are yet to be confirmed by the Secretary of State, plus whatever end-year carry forward is agreed by the Treasury, may increase the funding available a little. However, it is a tight settlement even with those additions. It is particularly difficult given the wider economic forecasts for a slow recovery after the severe contraction in GDP in 2020, forecasts of rising unemployment and the risks of scarring effects in the labour market. Conventional economic theory suggests that government spending should rise in response to downturns in the economy to make up for falling consumption, investment and exports. However, this very limited resource DEL block grant allocation does not seem to allow for that.

The share of the total resource DEL taken by Health is 50%, as has been mentioned this afternoon. Health spending is projected to grow by 6.5% annually. Therefore, we will see the proportion of overall spending taken by Health continuing to rise and to squeeze the funding available for other Departments in the future. As has been said, the need for reform in health and social care is long-standing, but there has been little progress. While acknowledging the extremely challenging circumstances of the past year in Health, the case for fundamental reform remains and must be prioritised, if the health and social care system and, indeed, the Executive's Budget overall are to be sustainable. That has to be an urgent priority for the Executive as a whole.

Although the draft Budget lacks the detail needed to allow proper scrutiny, the below-average percentage increase for Education stands out. Although the teachers' pay dispute was settled last year, there are well-known serious pressures on school budgets. Added to that, research shows that the impacts of school closures on children and young people's learning and well-being are significant. Without additional support for children and young people over the coming year when they return to school, those negative effects could be long-lasting. The Budget should prioritise investment in that to avoid longer-term consequences for children and young people and the economy as a whole.

The capital budget sees a small increase in 2021-22. The draft Budget document sets out some of the flagship projects that will be funded. There remains an outstanding question about the commitment in 'New Decade, New Approach' to turbocharging infrastructure. We all know that Northern Ireland is being held back by years of underinvestment in key infrastructure. The Executive should agree joint priorities for investment in essential infrastructure projects to stimulate and support growth.

My final point about the draft Budget allocations for next year is that 'New Decade, New Approach' included a very ambitious set of actions across the full range of public services, particularly investment and reform. What is the status of those commitments now? Are they included in the draft Budget? The lack of detail makes it hard to answer that question. It is important that the Executive provide clarity to the public about the status of the 'New Decade, New Approach' measures and when the public might expect them to be delivered, if at all.

In the second half of my comments, I will offer some reflections on this year's Budget process and suggest ways in which it could be improved. I will make the case for a longer-term strategic approach

to Budget-setting that prioritises Northern Ireland's long-standing economic and social challenges and recognises the likely future fiscal environment. As has been said, there needs to be a clear connection between the Budget process and the Programme for Government. The Executive's priorities are set out in the Programme for Government, which is now extremely overdue. Meanwhile, we have funding allocated in the Budget without any link between those two processes. Having a set of priorities in the Programme for Government that is not reflected in Budget allocations does not make sense. Making a better linkage between the Budget and the Programme for Government should be a focus for next year's process.

As has been mentioned, there is a real need for multi-year Budgets. That was not possible this year since the Treasury gave only a one-year allocation, but this one-year Budget in Northern Ireland comes after several other one-year Budgets. The previous multi-year Budget was set in 2011. Multi-year Budgets are vital to enable longer-term planning, particularly investment in capital programmes and public service reform. One-year Budgets tend to encourage the rolling forward of existing allocations, whereas multi-year Budgets should allow a more strategic approach. Setting multi-year Budgets should be a priority for the Executive from next year onwards.

The Budget demonstrates the need for more strategic decision-making, which links to the case for multi-year Budgets. The circumstances this year are, clearly, difficult, but, nevertheless, there is no obvious strategy overall in the Budget. There are some additions for particular areas of need, but, largely, it is a roll forward of previous allocations. No evidence is provided of the reprioritisation of last year's funding allocations given the changed circumstances now, for example.

Given the immediate impacts of COVID, a clear strategy underpinning the Budget allocations would have been welcome. In the circumstances, a Budget with a clear strategy about recovery would have been appropriate, with a focus on prioritising the groups that research shows have been the most affected by the pandemic. Evidence points to, for example, funding new initiatives to support children who struggle because of missed school, young people who have far more limited economic opportunities now, and lower-skilled and lower-paid workers whose jobs are most likely to have been affected. Perhaps that strategy is in the detail of the allocations to Departments that has not been published, or perhaps some of the currently unallocated funding for the COVID-19 response will find its way to those priority areas in the final Budget allocations. Pivotal has also repeatedly argued for a greater focus from the Executive on Northern Ireland's long-term economic and social challenges, such as low skills, poor competitiveness, persistent poverty, and health and social care reform. While those structural challenges are mentioned in the opening section of the Budget document, it is not clear how the Budget allocations will address those long-term challenges. There is a need to focus, in future years, on those longer-term issues, with multi-year Budgets to sit alongside that.

As mentioned before, the clear emphasis on the transformation of public services in 'New Decade, New Approach' (NDNA) was welcome, but there is not much, if any, evidence of public service reform in the draft Budget. As noted, the Budget is largely a roll forward of the previous year's allocations, rather than its taking any longer-term view about how spending and services need to develop and change. Funding of £49 million has been allocated for NDNA transformation, but details are not provided about how that will be used. Reform of public services in Northern Ireland is long overdue, and it must be prioritised by the Executive. Without it, some services will become unsustainable, as was noted in the Bengoa report on health and social care. The risk is that the challenging context of COVID, plus the tightness of next year's funding allocation, will mean that more fundamental reform is once again pushed back for another year.

Given the fiscal outlook for the coming years, it does not look likely that Northern Ireland will receive anything other than very tight allocations from the UK Government in the coming years. That is given all the public spending and borrowing in 2021 to counter COVID and its impacts. In their planning, the Executive need to be realistic about those future limited block grant allocations. The Executive need to ask themselves more fundamental questions about how they can get the very best from existing funding, including through investment in the reform of public services. Such efforts to get more from existing funding may be the only way to enable new spending on emerging priorities. As well as that, the Executive should give serious consideration to sources of finance other than funding through the block grant. In the past, there has been a reluctance to contemplate those options. I note that the Finance Minister ruled out increasing the regional rate for 2021-22. However, in the anticipated tight fiscal environment, such options may offer the only route to bringing forward funding for new priorities.

Finally, as noted at the start, there is limited detail and time for the scrutiny and challenge of the draft Budget. Therefore, more time and better information are definitely needed for next year and beyond. As well as that, the Executive should prioritise the establishment of the independent fiscal council —

that has already been discussed — as was promised in the Fresh Start Agreement in 2015 and in 'New Decade, New Approach' in 2020. An independent fiscal council would provide important assessments of the Executive's revenue and spending plans, including in looking at sustainability in the medium and long term.

That concludes my opening comments, Chair. I am happy to expand on any of those points in answers to questions from the Committee.

The Chairperson (Dr Aiken): Thank you very much indeed, Ann.

Mr O'Toole: Thank you, Ann. It is worth saying that — certainly from my party's perspective — Pivotal has been a really welcome and constructive addition to the policymaking landscape in this part of the world, and long may it thrive. A lot of what you said about the lack of strategy in the document and the lack of long-term budgeting resonates. In the first report that you put out in 2019, you talked about next year needing to be the year when we finally do long-term strategy, and then it was next year. Sometimes, when I look at the Executive, I am reminded of the Johnny Logan song 'What's Another Year?' when it comes to setting long-term goals. *[Laughter.]*

The Chairperson (Dr Aiken): I did not think that you were that old, Matthew.

Mr Frew: You are showing your age.

Mr O'Toole: I am not that old. I have just got a big frame of reference, Chair. *[Laughter.]* I am a classicist when it comes to the Eurovision, basically.

A Member: Bad, bad.

Mr O'Toole: Yes, I know; I am not really.

On the issue of long-term multi-year budgeting, one of the things that the Committee has talked about a lot is that it is not just about long-term budgeting; it is also about the proper, strategic allocation of funding and the new revenue-raising powers, which you mentioned, Ann. Have you done any work on the fiscal council proposals, which, we have heard today, are closer to being delivered on?

Ms Watt: No, we have not done any work on that beyond, in principle, clearly welcoming the commitment in the Fresh Start Agreement and in New Decade, New Approach to the fiscal council. We welcome the external independent scrutiny that it would provide of annual Budgets and of the sustainability of Budgets going forward. We have not looked in any detail at how it would work in practice.

Mr O'Toole: I am asking you to speculate a bit. One of the things that the Committee and others have talked about is, in addition to or as part the fiscal council, having a one-off fiscal commission that looks at the potential for the new powers or options for revenue raising. I am interested in your views on that. Also, do you think that it would be useful for either the fiscal commission, if there is one, or the standing fiscal council to have economic forecasting powers and the ability to look properly at the long-term structural things that we need to invest in, whether that is the shape of our health service or whatever. Over the past year, the deeply improvised nature of allocations has become apparent. The first question is whether there should a one-off fiscal commission to look at this in addition to, or as part of, a fiscal council; the second is whether economic forecasting and modelling should be part of the toolbox, as opposed to being closer to how Office for Budget Responsibility (OBR) does it, which is that an economic analysis is contained within the fiscal view that it provides.

Ms Watt: A one-off fiscal commission to look at the wider range of options for revenue raising would be really welcome. Over the years, there have been various reports on raising more revenue locally. Given the likely fiscal environment — I mentioned the amount of borrowing by the UK Government in the past year — we will be looking at very limited allocations. Therefore, if the Executive want to have any flexibility and any funding available for new and emerging priorities, they should certainly properly consider raising more revenue locally. They may consider that fully and reject it as an option, but I think that it should be properly looked at, rather than just dismissed. I would welcome a one-off fiscal commission.

On the powers of a fiscal council, yes, it would have a role in scrutinising the Budget and providing an assessment of the sustainability of the Budget in the medium and longer term. Would it do economic forecasting? There are already organisations that do forecasting in Northern Ireland, such as my colleagues in the UU Economic Policy Centre from whom you have just heard, so you would have to look at whether an additional body was needed. However, I suppose that doing economic forecasting as well as forecasting public finances would be potentially useful. That would give the fiscal a much bigger remit, and it would become a much larger-scale organisation.

Mr O'Toole: In the last few days, we have heard from the First Minister that the Executive intend to move forward with a Programme for Government

The Chairperson (Dr Aiken): The consultation has been out for two weeks.

Mr O'Toole: Has Pivotal started to work on a response? Will you contribute to that consultation?

Ms Watt: Yes, we will. We have not started looking at it yet, but we have long been saying — well, we have been around for only 17 months —

Mr O'Toole: It feels like a long time.

Ms Watt: — that the lack of Programme for Government at the moment, and over the last 12 months, is a real shortcoming. The Executive do not have a joint set of priorities. How can they set a Budget when they do not have a joint set of priorities? We will certainly scrutinise the Programme for Government. I have had a quick look at it to see whether there were any links to the Budget. As far as I could see, there were not, so that is my first observation: the need for a closer link between the two processes.

Mr O'Toole: I have one final brief question, Chair.

Ann, as someone who has looked at policy across the water over the last 18 months or so, and as a former Treasury official, looking at £200-odd million of unallocated money, if you had a choice, how would Pivotal allocate that in the next six to seven weeks? I am putting you on the spot, but how would you recommend an urgent allocation of that money in a way that added value for society?

Ms Watt: That is certainly a tall order. Practically, making allocations that are robust and value for money in that timescale is very tight. If I had longer, I would look at what I said about the groups of the population who have been most affected by COVID. I would look particularly at children and young people and at supporting their return to school. The evidence emerging shows a huge impact on children's well-being, not just their loss of learning but their well-being. Perhaps more fundamentally, given the long periods of absence from school, I might look at whether we could give increased support to schools to provide additional help to children and young people to get them back to where they need to be when they return to school.

Mr Catney: Thanks very much, Ann, for your presentation. My questions are very simple, and I will come to them at the end. In Northern Ireland, we find ourselves, by design or default, in a unique trading and supply chain position after Brexit, with the implementation of the Northern Ireland protocol. We have an emerging trade bridge between the UK and the rest of Europe, which our Scottish cousins would love to have. In fact, they are quite envious of it. Products can enter Northern Ireland from the EU, and goods manufactured can be exported freely to the UK, notwithstanding the current goods supply and transport issues with Northern Ireland and GB.

Simple questions arise from all of that. Why should international firms do business with us? We need to look at this and strip back all of that. Why should they locate in Northern Ireland? What do we have to offer that makes us stand above our competitors? Where do we fit into the new emerging trade world and supply chains? Why should local firms seek to grow their home-based business?

Last, but not least, it is about making our young people want to be here and belong here. It is about putting pride back into living in Northern Ireland. We need to look at the opportunities. I hear everything that you say, but I have tried to bring it down to that smaller aim: being proud of where we are and going back to the entrepreneurship for which Northern Ireland was famous 100 years ago. Those are my questions, Ann, about stripping away all of the big reform tickets and then investing.

Ms Watt: The real focus should be on investing in skills. We have a low-skill, low-wage economy here. We need to invest in giving people of all ages, but young people in particular, the skills that they need to compete for better jobs and better pay. I would focus on that and look particularly at young people's opportunities, many of which have vanished because of the impacts of COVID on the economy. For me, it is about building up skills and using the opportunity that our trading position post Brexit provides and making the best of that, acknowledging the earlier conversation about the frictions.

Yes, it is about selling Northern Ireland as a place to locate. To make that case to international firms, we need to show that we have the skills and infrastructure to support their business. All of those things need a longer-term focus to address some of the weakness in our economy. I agree that there are lots of strengths here and lots of things that we can build on, but there are also quite serious and long-standing weaknesses: low skills, educational inequality, underinvestment in infrastructure and low levels of entrepreneurship. We need to work on all those things.

Mr Catney: Probably flowing from that, Northern Ireland can be a fair and profitable place for all of us if we want to work together — the private, public and social enterprise sectors and the trade unions — to get us there. In all that we have talked about today, it is about instilling faith in who we are and where we are in Northern Ireland and starting to build that up again. We can do that, and it is deliverable, but we need to keep on.

Rather than knocking ourselves back, we need to look at what we have and be thankful for where we are and our place in the trading world. We need to try to build that up as best we possibly can. There is no doubt that there are things that will hold us back, and you mentioned a lot of them, but there is great hope, and we need to keep using that and repeating that over and over again, Ann.

Ms Watt: Yes. The Pivotal report says that there is a real need for an ambitious, long-term economic strategy that not only addresses our weaknesses but really sets Northern Ireland's sights high on what it can achieve in the future.

Mr Catney: Thank you.

The Chairperson (Dr Aiken): Ann, are you content for the Committee to allow the content of your report to be published?

Ms Watt: That is absolutely fine, yes.

Mr Frew: Ann, thank you very much for time and your presentation. It is very useful and makes for interesting reading, so thank you.

The Department of Health takes up 50% of our Budget. However, in my eyes, three of our Departments are big beasts: Health, of course, Education and Justice. Many of the reasons why they are so big are to do with costs and burdens that just cannot be moved: wages, big blocks such as the PSNI and educational sector, and the employment issues that come out of that, so you can understand why they are immovable.

I take your point that the Health and Justice Departments receive increases of 5% or above in the draft Budget, whereas, as you said, the Department of Education seems to get 1.8% of a lift. My issue, having acknowledged what you outlined, is that how Departments spend that money could well be down to capacity.

Has Pivotal any ideas — you referred to this in your presentation — for supporting young people in their education, given the barriers currently imposed with regard to remote and home learning and not being able to utilise the built form in the way that it should be utilised? Has Pivotal any ideas for how we could support those pupils? Is it crystal-ball gazing, I know, with regard to the year ahead, and it depends on what measures and restrictions might still be in place, but are there any ideas or anything out there that we should be doing or putting in place now? Maybe, even in an era of COVID restrictions, there are examples of the best teaching methods and learning from around the world.

Ms Watt: That is a really important point. As I said at the start, I am surprised that there is not a greater focus on the COVID recovery of children and young people, given the risks to their learning, progress and well-being. What we need, in my view — I am not an educationalist; plenty of people could answer in more detail on which specific programmes work — are extra resources for schools to enable children to get one-to-one or small-group support in addition to class teaching. Schools will

return, budgets will be largely as they were, and class teachers will be in place, but there will be children within the class who are really struggling because of the period when schools were closed. In principle, we need additional resources to enable schools to have some flexibility and additional skilled staff who can work with children one-to-one or in small groups. As for what the specific programme might be, you would be better to go to one of the many very knowledgeable education trusts in Northern Ireland for advice. It is clear from emerging evidence across the UK and the world that the impacts of school closures on children are more severe than we ever anticipated.

Mr Frew: You raised the Programme for Government. Even before Stormont fell for three years, as Chairperson of the Justice Committee, I was asking the financial people in the Justice Department how their budget bids incorporated what was in the Programme for Government and how those two documents aligned. It was quite clear that they did not. We now have the same Programme for Government, which is ageing. We have a new draft Budget for next year and a consultation on a new draft Programme for Government. It is most definitely the case that the wheels have not yet aligned. We need them to align because we need a draft Programme for Government, and we need to know how it will be financed. We need a draft Budget that is populated with ideas from the Programme for Government. The two bodies of work cannot go their separate ways, run separately and have separate lives: they must marry. Yet, we are not seeing that at all. How big an issue is that for the Government?

Ms Watt: It is a huge issue. It does not make sense for the Executive's priorities to be set out in a document that is completely unconnected to the funding allocations. If you are going to do government properly, those two processes need to align. Although that is easy for me to say, it is not an easy thing to do. First, we do not have the tradition of doing that here. That would be a significant change in how the Executive do Budgets. Secondly, even where you have the processes working together, it is not easy to do it because you are always having disputes about which funding is contributing to which output and so on. I will not be naive and say that this is straightforward, but there needs to be a really good attempt at doing it. Having the Budget set what Departments can spend on unconnected to what is in the Programme for Government does not make any sense.

Mr Frew: Do you think that the Programme for Government is the piece of work that will knit Departments together, or is there something else out there that will force Departments to work together better?

Ms Watt: If the system is working well, the Programme for Government should be what sets out the Executive work programme and encourages joint working across Departments, which everybody wants to see, towards the joint outcomes. It should be the tool to enable that to happen. The risk is that it becomes just an exercise to produce a proper Programme for Government: nobody pays that much attention to it, and it does not change Departments' decisions and behaviours. A Programme for Government that works well can be really effective, but the risk, in practice, is that it can be a bit nominal in being a published document that does not change what happens.

Mr Frew: In the Department of Finance's draft Budget consultation document, the Department of Justice highlights five priorities from the Programme for Government. Again, they are only paragraphs on a page. Those five commitments and priorities will be shared with other Departments, but there is still a job of work to join the two. Against those five priorities, I want to see a budget line or, at least, a monetary value of how much each will cost. I want to know the burden that delivering the Programme for Government piece will place on that Department. If a priority is shared between two or more Departments, for example, I want to see the Department of Justice say, "We will take up 60% of that cost burden, some other Department will take up 30%, and 10% will go somewhere else". Is that the level of detail that we need to get to in order to force Departments to work together to deliver the Programme for Government?

Ms Watt: I would have thought, to start with, that the Programme for Government setting the Executive's big objectives should be set for a period of years — a multi-year Programme for Government. Then, the Budget asks how the funding allocations deliver the Programme for Government. So, yes, it would, in some detail, have to say that, to achieve a certain outcome, here are the different things that this Department will spend on, here is what it will do differently, and here is where it will work jointly with another Department. You would be looking at real detail there to show how the spending reflects the overall priorities.

Mr Frew: Your document mentions the New Decade, New Approach commitments, which are mighty. Not to go political on you, but has your organisation completed any work on those commitments?

Have you put a value or cost on them? Have you determined, in your eyes, which commitments should be given priority and ranked them? Has Pivotal done any of that work?

Ms Watt: At the start of January, we published a report that looked at what New Decade, New Approach has delivered. It highlighted some things that had happened over the 12 months since the Executive returned, such as settling the teachers' and nurses' pay disputes, appointing a mental health champion, putting out a draft mental health strategy, getting draft climate change legislation and various other commitments, such as the independent review of education. Some really important aspects of New Decade, New Approach have happened.

The report highlighted the things that have happened and the things that are outstanding. We named those things, but we have not costed them. That is just to do with the limits of our capacity as a small organisation. You might be interested to know that, following evidence from Pivotal and various other organisations on the likely costs of the New Decade, New Approach commitments, the Northern Ireland Affairs Committee published a report in July 2020. You might go to that for an assessment of the total costs.

My overall question about New Decade, New Approach is that, although I welcome its ambition for investment, reform and change and the fact that it covers a huge amount of ground, having looked at the Budget for next year, it leaves me wondering about the status of those commitments. Are they commitments or are they just things [*Inaudible*] that are going to happen? There is no clarity on that at all.

Mr Frew: It is true to say that, in some cases, the draft Budget may go backwards on commitments in New Decade, New Approach: for instance, on police numbers. Sorry, it was remiss of me not to pick up on that Pivotal report at the beginning of January. Will you send it to the Committee?

Ms Watt: Yes.

Mr Frew: Perhaps we could also look at the Northern Ireland Select Committee's work on this?

The Chairperson (Dr Aiken): Yes.

Mr Frew: Thank you, Ann.

The Chairperson (Dr Aiken): Thank you very much indeed, Ann, for your time, and I am sorry for keeping you late. I wish you the best of luck with your endeavours.

Ms Watt: Thank you.