



Northern Ireland  
Assembly

Committee for Finance

# OFFICIAL REPORT (Hansard)

Budget 2021-22: Northern Ireland  
Committee, Irish Congress of Trade Unions;  
Nevin Economic Research Institute

17 February 2021

# NORTHERN IRELAND ASSEMBLY

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**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 Paul Mac Flynn	Nevin Economic Research Institute
Mr Owen Reidy	Northern Ireland Committee, Irish Congress of Trade Unions

**The Chairperson (Dr Aiken):** Owen Reidy and Paul Mac Flynn, are you there?

**Mr Owen Reidy (Northern Ireland Committee, Irish Congress of Trade Unions):** Yes, Chair; we are here.

**The Chairperson (Dr Aiken):** Hi, Owen. How are you? It is good to see you again.

**Mr Reidy:** Very good. It is good to see you, Steve.

**The Chairperson (Dr Aiken):** Apologies. We had some IT glitches earlier. We were bouncing back and forth when we were talking about the Budget. Please do not take it as any disrespect from the Committee. We are absolutely delighted to have the two of you here to give evidence.

I remind members that the session is being recorded by Hansard. Members are advised that the following papers are relevant to the agenda: the Clerk's covering note and the paper from the Northern Ireland Committee of the Irish Congress of Trade Unions (NIC-ICTU) on the draft Budget. Owen, would you care to make an opening statement, please?

**Mr Reidy:** Thanks very much, Chairman. We are very grateful to you and the Committee for the opportunity to address you. I will make a few brief overview comments, if that is OK, and then I will hand over to my colleague Paul Mac Flynn. To put it in context, we are the all-island trade union federation, which is the sister organisation of the Trades Union Congress (TUC) in Britain.

**The Chairperson (Dr Aiken):** Owen, I should have declared that I have been a member of Unite, the Union for a considerable period. I am closely associated with the trade union movement. I apologise, Committee; I should have made that declaration of interest at the beginning. Sorry about that, Owen.

**Mr Reidy:** Not at all. We are delighted to hear that, Chairman.

We are the trade union federation on the island of Ireland. In Northern Ireland, we have the Northern Ireland Committee, which is an autonomous body that looks after the trade union affairs in Northern Ireland. We have 200,000 members. We are probably the largest cross-community civil society organisation. We organise those workers through 24 affiliate British and Irish trade unions that you will be very familiar with. The members who we represent are public-sector, private sector, urban, rural, blue-collar, white-collar and from right across all parts of the economy.

I will make a couple of very brief general remarks about the draft Budget. We think that there is a fundamental wider problem. The Budget is pretty much a flatlining Budget when you take out the very important, necessary and welcome additional moneys to deal with COVID-19 and the one-off New Decade, New Approach (NDNA) money. When it comes to day-to-day spending, this year's Budget is not that different from each of the Budgets in the last decade. Quite frankly, the commitments that were given in Stormont House, Fresh Start and NDNA to rebuild and restart the Northern Ireland economy have not come to bear, notwithstanding the COVID-19 pandemic.

You have been discussing the impact of the pandemic on budgetary matters. The impact of the pandemic has been incredible; it has been very significant. Having said that, it has also demonstrated and given us a glimpse of what is possible. For example, we were told that you cannot move tens of thousands of workers from the workplace to home overnight. You can. Many would not have thought that, for example, a Tory Government would have decided, as early as last April, to fund furloughed workers' salaries to the tune of 80%. It shows what can happen, and sometimes it takes a crisis to do that. However, we believe that we must look at this Budget in a different light. We believe that the potential of a draft Programme for Government with defined outcomes will succeed only if we get proper, adequate and consistent multi-year funding through a multi-year budgeted process.

We believe that the pandemic has demonstrated beyond doubt that there is an urgent need to adequately fund and resource the state. If you look at chart 3 on page 2 of the short document that we sent you, you will see quite clearly that, in the UK, we have very low levels of public spending per head of population. When you compare us with other normal, modern states in Europe — they are nothing radical, just other wealthy industrialised states — you see that our public spending compares unfavourably. That low level of public spend is intrinsically linked to a low level of revenue. We have looked at this in some detail. Paul and his colleagues in the Nevin Institute have looked at it as well. When you compare what UK employers pay on workers' National Insurance, you find that it is equivalent to 41% of what their sister companies and sister employers in other industrialised Western European countries pay. This is not about being in Europe or outside Europe; I am comparing the UK with Germany, Norway, Austria, Belgium and other similar wealthy industrialised countries. We appreciate that you cannot increase National Insurance costs for employers today, tomorrow or next year and until they get out of the pandemic, but if you were to bridge the gap over, say, the cycle of two Governments or a 10-year period, you would generate an additional annual £121 billion for the state every year. If you look at that in a Northern Ireland context, you see that it is £3.5 billion in extra revenue. We think that that is crucial. If we were to do this, it would just bring us into line with other Western European democracies. It is not a radical idea. It would not bring us too far ahead; it would merely just bring us into line.

If we are looking at Budgets — notwithstanding that tax, particularly on National Insurance, is a reserved matter — we believe that it is essential that the Executive, the parties in the Executive and the Assembly and, crucially, the Minister of Finance form an opinion along with colleagues in Wales and Scotland. It is important that the three devolved states have an informed view on this. Fundamentally, if we do not address the issue now, we will find ourselves discussing and debating a cycle of flatlining, stagnant budgets and arguing whether we should take x from Communities and give it to Health or take y from Health and give it to Education. It will be a circular argument, and the thriving, productive and entrepreneurial economy that we all want in this region of the UK will not come to pass. We believe that there needs to be a fundamental rethink and reframing of the narrative and discussion on the type of Budget that Northern Ireland, as a devolved state within the UK, should have.

I will hand over to my colleague, Chair.

**The Chairperson (Dr Aiken):** Thanks, Owen.

**Mr Paul Mac Flynn (Nevin Economic Research Institute):** As Owen mentioned, I work for the Nevin Economic Research Institute. We are a sister organisation of the Irish Congress of Trade Unions and are supported by its affiliate unions in order to provide research on economic matters, which, in my case, are those pertaining to Northern Ireland.

As Owen touched on, the most concerning aspect of the draft Budget for the forthcoming fiscal year is the immediate, non-COVID budgetary position. It is mentioned in the draft Budget that the New Decade, New Approach money coming in last year flattered that Budget position and leads us to a standstill for this year. Even if we had the New Decade, New Approach money approved for the forthcoming fiscal year, all that we would be doing would be moving a problem from this year to next year. The problem that we raised last year at the time with the financial package that came with New Decade, New Approach was that lots of the funding was extremely vague and promissory and that the funding that was decipherable was misapplied, in the sense that it was using one-off funding to meet recurrent expenditure needs. That was always setting us up for a fall, and it looks as though we are taking that fall this year. The Executive obviously hoped that the Barnett expansion over the coming years would lead to a rise to meet that gap in funding. If we look at the most recent spending review, we can see quite clearly that there is no prospect of that happening any time soon.

As Owen mentioned, the central problem here is that Northern Ireland has been dealing with the same Budget for day-to-day expenditure for almost 10 years. There is greater volatility in capital spending but certainly no discernible growth trajectory. There is stasis. I do not wish to offend any Department of Finance officials, but if you were to look back at Budgets for Northern Ireland over the past couple of years, it would be possible to design an algorithm to set Northern Ireland's Budget every year. If you add in unavoidable pressures in Health and expenditure and then divvy the rest up proportionally for Departments, you end up with roughly what we are dealing with here. To be clear, I do not see that as a problem with its root in Stormont. As Owen mentioned, the root of the problem is in Westminster and in the low-revenue, low-expenditure model that the UK has morphed into since the austerity programme that we had in 2010. In that sense, attempting to criticise the Northern Ireland Executive or some such for the overall level of Northern Ireland's Budget is to tilt at windmills. The big problem is at Westminster and with what the intention is for the environment of public expenditure and revenue generation in the UK over the near to medium term.

As Owen said, there are proposals in the document that you have in front of you, particularly on issues such as employers' social contributions. The countries that the UK is compared unfavourably with in the document are some of the most productive and competitive economies in Europe. It is more than feasible for the UK to rise to that level without there being any adverse economic impacts. In an overall Budget commentary, that is at where discussion would be more fruitfully aimed. I will leave it there. Thanks very much, Chair.

**The Chairperson (Dr Aiken):** Thanks very much indeed, Owen and Paul. I have a couple of questions that are leaping to the fore. One of the big issues that we have in Northern Ireland is duplication of expenditure in the education system. We are running two or more education systems at considerable cost, and that does not really help deliver outcomes for our children. That is a significant issue. Health transformation will be needed through Bengoa, and there will be implications from that. Transformation itself will be challenging. The trade union movement is going to have to realise that significant changes are needed if we are to achieve the level of transformation that we need to achieve. First, to what degree does the trade union movement realise that transformation will significantly affect how the employment market looks and that some efficiencies may have to be made to enable us to achieve that?

Secondly, as you are well aware, the Finance Minister is keen to have a fiscal commission that, over a period of about nine months, will look at potential tax-raising or other resource-raising powers. I note that you said that that needs to be done in conjunction with the Scottish and Welsh. If you can give us your views on those two points, that would be useful. Thank you very much indeed.

**Mr Reidy:** It is not lost on us that we need to see transformation across the public service and a different type of productive, participative labour market in general in the private sector. That can be delivered only if there is true partnership and a true and serious attempt to engage with the trade union movement. From my experience in the four years that I have been in this role, I have to say that, after England, Northern Ireland is the next place in Europe with the lowest level of social dialogue, where trade unions and other social actors — employers, farmers, and the community and voluntary

sector — can sit down together and work collaboratively on the type of society that we need. Health and education are of interest not just to health and education unions and health and education employers but to wider society. It strikes me that we do not have that approach here. I have used the example before that we have an involuntary five-party coalition, and we need that level of cooperation horizontally, but we need power-sharing vertically as well. We need stakeholders in society — trade unions and others — to have more of a say and more influence.

I do not think that transformation can be done to us, because people will resist that. It needs to be done with us, and with the workers in those areas.

You referred to a fiscal commission. South of the border, there is the Irish Fiscal Advisory Council (IFAC). My point about involving Scotland and Wales is that, as devolved states, in our overall interaction with Westminster, the Scottish Parliament, the Welsh Parliament and the Northern Ireland Assembly, and their respective Administrations, should be arguing that, when it comes to tax-raising powers, there needs to be wider scope to build and fund the state.

Every employer and everyone in a job who, legitimately and rightly, has been supported through this pandemic needs to realise that the state has to be resourced. When we have a pandemic such as this, you cannot just go to the well and hope that there is something there. The well needs to be replenished. Everybody needs to pay their fair share. There needs to be adequate tax justice, and we do not have that when we have employers paying as little as 41% on employers' National Insurance compared with their counterparts elsewhere in Europe.

**Mr O'Toole:** Thanks, both of you. Has Nevin or the ICTU had formal representations or discussions with the Department of Finance about a fiscal council and a fiscal commission?

**Mr Reidy:** We have not, no. No one has engaged with us on that. I am not sure whether Paul has had any.

**Mr Mac Flynn:** We have had discussions, through my colleague Lisa Wilson, about a fiscal commission but not a fiscal council.

**Mr O'Toole:** That is helpful. You said something acute, Paul, about NDNA funding being a one-off pot with a high degree of opacity about exact numbers. You said that, even in a unique year, it is being soaked up to meet ongoing resource spending rather than one-off costs and that that has created a standing issue. Sadly, that is not unique in this place, but we are dealing with that in this consultation on the draft Budget. Has the consultation been more thorough and an improvement on what happened when there was no devolved Administration? Sorry, but that was a very long-winded way in which to ask what was quite a straightforward question. Do you see an improvement with there being a Minister and an Executive to consult with?

**Mr Mac Flynn:** Yes, undoubtedly. The Budget process that was there when the Executive were not in place was bizarre. It was handed down from the NIO, sometimes last thing on a Tuesday evening.

I heard some of the discussion earlier about the Committee and its scrutiny of the Budget, and it is an odd one when we think of the Westminster Budget or the budgetary process in Dublin, where a Budget is brought forward with no pre-consultation. Ultimately, however, they have finance Bills in which the details of things are worked out, and sometimes some of the stuff that is put into a Budget to be eye-catching or to get the news eventually gets softened as it collides with logic and debate. It is as through Northern Ireland has got it the other way around by having scrutiny and discussion before the final Budget is presented.

Your point about NDNA is one that we tried to make last year during the Budget consultation, but, because there was a certain euphoria about the return of devolved government, it was not taken into account. There was a belief that there was good faith over NDNA funding going forward. That quickly unravelled, and the degree to which there could be a discussion about it was overtaken by COVID, but I would not say that that is unique. It has been a consistent problem. Every time that there is a deal with the UK Government or something like that, there is the belief that fiscal problems in Northern Ireland are like a blockage in a pipe and that it takes just one pot of money to fix the problem and have everything flowing freely, rather than the problems being more structural ones that will take a financial commitment for years to overcome.

**Mr O'Toole:** Your paper, which is really helpful, talks about austerity and the relatively low levels of spending since 2010, and I very much agree with you. You specifically talked about increasing employers' National Insurance contributions (NICs) as a way of revenue raising.

The main local form of revenue raising through taxation is rates. In a weird way, COVID has accelerated structural change in the economic activity that is taxed, so there are big, profound questions that need to be asked about whether that is viable way in which to raise revenue in the future, given that we do not know whether there will be anywhere near the volume of commercial property to tax, because of the shift in how people shop etc. Have you given any thought to other forms of locally raised revenue, including further devolved powers that a fiscal commission or a fiscal council might look at?

**Mr Mac Flynn:** I definitely take your point on rates. That is one that comes up every year. There possibly needs to be a discussion about equity, particularly on the residential side, but, over the next couple of years, the commercial environment might be too constrained to be used as a revenue source. You would not want to be getting above the European norms of what percentage of revenue is generated from property. You can squeeze that only so much.

I am quite nervous about other taxes or revenue generation that could be further devolved to Northern Ireland. I look to the experience in Scotland, where there has been income tax devolution and the apportionment of a certain percentage of VAT receipts to the Scottish Government. I welcome the proposed establishment of a fiscal council for Northern Ireland, but not even in Scotland, with its more developed governmental institutions, was there an appreciation of the amount of work involved in managing the devolution of that kind of suite of revenue generators. That may be a big discussion that needs to happen in conjunction with the fiscal council.

We talk about options that are open to the Executive at present. People often mention revenue generation and charges in the same breath. User charges for public services or amenities are quite different and, by their nature, regressive, and they tend to take more from lower-income households. That is an area that we do not recommend getting into.

**Mr O'Toole:** Thank you. That was very helpful.

**The Chairperson (Dr Aiken):** Are there any other questions?

**Mr Allister:** In unions' experience, how many successes have you had over the years of devolution in perfecting change in a draft Budget?

**Mr Reidy:** Frankly, Jim, I am not aware of any. I have been in the role for only four years, but, based on your earlier conversation about scrutiny and such things, I am not aware of any. It seems to us that there is an envelope and a package in the draft Budget, and it is about shifting that around a little bit. The Minister of Finance is akin to the chief accountant of a firm. My answer is therefore no. What we are talking about and proposing today is something that is much more fundamental than merely moving things around. It is about a different way of raising revenue across the UK.

**Mr Allister:** In truth, we are probably agreed that the consultation process is a charade.

**Mr Reidy:** I do not know that I would call it a charade. There is a level of engagement, but the Executive have limited head scope. I go back to the point that Paul made earlier. We are not here to criticise the Executive on the allocation of moneys to this Department or that Department, because the alternative is that you end up robbing Peter to pay Paul. We are questioning the whole premise of how Budgets are formulated in Northern Ireland, the model of revenue-raising, and the amount per head in the UK that the state spends and raises. It is way behind the modern, progressive economies to which we need to aspire.

**Mr Allister:** Your approach would still be based on a block grant, albeit a more enhanced block grant.

**Mr Reidy:** Yes, it would. We appreciate that what we are proposing would have to be done over perhaps a decade — we cannot turn on a switch and have it happen overnight — but, if it were to come to pass, you would be looking at an additional £3.5 billion or £3.6 billion in revenue for the Executive to allocate. We could then have a proper, serious debate about what we need that £3.5

billion or £3.6 billion for. That would be a significant additional investment in the Northern Ireland economy.

**Mr Allister:** Should the Executive be tasked at all with any further revenue-raising powers?

**Mr Reidy:** Matthew asked Paul the question, and rates account for about 5% of overall revenue, so you are tinkering at the edges. Right now, I do not see any other significant methods of raising money in a Northern Ireland context until we broaden the tax take, whereby employers pay the appropriate and right amount of National Insurance, because there has to be tax equity and tax justice here. In short, the answer is no. It is more about having a fundamental rethink about how the state is funded, Jim.

**Mr Allister:** You do not see any threat to employment levels by increasing employer overheads.

**Mr Reidy:** I do not think that it should be done today or tomorrow. We fully support the supports that businesses are receiving now. We are advocating that, over a 10-year period, employers pay what employers in Austria, Norway and Germany pay. They are not radical, left-wing states. By and large, they are run by centre-left or centre-right politicians, like the UK and the Republic of Ireland. This is nothing radical. We are just saying that we should catch up to where we should be. If it is done in a managed way through multi-year Budgets, people will know what is being expected of them. I talk to employers a lot in my work, and they say that what they need is certainty, so let us give them certainty. To equip ourselves for the pandemic, the state has to be resourced. Earlier, I heard Paul Frew talk about borrowing, and the state has had to borrow significantly to fund the pandemic. If the state were properly funded and resourced, it would not have to borrow to the same extent. It is therefore about getting the foundations right. Of course, an employer can say that anything that adds to an increase in labour costs is a cost, but you could have that argument about increasing the national minimum wage every year as well. The sky does not fall in when that is done.

**Mr Allister:** Of course, the state is not some abstract. The state is the taxpayer.

**Mr Reidy:** The state is the taxpayer, and we are advocating tax equity and tax justice. I should say for completeness that workers across the UK pay 67% of what their peer equivalents in Europe pay, so there is scope there as well. The income tax system in the UK is not as progressive as it is in other states. It is not as progressive as it is in the Republic of Ireland, where people who earn more pay more, and rightly so. There is more that can be done, but we believe that the most obvious place to start is with the most glaring inequity, which is 41% on employers' National Insurance. That is the best place to start, because, as I said, it would give us £3.5 billion yearly after a 10-year period.

**Mr Allister:** I take from what you have just said that you want to see both employers and employees paying more.

**Mr Reidy:** No. What I have said is that the first place to go is the employers, because that is where the biggest inequity is.

**Mr Allister:** Yes, but you pointed out that —.

**Mr Reidy:** I am saying that there is headroom for workers who earn very high salaries to pay that little bit more. Yes, the studies that we have done show that workers in the UK pay 67% of the taxes on labour that their peers in Europe pay. There is scope, but you should start with the glaring inequity that is 41% on employers' national insurance. The employees who would have to pay more would be those on significant six-figure annual sums. It would not be low-income and middle-income earners. They pay disproportionately more, because the UK tax system is not as progressive as, for example, the Republic of Ireland one.

**Mr Allister:** It would therefore just be union bosses and people like that.

**Mr Reidy:** I can tell you, Jim, that, because we are an all-island body, my contract of employment resides in Dublin. I imagine that I probably pay more tax than you, and I am quite happy to pay it. I think that tax is a good thing. It is a public service.

**Mr Allister:** Thank you very much.

**Mr Reidy:** Thank you.

**The Chairperson (Dr Aiken):** *[Laughter.]* Having paid a lot of tax in the Irish Republic myself, I know where I would much rather be taxed, and it is not there.

**Mr McGuigan:** Thanks very much, Owen and Paul. I totally agree that tax is a good thing, provided that it is raised fairly and distributed fairly. I have absolutely nothing to say that disagrees with anything that the two of you have said about moving towards a fair society. As you pointed out, some of the things that the British Chancellor said in recent days and weeks show that we are heading for further years of austerity rather than optimism, and that worries me.

I am perhaps a bit disappointed by some of the things that you said about the North getting its own tax-varying powers, because, as I have just said, tax is a good thing, and I think that the basis of how we can move towards a fair society is to have as many tax-varying powers and as much fiscal autonomy in the North as possible. I do not disagree that the Minister of Finance here should work with his colleagues in Scotland and Wales to pressurise the British, but I do not know how useful that would be. I have heard the Minister say things very similar to what you have said, so I am not even sure that he would disagree with what you have said. The way forward is to get as much fiscal autonomy in the North as possible. May I ask you to comment on that? What policies would you like to see put in place that would represent a fair Budget and a new deal for families and workers?

**Mr Reidy:** Thanks very much for that, Philip. I will go back briefly to my point about tax-raising powers in Northern Ireland. First, we need greater political stability. That is crucial, but you could argue that it is a chicken-and-egg scenario — which comes first? The devolved state needs to function adequately to get more powers. My only point about the fiscal issues in Northern Ireland and tax raising is that rates comprise a mere 5% of the overall revenue. Even if you did something quite serious with rates, you are still only going from 5% to 7.5%. You are still just adjusting at the margins, and it needs to be something much more significant.

When it comes to framing a regional economy, we believe that productivity is crucial. We always say that productivity is way too important to be left to employers alone. The Northern Ireland economy is a micro economy; there are very few big firms, but those that we have employ significant cohorts of people. Given that employment rights are a devolved issue, we need to see greater collective bargaining and greater scope for trade unions to be able to bargain with employers. Some employers are very small, so we need sectoral bargaining to agree norms in certain industries and to take wages out of competition where it is not the lowest common denominator. We want companies to compete with each other based on the product that they generate or their productivity and efficiency, not on the labour costs and rates.

There is a bit of scope there, because employment rights are devolved here, unlike Wales and Scotland. It is good that they are devolved here, because our politicians are accountable and will realise that it is important to make sure that workers' rights are maintained and improved. However, labour market regeneration cannot be one-sided. You need to deal with workers as well as employers, and there needs to be a greater balance; it is very imbalanced at the moment. There is no scope for the trade union movement, other than at firm level, to seriously and meaningfully engage to try to boost the economy, to improve productivity and to generate what we want, which is successful firms employing people on decent wages with better jobs. That fits neatly with two of the nine outcomes in a potential Programme for Government.

**Mr Mac Flynn:** May I come back on Philip's point about fiscal devolution so as not to misrepresent the points that I was trying to make earlier? We do not see that Northern Ireland could not have greater fiscal devolution. Jim mentioned it earlier when he asked whether we would want the same set-up with the block grant that Northern Ireland has now. That is where I was trying to refer to the problems in Scotland. Given the way that the DEL block grants and public finance are administered in the UK regions, tacking on fiscal revenue generating powers is an extremely messy way of doing things, which does not create some of the hoped-for incentives that you would want to get out of such a process.

The Northern Ireland Budget is in no way reactive to general economic conditions in Northern Ireland at present. If there is to be greater fiscal devolution, you would maybe have to get to a process, first, where Northern Ireland could feel some of the benefit. If the current Northern Ireland Executive wanted to make reforms that would increase productivity or boost the economy in Northern Ireland, there is no direct feedback loop into Northern Ireland's Budget from that. You would maybe look to put

that kind of arrangement in first. That would alter how you would calculate the block grant. Maybe, then, over a period, you could move to a situation more like a system of fiscal equalisation, which there is between states in Australia and places like that, where things are less mysterious and there are less blunt population adjustments that recognise the strengths and weaknesses of different regions in comparison with their revenue-raising ability and public expenditure. It is not a case, as may have been the case in Scotland, of devolving a tax revenue-generation process for just the sake of it. Sometimes, that can lead to perverse outcomes. There has to be a much more holistic discussion about how we spend revenue in Northern Ireland, and how we would generate it within Northern Ireland.

**Mr McGuigan:** Thank you very much, both of you.

**Ms Dolan:** Thanks, Paul and Owen, for that. It is good to see you again. We know that this Budget will not be great for economic recovery. This question might be more for Owen, but what are your concerns about unemployment levels and workers' rights coming from that?

**Mr Reidy:** We are very concerned. We have a significant number of people on furlough. For a lot of low-paid people in hospitality and retail, their furlough payment takes them below the minimum wage. That is poverty pay, so we are really concerned about that. We are also very concerned that, if you look at the Northern Ireland economy, you see that one in four workers earns below the real living wage of £9.50 an hour, and of the 12 UK regions, we have the highest proportion of people on low pay.

We are enthused, though, to see a really good clause at "Workers' Rights", section x, on page 44 of 'New Decade, New Approach'. We understand that the New Decade, New Approach agreement brought the five parties back into government. We think that there is an opportunity under that workers' rights clause and, indeed, under "Employment Rights", on page 41, to do something significant in the Programme for Government, to use the uniqueness of the fact that employment rights are a devolved matter, and to do things that do not cost money but might increase productivity and improve relationships between employers and workers, so that businesses can be more effective and efficient for the employer and for the worker.

There is real scope there, if there is a level of ambition, and I really hope that there is. As I said, page 44, section x, of 'New Decade, New Approach' is the key to that. There are about 13 measures that could be looked at and used to boost workers' rights. That is not, by the way, at the expense of the employer; they complement the position of the employer.

We also need to see a lot more engagement between social partners and the Northern Ireland Executive. It is very lopsided. There is not the level of engagement that we would like, and there needs to be more partnership with social partners and civic society to work in the interests of everyone in Northern Ireland.

**The Chairperson (Dr Aiken):** Owen, I understand that you have another engagement. You are heading off to enjoy yourself on 'Evening Extra' tonight. Apologies to other members of the Committee, but I think that Paul is happy to stay on the line to take questions. Owen, thank you very much indeed for your evidence.

**Mr Reidy:** Thank you, Chair. Thanks, everyone.

**Mr Frew:** I get what you say with regard to a radical change in how we do taxation. It is getting to the point when we probably do need to do something radical. Your colleague talked about the rates being only a very small percentage of the tax base, and that is true. Rates is a blunt instrument that really does need to be refined and reformed, but so do all our taxation levers. That is only one side of a coin, because, even if you do change the tax levers, you are giving money into a system that is deeply flawed. I have not come across any government apparatus, scheme or Department when I say to myself, "Yeah, I want you guys to have more control over my life". That having been said, surely we need real reform in the Civil Service to go hand in hand with radical thought processes around taxation. Do you agree that one just will not work without the other?

**Mr Mac Flynn:** As the Chair mentioned earlier, Northern Ireland is grappling with the issues of duplication of services. Part of that, which is often overlooked, is that to provide the same suite of public services in Northern Ireland that is expected at the UK level will always be that bit more

expensive when looked at as a per head comparison with England. There are economies of scale, particularly when it comes to issues like health.

When we talk about increasing revenue and, in this case, looking for an increase in employers' social contributions over a period, it is not about looking for the dead hand of government to fall on more areas of life; it is about things that we have been promising people in Northern Ireland for quite some time, such as childcare. The level of ambition that we seem to have about childcare in documents never seems to be matched by the amount of money that we are willing to put towards it. I think that, if you asked people in Northern Ireland whether they want a significant, well-funded and well-resourced childcare system in Northern Ireland, the vast majority would say yes and would agree that they, as workers, are willing to pay a small amount more for it, and that would also be reflected in employers' social contributions. I think that employers would be quite happy to think that a certain amount of that increase was going towards providing high-quality childcare for their workers' children. Obviously, the more active participation that that would allow in the labour market would be a further boon to the economy.

That is what we are looking at here when we talk about an expansion of government. If anyone finds waste in government, by all means, that should be tackled at any time, irrespective of what proposals are on the table. When we talk about wanting to change the game, it is for the big things like that, which, to be fair, have been promised to people in Northern Ireland year after year after year, but *[Inaudible.]*

**Mr Frew:** You dropped off there at the end, but I got most of that. Thank you very much. I have been an MLA for 10 years. With each Budget during that time, I have seen it with Departments — you are right to say that the Budget has not changed much. It has flatlined. There have not been any radical ups or downs. It has always stayed quite level. Then, there has been austerity and everything that goes with that. Even this year, with all the crises that we have faced and the money that has been thrown towards us, there has been an inability to spend effectively. It strikes me that there is a massive piece of work to be done. One of the big prizes from devolution was that we would be able to spend the money that was given to us better. However, we never, ever seem to spend it better. Nothing ever changes with regard to reform of Departments. We seem to fund the same things that we funded four or five years ago. They are bound to be outdated.

Do you look at tax levers and, dare I say, tax rises as something that would just bring in more funding, or should it really be about — again, there are two sides of the coin here — increasing productivity and removing smuggling from the scene? I read a lot of Pitt. Pitt was very good at raising taxes and bringing in new schemes, not least of which was income tax, which was only temporary. In his earlier days, he reduced smuggling of some foodstuffs and materials simply because he released the tax burden on them. Should we also look at that?

**Mr Mac Flynn:** I take your first point, and I share your frustration. In my opening statement, I said that we have this every year in the Northern Ireland Budget; it is a function of the previous year's Budget. There was a commitment in 'New Decade, New Approach' to move to multi-year budgeting. That is a good idea, but, in of itself, it will not be enough because of the way in which our departmental day-to-day expenditure for UK regions operates — the departmental expenditure limits. We sometimes think that, through the block grant, we are being given a pot of money to spend in Northern Ireland. We are not. We are being given a credit card with a limit on it and a year's expiry date. If you get to the end of the year and have not spent your amount, you do not get to keep a pot of money. The credit card expires. That leads to an administration of public expenditure that is devoid of any capacity for transformation or innovation. Even if the Northern Ireland Budget was multi-year, the rigidity of the Treasury on annual expenditure limits will always be a constraint.

I am not in favour of raising revenue just for the sake of it. Any taxes have to be fair and need to be efficient. We are proposing the employers' social contribution increase because that is an area in which we are out of step with our comparators, and it is an area in which we could leverage additional revenue in order to provide the services that people expect, without putting ourselves at a disadvantage to our competitor economies.

**Mr Frew:** OK. Thank you.

**Mr Catney:** I enjoyed that. Thanks very much. Are we all right for time, Chair?

**The Chairperson (Dr Aiken):** Yes. We were due to take evidence from RalSe, but I have taken the executive decision to move that until next week and let the RalSe team away. We will have another five minutes of evidence gathering before we draw it to a conclusion.

**Mr Catney:** I will only be a second. Chair, I would appreciate it if you called me in under any other business.

Thanks very much, Paul. Support for these measures is probably needed to get the transformation. Part of the reason why I came on to the Finance Committee was that I thought that we could have worked through some of the issues to build the sort of economy that we need in Northern Ireland. The significant changes that you propose will mean fewer jobs and changes to the existing responsibilities and roles of employees. Do you agree that there would be job losses? Where does the Northern Ireland Committee, ICTU sit on that?

**Mr Mac Flynn:** Sorry, could you clarify that?

**Mr Catney:** Do you support that kind of transformation if it leads to fewer jobs and significant changes to the roles and responsibilities that exist for employees? How do you square that circle?

**Mr Mac Flynn:** Do you mean raising employers' social contributions?

**Mr Catney:** Yes. I know that you said that it would be over 10 years and that you were building up the finance to do that, but, in the short term, it may well cost existing jobs.

**Mr Mac Flynn:** A recession, as we are in now, is no time to raise taxes, so it is about not only not doing it now but not starting the process now. It would be brought in over 10 years to give the economy time to adapt. We did the same thing when George Osborne brought in the national living wage. It came in over a three- to four-year period. When the minimum wage was first proposed in the late 90s, even within the economics profession, there were people who said that there would be job losses but that it would ameliorate over time. The truth was that there were no significant employment effects from that, because it was done slowly and assuredly. As Owen mentioned, when employers know what is coming down the tracks, there is certainty about it, and it is not disproportionately impacting one sector over another.

Over the medium term, there is nothing that constrains the UK economy and, in this case, Northern Ireland from being able to have that level of taxation, because we are comparing ourselves with the most competitive and productive economies in Europe that are already at that level. Economists always talk as though they have a crystal ball; I do not, but I am saying that the balance of the evidence of similar labour market interventions would downplay the possibility of there being any significant employment effects.

**Mr Catney:** Thanks, Paul. I would like to keep in touch with you.

**Mr Mac Flynn:** Please do.

**Mr O'Toole:** There seems to be a slight disconnect between what you are saying around the fundamental dysfunctionality of our Budget-making process, which I completely agree with, and the fact that it in no way addresses severe structural long-term challenges with our economy, particularly our chronic low skills, low productivity, low wage economy, and your not really being that enthused about fundamental reform of the way that we do fiscal stuff. It may be that you are sceptical about just narrowly talking about revenue raising, but, if I am reading you right, it is seemingly the case that the way that we do Budgets is completely dysfunctional, and we do not address our long-standing economic challenges, but we should continue. I am being unfair in the way that I am summarising you, but do you see what I mean? There is a chicken follows egg thing here. I get it that revenue raising is not a panacea, particularly in a dysfunctional political context, but, at the same time, we need something pretty fundamental, and, surely, is that not what a fiscal commission or a fiscal council might do? Wherever you sit on the left or right of the constitutional spectrum, we need to do something pretty significant here.

**Mr Mac Flynn:** Yes. There is absolutely a possibility that, in the future, Northern Ireland could be raising a substantial amount of its revenue. My point is that there is a long road between where we are now and that. Fiscal revenue-raising measures come up all the time, but reform of the expenditure

process should happen first. That is what the problem was in Scotland. Nobody looked at the expenditure side of it and decided then to simply devolve a revenue-raising ability into the mix. It has led to what I would describe as an even more convoluted budgetary process.

I also think that there is a danger in talking about one revenue measure in particular. We kept bringing it up during the corporation tax debate. Whatever your opinions on that, the amount of volatility that it would introduce into Northern Ireland's annual Budget was never fully recognised. I think that you start off by reforming the way in which public expenditure is carried out in Northern Ireland, and then you have a better idea of how you begin to introduce a certain amount of revenue volatility into the budgetary process. After you have achieved both those things, you can start to talk about devolving actual revenue-raising powers. It is a process. A certain degree of maturity exists in other federal systems and processes, such as equalisation in Australia, and Germany has a particularly good one. That economic devolution never came to the United Kingdom. It is happening by stealth in Scotland, and I think that it is a bit of a mess. Rather than us just practising the same thing in Northern Ireland, we should have a wider debate, first, about expenditure, then about how you introduce revenue volatility and, ultimately, about how you introduce fiscal devolution.

**Mr O'Toole:** That is interesting. I do not disagree with you about not focusing on narrow taxes. Of course, one of our interventions is the one that cost us £2.5 million per year for no reason. We have devolved air passenger duty, which is a permanent cost on our block grant, for not just no economic benefit but presumably a net loss. Anyway, point taken. Thank you.

**The Chairperson (Dr Aiken):** Paul, thank you very much indeed for your evidence. I am sorry that it has gone on so long, but, again, thank you very much indeed.

**Mr O'Toole:** It is a compliment, Chair, to the witnesses.

**The Chairperson (Dr Aiken):** I was making a compliment to the witnesses.

**Mr O'Toole:** That is what I am saying. The fact that the evidence went on a bit longer than usual is a compliment to the witnesses. *[Laughter.]*

**The Chairperson (Dr Aiken):** I was complimenting them. You do not need any compliments.

**Mr O'Toole:** Not me. *[Laughter.]*

**The Chairperson (Dr Aiken):** Sorry about that, Paul. It is an in-joke. Thank you very much indeed, and give our best to Owen and everybody else.