



Northern Ireland  
Assembly

Committee for Finance

# OFFICIAL REPORT (Hansard)

Draft Executive Budget 2024-25: Ulster  
University Economic Policy Centre

8 May 2024

# NORTHERN IRELAND ASSEMBLY

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**Members present for all or part of the proceedings:**

Mr Matthew O'Toole (Chairperson)  
Ms Diane Forsythe (Deputy Chairperson)  
Dr Steve Aiken  
Miss Nicola Brogan  
Mr Paul Frew  
Mr Eóin Tennyson

**Witnesses:**

Mr Gareth Hetherington                      Ulster University Economic Policy Centre

**The Chairperson (Mr O'Toole):** We welcome Gareth Hetherington from the Ulster University Economic Policy Centre. Thank you very much, Gareth, for coming and giving us evidence. We would really appreciate an opening statement, should you wish to make one, and then we will have questions for you.

**Mr Gareth Hetherington (Ulster University Economic Policy Centre):** Thank you, Chair, for your invitation and the opportunity to give evidence to your Committee. Good afternoon, everyone. I will make a short opening statement outlining some key comments and observations, which, hopefully, will help to inform your work, but most of the time will be given over to questions from members.

Like everyone, I acknowledge the challenging nature of the Budget, and I do not underestimate the difficulties that all Executive Ministers and MLAs will face in the coming months. I am also conscious that, as with any Budget, there are many calls on the very limited funds available from across all parts of government and wider society. It is with that in mind that I would like to raise what, I believe, should be two key priorities as Ministers now make their individual spending decisions: first, a laser focus on raising our economic growth rate; and, secondly, implementation of public service reform. I have identified those two priorities because I see them as the only long-term path out of the annual cycle of increasingly difficult Budget rounds.

How can we have had 15 years of downward pressure on Government spending and, at the same time, have a tax burden that is at its highest since the Second World War? The answer is that, in those 15 years, we have had a sustained period of below-trend economic growth. Focusing on GDP growth has not always been popular in recent years, but our recent experience has shown that that has to change. I associate GDP growth with increased tax revenues to fund public services. As we look forward over the short and medium term, we will continue to face very difficult budgets until we get the economy growing at both Northern Ireland and UK level. How do we turn things around? I will focus briefly on two areas: capital investment and skills.

On capital investment, prior to the global financial crisis, Governments increased capital and infrastructure spending year-on-year. Those increases in investment spending stopped after 2008, and, at the same time, long-term economic growth started to plateau. That can be no coincidence. We need to prioritise investment in the economic infrastructure, such as transport, communications and utilities, in particular water and waste water. That, in turn, will create the basis for increased private-sector investment and, hence, economic growth.

On skills, despite the economic challenges that we face with high interest rates, the fallout from the pandemic and the war in Ukraine, businesses still report that finding people, particularly those with the right skills, is their number-one challenge. That is constraining business growth and overall economic growth, and, as a consequence, there are lower tax revenues. We need to turn the skills deficit around. Significant progress has been made on skills since the Belfast/Good Friday Agreement, but, across the entire skills spectrum, we still have a long way to go to achieve our potential and match other successful economies. Northern Ireland has the lowest share of its population educated to a tertiary level of anywhere across the UK and the Republic of Ireland. Northern Ireland also has the highest levels of economic inactivity in the UK, but approximately 55,000 of the economically inactive have indicated that they would like to work in future. A wide range of policy interventions could be put in place to help address those issues. I will be happy to elaborate on those interventions during questions, but I will briefly mention a few of them now.

The welfare disincentive to return to training should be removed by allowing people to retain their welfare benefits during their participation in skills development training programmes. The scope of skills academies should be broadened. Skills academies have an excellent reputation for good reason, but they should be expanded in terms of the number of individuals who are eligible for them. Skills academies should include those with low or no qualifications; they tend to be for people with higher-level qualifications. Skills academies also tend to focus on FDI and larger firms; that should be broadened to include SMEs and micro-firms. We should broaden the number of sectors involved; skills academies tend to be technology focused. We should expand employability interventions, which tend to focus on young people but should also be made available to older, economically inactive individuals. We need clearer education and qualification pathways for those who want to pursue a professional and technical education; clearer mapping of training and development support for those in employment to help raise their productivity; and signposting for life-long learning. That is not to be critical or suggest that work is not done in those areas, but those are the areas that require focus. Given the complex nature of the problems faced by some groups in society, cross-departmental solutions are needed, which can be a challenge.

I turn to the second priority: public sector transformation. In the past, that may have been interpreted as code for efficiency savings to reduce budgets. Whether that was right or wrong at the time, it is certainly not the case today, given the challenges faced by our public services. Transformation is required to make sure we get maximum outputs and outcomes for the money spent. My comments on transformation will be very brief and focus on the two largest departmental budgets.

The first is the health budget. In 2019, the then permanent secretary of the Department of Health said that he had enough money to run a world-class health service, just not enough money to run this health service. Bengoa made similar comments, indicating that the issue was less about the funding available for health and more about how the money was spent. Those statements were made some years ago, and funding pressures have grown significantly since, but they both point to the need to reform the delivery of health in Northern Ireland. Given the stated need for a 6% annual increase in the health budget just to stand still, the status quo is simply not an option.

Education is another sector facing very significant challenges. In recent weeks, school principals have taken to the airwaves to outline their very difficult financial situations and the steps they are taking to make ends meet. Those principals have been put in an impossible position, and significant reform is required. Recent data is hard to find, but, in 2020, in response to an Assembly question, the then Education Minister indicated there were 60,000 surplus places in schools across Northern Ireland. That number may have come down in the past few years, but demographics present a challenge here, too. The debate on demographics tends to focus on the increasing numbers of older people and the demand that that will put on the health and social care sector. However, that is only one aspect of the debate. There are currently approximately 355,000 five- to 18-year-olds in Northern Ireland, but that number is forecast to fall to 285,000 by 2040: a further reduction of 70,000 or 20%. The decision to close small schools is very difficult, particularly when they are located in small communities, but keeping those schools open absorbs funding that is desperately needed in other schools, particularly as demand for the likes of special educational needs (SEN) services continues to grow.

We can look at those challenges and conclude that the best time to have started the transformation was 10 years ago, and that might be correct, but the second-best time to start is now. On a more positive note, we all know the challenges that we face and the difficult decisions that need to be taken, but we also know the policy solutions to reverse the trend. Technology presents a world of opportunities from both an economic and public-service perspective. In my job, every day, I see a younger generation that is ambitious to grasp that opportunity, but it is our responsibility to create the right economic environment to let them thrive.

**The Chairperson (Mr O'Toole):** Thank you very much, Gareth. That was a very useful and concise overview of where we are and, perhaps, where we should be. You have set out two broad thematic and urgent, but also long-term, priorities, which, if I have distilled them correctly, are, first, investing in longer-term economic growth — in skills and infrastructure, the kinds of things that drive productivity — and, secondly, transforming public services. How well does the Budget deliver or set a vision for those two priorities?

**Mr Hetherington:** I have not had access to the details behind the high-level numbers that the Minister has set out. As I understand it, individual Ministers are now deciding how the allocations will be spent within their ministerial remits. I suggest to all Ministers that they should focus on the interventions in their Departments that can help enhance economic growth. To be clear, when I talk about investing in the economy, I do not just mean investing in the Department for the Economy.

**The Chairperson (Mr O'Toole):** Indeed.

**Mr Hetherington:** All Departments have a role to play in economic growth, be it the Department of Finance; the Department for Communities in terms of economic inactivity; the Department for Infrastructure; the Department of Education; or the Department of Health in terms of trying to return people to the workforce. It would be very easy for me to be critical and say, "There is not enough money, and more money should be put here", but there is a fiscal reality that we have to live with. The focus has to be on spending the money we have as wisely as possible in the areas that will grow the economy so that we can, as I say, increase tax revenue and improve public services.

**The Chairperson (Mr O'Toole):** Given what you have heard so far, if I forced you to pick, let us say, no more than a handful of priorities, what would they be? Let us start with priorities on the first theme, which is improving productivity and GDP. A key part of what we all need to do is prioritise. You mentioned, for example, waste water and skills. What would be the priorities for improving GDP? Implied in that is what are not the priorities, as it were.

**Mr Hetherington:** I will go into some of the areas in respect of skills and infrastructure, but it is important to recognise that not every policy intervention that needs to be made will cost more money. We can do better with the money that we have. One of the examples that I gave — this could have a significant impact with a relatively limited fiscal implication — was removal of the welfare disincentive. At the moment, people who are economically inactive have their benefits, but, if they seek to increase their skills and take a training and development course that is more than 16 hours a week, there is a significant risk that they will lose their benefits. Those people will, therefore, naturally step back and stay on benefits. There is no saving to be made in having a policy that removes those benefits, because people will not take advantage of that. People will always want to be secure in the knowledge that their benefits are safe. I cannot stress enough the importance of that.

We have done work with groups in that space. The risk of losing benefits is preventing a large number of people from returning to work. To give one example, Denmark has a policy whereby economically inactive people over 30 retain 80% of their benefits when they go on a training and development programme. In the immediate aftermath of the pandemic, that was increased to 110% of benefits — a 10% premium — if those people went into areas where there were skills shortages. The Danish Government gave people security to encourage them to raise their skills, because, among that economically inactive age group, that is one of the key barriers to returning to employment.

I agree with the policy that we should spend more on free childcare and on addressing NHS waiting lists. Part of the narrative around that spending is that it will help get people back into work. Lack of childcare is one of the barriers to getting those economically inactive people back into work. However, very few economically inactive people have just one barrier. Lack of skills is one such barrier.

I have talked about broadening the scope of skills academies. Skills academies were initially for FDI and then for larger indigenous companies. There is work to do around how we bring SMEs and

microbusinesses into that picture as well. Skills academies are structured to bring in a cohort of 15 or 20 people to do a tailored programme for that business. However, there has to be a core set of skills that SMEs —. An SME will never want or have the capacity to bring in 15 or 20 people at one time. However, why could five or 10 not get together and operate as a cohort? More needs to be done there.

For those who are in work, we should take forward the promotion of lifelong learning and a clearer mapping of training and development programmes. Relative to the rest of the UK, Northern Ireland has a very poor record of people in work also taking part in training and development, and the UK is not pulling up any trees internationally. Those are some of the areas in which we need to do more. I have more, Chair, but I will stop because I sense another question coming.

**The Chairperson (Mr O'Toole):** You have given us some really useful insights on skills. You have usefully highlighted two broad themes: investment in skills and productivity and improving our GDP; and public services transformation, which I will come on to.

I do not think that anyone would meaningfully dispute — some might — that we should improve economic growth in Northern Ireland. However, because of the way that the block grant settlement works, should we increase our GDP other than in relation to rates revenues? Because of the way that valuations work, there is not a particularly quick transmission mechanism from GDP growth to increased rates revenue if more premises are occupied. What would you say to the proposition that, in order to realise what you have described, we would need more fiscal devolution, because we would need more of a relationship between how our economy works and tax revenue?

**Mr Hetherington:** That is a really good point, Chair. If we take 50,000 people out of economic inactivity and put them into work, that will result in a lower welfare bill and more taxes, which all goes to London, so where is our incentive? Clearly, I would be supportive of greater fiscal devolution, but that is not without its risks. No doubt, Department of Finance staff would make you aware of those risks.

I frame it differently. We need to be better in Northern Ireland at making the case to London for increased investment. I am on the outside looking in, but it seems to me that we go to London to ask for money because there is a problem: "Waiting lists are too long" — or whatever it happens to be — "so we need more money to solve that problem". We should be going to London with a broader case: "Here is the standard of public services that we want, and this is how we will transform to deliver it. This is the economy that we want". That goes back to the Economy Minister's point about good jobs and regional balance. What is the plan to deliver that? What actions are we going to take? What is the cost? If we can make Northern Ireland economically more viable, that will help London — it will help the Treasury's position — so we should make that broader case. Being clear about the policy interventions and programmes that we want to have in place will benefit London as much as it benefits us.

**The Chairperson (Mr O'Toole):** I do not disagree with any of that. You seem to be making an argument for a strategic vision in a Budget document. Hopefully, we will see more of that when we see the Budget document rather than just the very short written ministerial statement that we have had so far.

Most members have indicated that they wish to ask a question. If any other member wishes to come in, please indicate that to the Committee Clerk.

Before I open it up to questions from members, is there a view that, in order to achieve some of what you are talking about, we would need a multi-year Budget? We will probably not get that, because even the most optimistic timeline would be that, with an extremely fair wind, we would get it towards the end of this year; it is much more likely that it will be next year. That would require a comprehensive spending review from the Treasury that, then, allows the Executive to make a multi-year Budget — although I would argue that they could do something indicative. The question that I am putting to you is this: what would you say to the argument that you need a multi-year Budget and/or a Programme for Government in order to properly deliver the kind of strategic vision that you are talking about?

**Mr Hetherington:** We need both. The case for multi-year Budgets for longer-term planning has been well made — I am sure that your Committee has heard it — but you need a vision to set alongside that. There are two other things in respect of multi-year Budgets that, perhaps, do not get the same airing. The first is — this drives me insane — that Departments should be able to carry over surpluses

from one year to the next. The fact that they are not leads to suboptimal decision-making and an inability to take the best decisions from the strategic perspective from which they should be taken.

**The Chairperson (Mr O'Toole):** Do you mean that Departments should be able to carry over both resource and capital?

**Mr Hetherington:** Yes, absolutely. I understand the reasons why that ability is not there, but we need greater flexibility and the ability to carry funding across from one year to the next.

**The Chairperson (Mr O'Toole):** There is an amount each year — I think that some of it has been sacrificed because it has gone into the restoration package — that is, effectively, centrally held by the Department of Finance, and it gets to decide what is carried over. What do you say about the Budget exchange scheme?

**Mr Hetherington:** Do not quote me on this, but I think that is a small number.

**The Chairperson (Mr O'Toole):** Hansard might quote you on it, I am afraid, as everything you say is being taken down. *[Laughter.]*

**Mr Hetherington:** OK. There is a better way. I am giving you what I believe to be the answer. I think that it is a small sum, in the region of £25 million, which, given the scale of funding across all Departments and the decisions that need to be taken, is trivial.

**The Chairperson (Mr O'Toole):** OK. My last question, Gareth, is specifically on waste water. Would you prioritise some kind of investment or intervention in our waste-water infrastructure? Lots of people say that it is becoming so structurally and economically obstructive, and ecologically damaging, that there has to be some form of significant intervention. What do you say to that?

**Mr Hetherington:** Yes. I have seen estimates that the development of 19,000 residential units is on hold because of constraints in the waste-water infrastructure.

I can get into revenue raising, if someone wants to ask a question on it. However, there is a larger discussion here about the constraints on Government-owned, contractor-operated (GOCO) companies and their inability to carry surpluses over from one year to the next or to borrow. There are opportunities to look at different ownership structures for the likes of NI Water and the Housing Executive that could give greater financial flexibilities for those businesses to invest in the infrastructure that we are talking about.

**Ms Forsythe:** Thanks, Gareth, for being here and for your input so far. You shared a remarkable comment: the 2019 permanent secretary saying that he had enough money to run a world-class health service, but just not this health service. That is remarkable. It makes you reflect for a moment on where the money is going, what we are getting for it and the overwhelming need for transformation. There is no one out there — they certainly do not come through our constituency offices — who does not recognise the serious need for transformation in the health service. However, we are faced with the Health Minister saying that he needs £1 billion to stand still. That is a very depressing pitch to make. We are looking for transformation and we need dramatic reform, but he is bidding to stand still. I totally agree with your point that we need to outline how we are going to transform things, take that case to London and look for more money in that way. How can we change the attitude of our representatives to reform of public services?

**Mr Hetherington:** I am one of the few people, I believe, in Northern Ireland who does not blame our politicians for the situation that we are in; I blame the electorate.

**Dr Aiken:** Can I quote you on that?

**Mr Hetherington:** I will start with that statement. There has been a failure in the communication of how that transformation needs to happen. In health, the conversation is about closing hospitals. That should not be the conversation — it is not about closing hospitals; it is about creating centres of excellence. I am not a health expert, so I do not want people to put too much weight on this, but I have heard people from the health sector indicate that they need all of their health estate. It should become about creating centres of excellence across Northern Ireland, making the case for those and presenting the arguments to the public to get their buy-in. I have not heard or seen that argument

being made in a coherent and structured way that people will understand. In general, there is a recognition that things need to change around here, but it is about giving people assurance that changing things is about delivering higher-quality services for the money that we spend rather than what we are dealing with here.

I will give a little anecdote from a previous life, though it is going back quite some time. I worked with Belfast City Council on leisure services. There was a proposal for Belfast to go from, I think, 12 leisure centres to four large high-spec ones. It did a survey, and people wanted 12 poor leisure centres rather than four high-quality ones, because that would mean that there would be a leisure centre at the bottom of their street. We — when I say "we", I am talking about the population — take a very localised attitude to public services. The argument about why that needs to change has to be made in a coherent way. That is where we need to start.

**Ms Forsythe:** Absolutely, but we should always use ambitious language — "We are looking for extra money to try to make improvements" — especially when it is so visible to people that some services are not good enough day-to-day.

You mentioned skills interventions and schemes. I am interested in hearing your perspective on how we could target those at older people. I say "older people" — I do not want to get too into the terminology — but I see people who are at very different points in their lives and careers. People who are 40 to 50 years old and want to change their career and skills base face very specific barriers. We also have an ageing workforce, in which people are really limited in what they can do because they were not in the workforce at a particular time. When we talk about IT and technology opportunities, it feels very targeted at young people, but there is as much of a desire among people in those other age groups. I am interested in hearing what you think.

**Mr Hetherington:** I reconciled myself some time ago to the fact that I am an older person. When I say "younger people" —

**The Chairperson (Mr O'Toole):** It is all relative, Gareth.

**Mr Hetherington:** Interventions are typically for "younger people", who are, as you say, the under-25s or -30s, but the economically inactive tend to be over the age of 30. For example, the DFC had the Job Start scheme, which was very successful and very good but was targeted at the under-25s. Why can we not have that for older people as well?

Also, when we think about things like career services and who uses them, we think of kids leaving school or university; we never think about people who are 30, 40 or 50 and have reached the end of one part of their career and are looking to make a step to another part. They may be in a vulnerable industry and need to make a transition. Career services tend to be oriented towards younger people rather than people of all ages. It is about trying to be much more flexible in the way in which we deliver those services and about who it is that we are trying to help.

There are things that we can do to be more proactive in helping people. People who work in vulnerable industries may be at a greater risk of being made redundant in the near future. It is about being proactive in providing training and development opportunities for them as well. There are a lot of things that we can do. We are doing a lot of good stuff, but we can do a lot more to help those people.

**Ms Forsythe:** I have one more point to bring up. I feel very strongly about the value for money returned by the voluntary and community sector across our public services, the lack of quantification of that and the actual impact of it. We have started an all-party group to raise that case, and you see it right through a lot of issues, economic inactivity being one, where community-based groups have a really high success rate in targeting very specific needs in rural and city-based areas and in particular communities to get people back into the workplace. However, this sits in a separate funding pot, quite isolated, and is not really protected. How do you see that sector and those localised groups building in to the vision for improving economic activity?

**Mr Hetherington:** For transparency, I am a trustee of Positive Futures, which, amongst other things, provides adult social care for many of the trusts. I am also part of the fair work forum, which was set up by the Health Minister to bring the adult social care sector up to the real living wage. There are very good moral as well as economic reasons why that sector should move to the real living wage. Furthermore, the way in which it is funded — particularly with one-year budgets, where you also have one-year commissioning rounds — creates significant insecurity, and staff retention is a real challenge

for the sector. I think that the sector has a tremendous skill set and is a huge asset to society. You are right to say that it is undervalued. I think that it is undervalued because it is unvalued: a quantification has not been put to it. I am 100% supportive of the voluntary and community sector, but I think that, sometimes, it is used by central government as a cheap way of delivering services rather than being valued for the high-quality service that it delivers.

**Dr Aiken:** Thanks, Gareth. I will be relatively short, you will be glad to hear. We need to grow our gross value added (GVA), but our unemployment rate remains very low. When you talk to business and to companies, you hear that the one thing they always say is, "Skill shortage, skill shortage, skill shortage". How do we get more highly skilled people quickly enough to be able to do all the transformation for the economy? There are things that we can do and should be doing such as sorting out the water system and all the rest of it. All we need to do is take the politically brave decision to do what we are supposed to do and get on with it. However, the skills problem is fundamental because we cannot get growth unless we have enough skilled people. Going back to the economically inactive is one side of it. How do we get to the point where we have enough fluidity in the labour market but also have enough skilled people in it? You have outlined a Programme for Government (PFG). We are discussing a Budget in a couple of weeks' time, and there is no Programme for Government. I spent weeks stuck in Hillsborough Castle and various other places when we were talking behind the scenes about the priorities, and everybody agreed that Health was going to be the priority and then Infrastructure was going to be the priority and all the rest of it. We were going to have a Programme for Government, and here we are. We are doing a Budget, and there is no Programme for Government. How do we hone in and make people focus on the skills issue? If we do not do that, we are never going to get the growth.

**Mr Hetherington:** There is the economically inactive piece, which I have talked about.

**Dr Aiken:** If you do not mind my saying, that potentially delivers another 50,000 people into the workforce. That does not get us enough to get the growth.

**Mr Hetherington:** No, it does not. There are three elements. First, there is the economically inactive, which I have talked about. Secondly, I have talked a little bit about making the most of people who are currently in the labour market. One of the issues in Northern Ireland is that there are very low levels, relatively, whether that is compared with down South or across the water, of people moving between jobs. A more dynamic labour market tends to move people up the pay scale, and it encourages people to skill up. The third element is migration. I am very conscious that that is, politically, very sensitive in England and, now, in Ireland. I am not saying that it is not an issue here, but it less of an issue. I have called for a regional migration policy for Northern Ireland. The UK migration policy and the minimum salaries therein might suit London, but it certainly does not suit wage levels in Northern Ireland. I call for a regional migration policy to be devolved to the Assembly. I have spoken to staff in the Department for the Economy and some politicians who might be in government in the not-too-distant future across the water. They are highly resistant to the devolution of regional migration. However, if you call for that and get it, that would be ideal.

The next best is the shortage occupation list of the Migration Advisory Committee (MAC). I believe that an NI-specific person has been recruited to work on that. Ensuring that the needs of the Northern Ireland economy and the differences that exist between GB and NI are brought to attention of the MAC would be very beneficial and would be one of the measures for addressing those skills. It is about people who are economically inactive, people in the labour market and people overseas.

**Mr Tennyson:** Thank you, Gareth, for your evidence so far. You talked about the fact that the tax burden is now the highest since the Second World War. Obviously, we have limited tax-raising powers, rates being the main one. Is it a missed opportunity that the Budget statement did not include any proposals to change any of the rate reliefs on the non-domestic side or the domestic side to ensure that that tax burden is spread in a fairer way?

**Mr Hetherington:** The Finance Minister has recently called for the potential for a uniform business rate to be applied in Northern Ireland. It is my responsibility to look at that. I am happy to come back to the Committee when that research is complete.

**The Chairperson (Mr O'Toole):** Has she called for it to happen, or has she said that she wants evidence on it?



**Mr Hetherington:** She has called for research. That has fallen on my lap. I am happy to come back to the Committee and discuss that specific point. The research is very much at the preliminary stage, so I do not have any findings to give you.

You asked whether an opportunity was missed. Are you talking about raising the cap on domestic properties, for example? Are those —?

**Mr Tennyson:** Any of those measures. Do you have a view on anything that could have been done at this stage that would have been economically beneficial but also more progressive?

**Mr Hetherington:** There is justification for raising the domestic cap from £400,000. However, the additional revenue that that would raise would be very limited in terms of the scale of the problems that we have. When you talk to the business community, there are calls for a fundamental review of rates. People say that they are not fit for purpose, etc. I say, "OK, give me an alternative." That is where the conversation ends, or it then very quickly becomes a conversation about increased reliefs. When someone talks about the need to completely reform property taxes, they are asking for a lower rates bill. That is what they want. If that happened, who would bear the burden?

My view on rates is that having a lot of reliefs points to a system that is not working properly. However, any time that we have tried to make changes to it, a solution just creates a different problem. There is clearly an argument that we should abolish all reliefs and the money that that would generate could be used to reduce rates across the board for all the other organisations. I would not recommend that without a significant amount of work on the impact of individual taxes.

If you wanted to make a significant economic impact, you would need to change rates in a significant way. That would bring about additional costs on some groups and reliefs on others. Unfortunately, in Northern Ireland, there just are not enough rich people from whom to take additional revenues to be able to make a meaningful increase in revenues that would have an impact economically.

**Mr Tennyson:** That is helpful. Thank you very much.

Moving to the Budget process itself, every Budget cycle that we go through in Northern Ireland seems to be unusual in that it is being done at Westminster or, when we are doing it here, it is done later than it should be and in a fairly rushed fashion. What impact is political uncertainty having on the economy more broadly or on attracting investment?

**Mr Hetherington:** I cannot quantify it, but, in any survey of businesses from a foreign direct investment point of view or indigenous businesses, political stability, confidence in institutions and the stability around those institutions are among the top factors. That is important from a business point of view.

I always think back to when Arlene Foster and Martin McGuinness were to go to New York, and they told the great and the good of the business community in New York that we were going to have a lower rate of corporation tax here. That was really interesting to people, and then we did not deliver. People do not forget big promises that are not delivered. It is about being realistic, honest and creating that stable regime to allow businesses that are here and businesses that are not here to make informed investment decisions.

**Mr Tennyson:** Thank you for that, Gareth.

I have one final question in relation to the negotiations that are happening now between the Finance Minister and the Chief Secretary to the Treasury on the renewed fiscal framework. You touched on the potential for fiscal devolution, I think, in your answer to the Chair. Where should the priorities lie in the powers that we seek for additional revenue-raising?

**Mr Hetherington:** We did some work, quite some time ago — eight years ago, now — on corporation tax, and we were very supportive of the devolution of corporation tax. There are lots of reasons why that did not happen. For me, the rationale for devolving corporation tax is primarily to target companies that are not here rather than targeting the companies that are here and for the benefit of companies that are in Northern Ireland.

The Fiscal Commission suggested that income tax and the apprenticeship levy could or should be devolved. I would certainly be supportive of the apprenticeship levy, although it said that you would not

devolve it on its own on just cost grounds, and I get that. There is significant angst, I think, in the business community that they have to pay the apprenticeship levy but do not get access to it in the way that businesses across the water get access to it. That is an issue.

If we devolve income tax, what would we do with it? Would we do what Scotland did, which was to put it up by a penny? Would the revenue that would be raised by that make a significant difference? The impact of raising it by a penny in Northern Ireland would be less than in Scotland, because, in Scotland, a lot of people can just move south of the border. In Northern Ireland, it would not be as straightforward as that.

In terms of the broader fiscal framework, the two immediate priorities for the Finance Minister are these: first, let us agree on what relative need is. The Fiscal Council has said that it is 124%. I think that it released some research, last month or two months ago, on sensitivities around that and whether it is 124% or 125%. Irrespective of that, we need to get an agreed position on that figure, and then, when we have agreed that, we need to get the block baselined for 2024 straight away. Again, the Fiscal Council has indicated that it could take until the mid-2030s to get to that with the way in which the mechanism is structured at the minute. Obviously, we have the potential cliff-edge situation in 2026-27, when the current funding package runs out.

**The Chairperson (Mr O'Toole):** Nicola Brogan is going to come in remotely. Nicola, you are on mute.

**Miss Brogan:** Can you hear me?

**The Chairperson (Mr O'Toole):** Yes, go ahead.

**Miss Brogan:** Thank you, Chair, and thank you, Gareth, for your presentation. A lot of the focus this afternoon has been on investing in the economy, promoting economic growth and improving GDP and, in moving forward, having better Budgets and even multi-year Budgets. You will know that the Executive and all parties in the Assembly have noted that there has been historical and chronic British underinvestment here in the North. Can you give an assessment of how impactful that has been on public services in the North over the last 15 years?

**Mr Hetherington:** I will answer that question in a different way. There is a very strong rationale for making up that shortfall and underinvestment over the last few years. I believe that that argument for that money has to be put alongside the case for change and what we want that change to be. "We are asking for money, but here is the plan. Can Treasury invest in that plan? Is this something that Treasury should invest in?". I would couch it in those terms. There is no doubt that, initially, if we go back to 2010 when austerity measures were first implemented, there would have been relatively low-hanging fruit in being able to find efficiency savings. That time has long since passed.

One of the other, I suppose, more concerning issues that I am aware of is around data released, last week, by the Office for National Statistics (ONS). It is at a UK level, and I suspect that the situation is exactly the same locally, where, following the pandemic, public-sector productivity has dropped. The problem in the private sector is that productivity has not grown fast enough, but it is growing, albeit minimally. In the public sector, productivity has fallen. We are putting in more money that we do not have and getting poorer outcomes as a result. The reasons for that need to be properly explored. Are they because of underinvestment and an inability to invest in technology and other capital projects? Is that why productivity has dropped off? Or did something happen, during and after the pandemic, that has had a negative impact on productivity?

Yes, the impact is very significant. We need to understand why and to use the arguments in our favour to secure the funding to build a case for delivering that improvement.

**Miss Brogan:** OK. Thank you. In the same vein and picking up from your conversation with Eóin about the 124% fiscal floor and meeting the level of need here, what is your assessment of that figure? Do you agree with it? Do you think that it could or should be raised? What is your view on it?

**Mr Hetherington:** That was an estimate that was identified by the Fiscal Council. I defer to its judgement on that number. Clearly, if it can be increased and if we can agree with Treasury to increase it, that will give further funding for investment, but I defer to the council's judgement on the precise number. The approach that it used, which the Holtham commission used in 2010 for Wales, is absolutely the right approach, and I agree with that. The calculation is sensitive to various assumptions, and the council carried out some sensitivity analysis on those. We have not done any

work to identify a different premium, so I do not want to second-guess the council's work. I think that you will be taking evidence from the council shortly.

**The Chairperson (Mr O'Toole):** Yes, next week.

**Miss Brogan:** That is fair enough, Gareth. On the 124%, when you were speaking to Eóin, you mentioned the importance of having that baseline implemented straight away so that it does not become a ceiling but remains a floor. Is that what you said? Do you agree with that?

**Mr Hetherington:** Yes.

**Miss Brogan:** OK. I have one final point. You talked about skills shortages and the barriers to people generating economic growth. One of the major barriers, which you touched on, is the crisis in childcare, which especially affects women getting into the workforce and has an effect on economic growth. Do you agree that we need to see healthy investment in the childcare sector in order to drive down costs for parents so that they can get back into work or get into work in the first place and to improve the quality of childcare for child development?

**Mr Hetherington:** Yes. We are supportive of additional funding for childcare on economic grounds as well as on social grounds. In that economically inactive group — people with caring responsibilities who are economically inactive — there are often skills barriers as well as childcare barriers. Those people tend to have lower levels of skills and qualifications. Typically, more highly qualified mothers who have taken time off work due to childcare responsibilities have as high an employment rate as men with similar levels of qualifications. With that policy, you are trying to target people with lower-level qualifications. In addition to childcare support, there need to be skills packages and support wrapped around childcare policies to help those people get back to work. One measure that I suggested was free crèches in all further education and higher education campuses across Northern Ireland in order to support students and people who have young children to access education and address their skills needs.

**Miss Brogan:** Thanks, Gareth. Things seem to have changed in the past number of years. Many women and men are highly qualified in different professions but are struggling with the cost of childcare and are giving up work for that reason. I think that trends are changing. That is one reason why we need to see investment in the childcare sector. Thank you for that conversation.

**Mr Hetherington:** On the childcare point, additional funding has been made available in GB, certainly in England. That is not without its problems in delivery. Just making funding available for childcare does not necessarily grow capacity in the sector. The supply side is another point that needs to be addressed. I just add that point.

**Miss Brogan:** Absolutely. I know that there have been massive issues with the roll-out of the model in England, but it is still important to have the proper investment for people here.

**Mr Hetherington:** Absolutely. Yes.

**Mr Frew:** On the argument of the childcare cost burden or barrier to economic activity, tweaks have been made here of late that have created a bigger burden. One that springs to mind is the allocation of nursery and primary-school places, whereby the child of someone who is economically inactive gets a place in a school in their area. I know constituents who remained outside of work until their children became of age. I know that for sure. Therefore, it is not just about trying to create incentives to get people into work; it is also about trying to make sure that what we do here does not create a further burden or incentives to stay at home.

**Mr Hetherington:** Unintended consequences.

**Mr Frew:** Yes. That is a big issue for me. I was interested in what you said, Gareth, about a premium top-up as an incentive to get into training — I think that you cited Denmark as an example. Have you any costings on how that would affect our block grant and the differential between here and GB?

**Mr Hetherington:** No, is the short answer to that. To be clear, it was 80% in Denmark for most training, but there was a top-up if the training was in an area in which there was a skills shortage. I am

conscious that, if we start to try to retain welfare benefits, there is the potential for a welfare mitigation against the block grant. This has to be part of a broader conversation with Treasury. I understand why: when agreements are reached with Treasury, there is always a big number, and money comes to Northern Ireland. Sometimes, it can be a case of Northern Ireland not having to pay certain welfare mitigations, or some other economic measure. Therefore, when it comes to negotiations with Treasury, this has to be part of a broader plan, so that it is not a case of, "What's the ask for these six months?" or "What's the ask this quarter?". Rather, it should be, "Here's our plan. This is how we're going to take things forward in the medium to long term, and here are the policies associated with that". To answer your question about costings, I do not have a number for you.

**Mr Frew:** I will talk about a plan in a minute. It strikes me that something like what you have described could have a far greater impact than a childcare cost mitigation. I say that because, as we have seen, costs go up when you create an intervention. However, this seems to be a sharper tool, in that, basically, you are incentivising people to go back into work in a more direct way. Therefore, there would be fewer issues to go wrong and cause a reversal in your policy direction. I really like that. You have triggered something in me.

**The Chairperson (Mr O'Toole):** That is never a good sign.

**Mr Frew:** No, never a good sign. It all comes down to cost. You have intrigued me. Perhaps the Committee could look at doing some research on that; I do not know.

Let us talk about the plan. The plan sounds like a Programme for Government, which we do not have. We are, however, talking about a Budget. It seems that we are doing this back to front, albeit I can understand why: we have just come back; there are time restrictions on a Budget being placed and settled; and there are issues related to percentages of turnover and everything else. Our previous draft Programme for Government was very high level. It had a series of outcomes and outputs, but at a serious level. It was, I think, a serious attempt to try to weld Departments together. We should be well beyond that, yet we are still in silos. We should be well beyond that, and we should have a plan that forces Departments to work together, because there is a set of common goals. Some of the issues that you have talked about today sound like common goals that we should be looking at, and those would be our ask and the basis of a presentation with which to go to Treasury. This all seems very simple, but we do not do it or manage to get there. Have you had any input into what a Programme for Government should look like?

**Mr Hetherington:** Our published research has been fed into various Departments. Other than that, I have not been involved in any direct PFG development.

**Mr Frew:** I ask that because, although we have you here to talk about a Budget, it is back to front. We should, first, have a Programme for Government, which should then be costed, and that should inform the Budget. At the minute, we are simply throwing a Budget out there, and it seems and feels as though it is a case of, "We've always done it this way" or, "This is what we got last year". We need a targeted Budget that will fuel the vehicle that is a Programme for Government. We are missing a massive trick. All that said, we have an opportunity to publish a Programme for Government in the coming months. I am sure that it will go out to consultation and through everything else that goes with that. How should a Programme for Government be structured so that we get the best vehicle to make the case for change?

**Mr Hetherington:** It is about asking what the goal is. What are we trying to achieve? What is the vision? There will then be particular objectives and outcomes within individual Departments, and then there is the question how we will achieve that. What policy interventions will each Department seek to implement? We do not have a fantastic record on that side, particularly when it comes to transformational change. It is about having a clear policy plan — the measures that we will take and the interventions that we will put in place — that will sit underneath each of the objectives and policy desires that we want to be achieved. I always ask, "How do we do that? What five things, 10 things, or whatever, will you do, Minister, to achieve those aims?" It is about having those actions. It is about an action plan that sits under the vision of how we want this place to be.

**Mr Frew:** It is funny that you should say that. You would imagine that the previous draft Programme for Government had an outcome that said, "Everyone in Northern Ireland deserves a good waste water system", but there was no detail on how to get there. I take it that that is what you want to see in a Programme for Government: not just the outcome but the nuts and bolts of how we will get there —

**Mr Hetherington:** Correct.

**Mr Frew:** — and each Department being assigned a responsibility, task or objective in order to meet the outcome.

**Mr Hetherington:** Yes. There is something else. Some of the more difficult economic challenges that we face — I commented on them in my opening remarks — require multiple Departments to work together. As an example, addressing economic inactivity requires DFE and DFC to do so.

**Mr Frew:** Health.

**Mr Hetherington:** Health as well, yes, and Education; it goes on. We need to consider a mechanism that allows Departments to work together more effectively. One model for such a mechanism is labour market partnerships (LMPs). LMPs take a lead from the council, but a lot of other agencies and organisations are at work in them. That is one policy area in which we seem to be ahead of most other regions and countries. Although it is a multi-agency model, it is place-based. Belfast LMP is focused on problems in Belfast, which will be different from the problems in Fermanagh and Omagh and those in Derry and Strabane. I see LMPs — not that they can be replicated across the piece — as the first attempt that has a reasonable chance of success in getting different parts of government to work together to solve the problems that require Departments to work together. There needs to be some mechanism — I do not have the answer to this, unfortunately, so it is easy for me to say — that encourages more cross-departmental working.

**Mr Frew:** Thank you very much for your time.

**The Chairperson (Mr O'Toole):** OK; I think that that is everyone. I have a final question, which is one that I habitually ask. Are you looking at the things on which we already have devolved tax? We have devolved one particular tax relating to long-haul flights —.

**Mr Frew:** You got your mention in.

**The Chairperson (Mr O'Toole):** Some frequent flyers will have heard me mention it before.  
*[Laughter.]*

**Mr Frew:** Why have you not raised that before?

**The Chairperson (Mr O'Toole):** I know. It will take off eventually — *[Laughter]* — no pun intended.

**Dr Aiken:** That is an in-joke from a long way back.

**The Chairperson (Mr O'Toole):** Have you examined that as a precedent? I agree: I want more fiscal devolution, and I want us —.

**Mr Frew:** As a case for no more fiscal devolution?

**The Chairperson (Mr O'Toole):** That is clearly not a good example. Do you agree? We are, effectively, paying £2.5 million a year for the privilege of having non-existent long-haul flights. What happened in that case? Should more work have been done? Was it just a bad —?

**Mr Hetherington:** I was not involved in that specific decision —

**The Chairperson (Mr O'Toole):** You are getting that disclaimer in now.

**Mr Hetherington:** — but I did do research, some time ago, around the broader devolution of air passenger duty (APD). The conclusion that I came to from that research was that the fiscal cost — the impact on the block grant — and the economic benefits generated would be of a similar order of magnitude. The advice to the Minister was, "You can do this. It's not going to be a game-changer in any shape or form, but it's —".

**The Chairperson (Mr O'Toole):** Was that for long-haul flights?

**Mr Hetherington:** No, that was APD.

**The Chairperson (Mr O'Toole):** So, it would have included short-haul APD?

**Mr Hetherington:** Yes. That was about what would happen if we were to devolve all APD and whether we should set it at half the rate of rest of the UK. We looked at a number of scenarios. Sorry, you are taking me back. That was quite some time ago. Without going back and looking at the numbers again, I suspect that, if you wanted to devolve APD, the benefits and the costs would be of a similar magnitude, and —.

**The Chairperson (Mr O'Toole):** Not for long-haul APD. We are paying —.

**Mr Hetherington:** We are paying for something that we do not benefit from.

**The Chairperson (Mr O'Toole):** Yes.

**Mr Hetherington:** It sounds to me as though something went wrong in the conversation with Treasury or that some assumptions were made that did not come to pass.

**The Chairperson (Mr O'Toole):** OK. Thank you very much, Gareth. That should not stop us from seeking future fiscal devolution, but there are lessons to be learned about policy assumptions. Thank you very much. I am sure that we will speak again. Thank you, members, and thank you, Gareth, for giving us a significant amount of your time and such wide-ranging answers.