



Northern Ireland  
Assembly

Committee for Finance

# OFFICIAL REPORT (Hansard)

Draft Executive Budget 2024-25: Nevin  
Economic Research Institute; Pivotal

15 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  
Mr Phillip Brett  
Miss Nicola Brogan  
Mr Gerry Carroll  
Mr Paul Frew  
Mr Eóin Tennyson

**Witnesses:**

Mr Paul MacFlynn	Nevin Economic Research Institute
Dr Lisa Wilson	Nevin Economic Research Institute
Ms Ann Watt	Pivotal

**The Chairperson (Mr O'Toole):** We will now hear from Ann Watt, director of the Pivotal think tank; Paul MacFlynn, co-director of the Nevin Economic Research Institute; and Dr Lisa Wilson, senior economist at the Nevin Economic Research Institute. Thank you, Ann, Paul and Lisa, for your patience in waiting. Hopefully, the fact that you heard the previous evidence session means that you are well ensconced and able to pick it up fairly quickly, although I am sure that you would be anyway.

We are taking evidence on the 2024-25 draft Budget. I ask Paul to give us an opening statement and Lisa for anything that she might have to add, and then we will go to Ann.

**Mr Paul MacFlynn (Nevin Economic Research Institute):** Thank you, Chair, and thanks to the Committee for the invitation to speak.

You have heard a lot of evidence so far. The first thing that we want to say is that the context for Budget 2024 was extremely challenging. We acknowledge that, and it was known long before the statement was made. We welcome the fact that a Budget was agreed by the Executive, given existing spending pressures and the constraints of the overall fiscal statement.

The biggest criticism that we would make has been made: the absence of a Programme for Government (PFG). A Programme for Government sets out joint priorities and a direction of travel for Northern Ireland and is fundamental to ensuring the best use of resources in the delivery of public services. Without that, it is hard to understand whether the allocation of funds to Departments amounts to anything more than just the divvying up of moneys. Such a process can result in ad hoc decision-making, fragmented policy initiatives and inefficient use of resources. Not setting strategic common goals means that there is absolutely no context to the decisions made about departmental

allocations. Those choices are seen as discrete decisions rather than necessary compromises within an overall limited Budget settlement.

One of the most significant elements of the Budget was the allocation to the Department of Health, which was less than the £1 billion sought by its Minister. In the budgetary announcement, it was stated that it was not sustainable for Health to keep eating up more and more of the Budget year after year. That is true. It is clear that the current spending dynamic within the Department of Health cannot continue indefinitely. Had additional moneys been made available to the Department of Health, it would have been at the expense of other public services that have already faced significant cuts.

However, simply withholding those funds will not solve the problem, either. There needs to be a plan to regain control of health spending, but that plan will not be successful if it remains limited to the confines of the Department of Health. The factors that contribute to the increase in health spending span the entire range of Departments. That is why a Programme for Government is so central. An Executive-led, cross-departmental plan is needed not only to tackle the immediate spending pressures within the Department of Health but to put in place proactive measures to contain future demand. That is crucial to fiscal sustainability.

Commenting on the overall fiscal settlement of this year's Budget, the UK Government have now committed to setting a fiscal floor for Northern Ireland based on public spending needs. The UK Government make reference to work already undertaken by the Northern Ireland Fiscal Council in that regard. We say, first, that the definition of "need" employed in the discussion is an arbitrary formulation based on local government spending decisions in England. It should not in any way be viewed as an objective assessment of the public spending needs of Northern Ireland. Secondly, there are issues with the UK Government formulation and the further issues that that poses for Northern Ireland's calculation of the floor. Beyond that, the most immediate concern is that the mechanism outlined by the UK Government to achieve that fiscal floor is utterly inappropriate. The negotiations will continue between the Department of Finance and the UK Treasury. We believe that the Executive will be most successful in that negotiation if they can set out how they plan to achieve longer-term fiscal sustainability, but there needs to be an honest conversation about what that is.

Before the Executive returned, much was made of revenue-raising capabilities within Northern Ireland. We see a danger in posing those as a solution to Northern Ireland's current public spending crisis. The UK Government bear a significant responsibility for the constrained fiscal position that Northern Ireland finds itself in. Devolution is about empowering regions to enact policies tailored to local needs rather than simply being the handmaiden for national budgetary decisions.

We believe that there is scope for increases in the regional rate. While this Budget was not the time to introduce significant and sharp increases in that regional rate, it is perhaps a missed opportunity that this Budget was not used to signal that that was the direction of travel. Such a signal may have been beneficial in further negotiations with the Treasury on the fiscal framework. It is worth remembering in that regional rates discussion that the objective should not be to align with revenue collected under the English council tax system. The English council tax system is highly regressive, and it is worth noting that the UK as a country raises a disproportionate amount of tax from property-based taxes compared with other countries that have a greater balance with regard to other taxes such as income taxes. On further fiscal devolution, my colleague Lisa Wilson was part of the Fiscal Commission that looked at devolving income tax. There are significant short-term dangers in that, and seeing that as the solution to our public finances is equally dangerous.

Overall, yes, we accept that the context was extremely challenging and was challenging timewise, but not setting a Programme for Government means that next year's Budget will be equally challenging. There is an opportunity to achieve a more appropriate fiscal settlement from the UK Government, but that endeavour requires a plan, and a Programme for Government should have been the beginning of that plan.

**The Chairperson (Mr O'Toole):** Ann, we will also take a statement from you and then open it up to questions.

**Ms Ann Watt (Pivotal):** Thank you to the Committee for the invitation to be here this afternoon and to provide evidence. I am the director of the independent think tank Pivotal. My comments will be around three themes: some headline comments and analysis about the Budget figures and the allocations to Departments; some thoughts on how the process could be improved; and some comments on Northern Ireland's financial settlement from the UK Government. I have looked mostly at resource

departmental expenditure limit (DEL) rather than at capital or financial transactions capital (FTC), so that has restricted my comments a little.

I will give some headline thoughts on the Budget allocations. First, it is important to say that it is really good and positive that the Executive have agreed this Budget, obviously noting that the Health Minister did not agree and that it is still to be debated in the Assembly. This is a very challenging situation, and it would have been easy to kick the can down the road. It shows a businesslike and constructive approach from the Executive that they have agreed this is a very difficult context. It gives some certainty to Departments and those bodies that are funded by them at the start or near the start of the financial year.

Clearly, there are no winners here. There are just varying degrees of losing, really, and we will see how Departments manage the funding that they have in the coming weeks as we see what that means for their programmes. As we have heard already — I will not go into this in too much detail — Health is getting 51% of the Budget, Education is getting 19%, Justice is getting 8%, and so on through the Departments. The funding is split generally in the same kind of way as we would expect from what we have seen in the past. There is, I think, some kind of rebalancing towards Education and Justice. They have done least badly, if that is proper grammar. That may be a deliberate attempt to partly reverse how poorly they have done in recent Budgets in past years.

What does all of that mean? I have three points of analysis. The first is something that came out very clearly from the Fiscal Council's report yesterday, and you have already talked about it this afternoon. There is no uplift at all in this Budget from the out-turn from last year. The numbers in the written ministerial statement show a £926 million increase, but that is compared with the start of the year. You have talked to Sir Robert Chote and his colleagues about that. The implication of there being no uplift is really concerning. There is no additional money to pay for anything this year. There is no additional money to pay for new pay settlements. There is money to pay for the things that were agreed in the past, but there is nothing new. It is basically flat in cash terms. That, I think, is very problematic.

Even though the headline number in the written ministerial statement is a 7% increase, it is actually a 2% decrease on the end-of-the-year figure. That means that all Departments, apart from Justice, get an decrease compared with what they spent in 2023-24. The increase for Justice is a tiny 0.2%. How will any new pay awards or other costs be funded this year? It even raises questions about how we are going to deliver the same services as last year. It certainly raises huge questions about any new spending. As you all know well, there is a lot of expectation around what the Executive are going to do about childcare, waiting lists, special educational needs and the environment. There is nothing there in the Budget to fund those new things unless existing spending or previous spending is cut.

The third thing is that the past is catching up with us. We have had prolonged periods without a Government — five out of the last seven years — and we are seeing problems from those times when we did not have proper planning of public services. Even when the Executive and the Assembly were in place, it was often unstable, and there was a failure to plan for longer-term investment, workforce issues and public-sector reform. I echo Paul's point that we need to face up to the challenge of ever-increasing health spending. Doing nothing here is not an option, and we have to look at reform and going back to the Bengoa recommendations and other reports.

What should the Executive do, given this dire situation? This year has to be one of focusing on stabilisation and on preparation for next year. I suggest that the Executive should be doing three things. They should choose priorities, agreeing a small number of priority areas where they can make a difference. They should publish a plan about what they will do and what we can expect to see in terms of improvements. Really importantly, they should prepare for next year and for a multi-year Budget, for a proper Programme for Government and for public service transformation.

I will offer some comments about how the process could improve. As has been said — I will not go into this too much, because it has already been talked about a lot this afternoon — we need to see the strategy that underpins this Budget. How and why were decisions made? Is it just about dividing up the money in a way that is acceptable and reasonable between each Department, or is there more of a plan and a set of priorities behind it? Perhaps that will emerge in the Budget documentation, because it was certainly not in the written ministerial statement. It is essential that we are working towards having a meaningful Programme for Government that is genuinely cross-departmental and jointly owned. That does have to be meaningful and not just "everything". As discussed at the end of the previous session, there is a risk that Programmes for Government are just aspirational. I would say that less is better, so maybe it needs to be quite a simple list of priorities.

We need a meaningful Programme for Government, and we need to be working towards multi-year Budgets to allow proper planning. Additionally, there needs to be a commitment to improving outcomes and tracking their delivery. The Executive should set out what they are doing, what they are spending on, how outcomes are going to improve and what the public can expect, and then report on that and be accountable for it.

I will turn to some quick process and presentational issues. As is probably clear from what I have said, I find it completely unsatisfactory that the figures in the written ministerial statement were compared with the start of the year rather than the end of the year. I know that that is the convention, and I understand why, and there was a discussion about that in the previous session. However, I think that we should, at least, have both and an explanation of that.

**The Chairperson (Mr O'Toole):** Is it the presentation or the substance that bothers you most, Ann? Obviously, you would rather there was more money. Is it the presentation that is, you think, disingenuous?

**Ms Watt:** From the presentation of the figures, it is not clear what is happening, to be honest. I used to work in the Treasury, and, when I looked at the numbers, I asked myself, "Is this good news or bad news?". It would have been really helpful if, as the Fiscal Council did in its report, a big emphasis had been put on comparing the figures with the end-year out-turn and showing that there was a 2% fall, rather than a 7% rise. It would have been clearer if the Department had said that from the start in the written ministerial statement. The figures should be compared with the out-turn. That seems to be the meaningful comparison: what we actually spent last year.

Another issue is that we do not know what that means for Departments yet. We have no detail about what will or will not be spent. We await to see that from each Department. The timescales, clearly, are very constrained this year. We should have a proper public consultation and scrutiny process, but, unfortunately, we will not get that.

I have some final points about the UK's financial settlement with Northern Ireland. It is interesting and important that the Fiscal Council said, in yesterday's report and here this afternoon, that, if 124% is an appropriate level of need, Northern Ireland is being funded at that level or, indeed, slightly over it this year. You can debate whether 124% is right. It has come up with 124% after producing several different reports and looking at different methodologies. We frequently say that Northern Ireland is underfunded and is funded below need, but the Fiscal Council, on the basis of its analysis, seems to say that we are funded above need this year. The big issue, of course, is that, if you say that that is true for this year and next year, 2026-27 will be a massive problem. That is a huge problem. There is a cliff edge, and it will perhaps appear one year earlier if the repayment of the overspends is brought into force. The financial year 2026-27 is extremely problematic, and that should be the focus of conversations with the UK Government. I cannot see what the rationale for that cliff edge in public finances is.

On this very important point, which Paul mentioned and which came up at the end of the discussion with the Fiscal Council, whether the level of need is 124%, 123% or 127%, the biggest determinant of the public spend allocated to Northern Ireland is how much is allocated in England. The input at the start of the Barnett formula is the key. That is often neglected in lots of the debate about what the right level of need is. This is a relative system; it is not an absolute system. The amount given is comparable with what is given in England. If increases in England are low, as they have been in recent years, a lower amount comes through to Northern Ireland. Similarly, if more is allocated as an input into the Barnett formula, that is much more important than whether the level of need is set at 122%, 124% or 127%.

Finally — I will stop after this — managing Northern Ireland's finances involves a combination of issues. It is not just about pulling one lever and fixing it. It is not just about getting more money from the UK Government. It is a combination of not just the amount that comes through the Barnett formula but public-sector efficiency, transformation of services, proper consideration of revenue raising and possible new powers to borrow or raise more revenue. It is not just one element. It is certainly not just one lever. All of those are important. Therefore, it is good to see that all of them are, as far as I can see, in the mix in the conversations with the Treasury.

**The Chairperson (Mr O'Toole):** OK. Thank you very much indeed. That is really helpful. Members, should you wish to come in, indicate. A good number of you have done so already. Members who are joining us remotely, indicate electronically or by turning on your camera and putting your hand up.

Thank you, Paul, Lisa and Ann, for that. I will bring all of you in on this. One theme that runs through your evidence is an acknowledgement that the input is too small. There is a degree of consensus on that. It is too small in the sense that — certainly, I would argue this, and I did in the previous evidence session — UK public spending should be and possibly could, had certain policy decisions not been made over the past decade and a half, be higher. Clearly, there is an argument to be made about our level of need, accepting what Paul says, which is that "need" is just an academic/officials' term used for relative public spending, rather than any kind of objective analysis of the level of public spending that we need. Accepting that and those conditions, we need better prioritisation to manage those constraints than we probably have in this statement. In that context, how should the Executive prioritise? By that question, I mean that the Fiscal Council document on this asks three questions:

*"Should we in NI raise more money for public services, and if so how? Where should we save money through better efficiencies? Do we need to reduce or completely stop delivering any services?"*.

Are there any particular ideas that you guys want to put forward on any of those questions?

**Mr MacFlynn:** You could come to any Budget statement and say that there should be greater public-sector efficiencies without pointing out what those are. Given that we are not talking about a constrained public finances situation for just the last year or two —.

**The Chairperson (Mr O'Toole):** A decade and half.

**Mr MacFlynn:** We have been looking at a decade. Given that, there is no fat left to cut. Particularly when you consider the situation that we were in a year ago, when we were looking at stopping providing public services, had some sort of efficiency been available, it would have been made.

I think that we really over-egg revenue raising, The Fiscal Council representatives were talking about some of their estimates. If you look behind some of the estimates that are attached to some of these super-parity measures, a change here or there can change significantly the estimate of what we would raise. Even if we were able to amass a pile of revenue-raising initiatives and charges and were able to implement all of them, given the behavioural changes that would come from them, it might get us out of the hole for one year, and then we would be looking at this again in the next year. We are dealing here with a trajectory of public spending, and we are running to stand still.

The idea of fiscal sustainability is not objective either. It is what the UK Government say it is. They determine the path of UK fiscal policy. Looking at what they have outlined for us in spending plans, we could make a plan to become fiscally sustainable, and then, at the next UK fiscal event, they could tighten that for future years, as they have done with the current spending.

**The Chairperson (Mr O'Toole):** As they have with their own fiscal rules over many years.

**Mr MacFlynn:** Exactly. So, the idea that Northern Ireland can constantly chase this elusive notion of fiscal sustainability, when the goalposts are being constantly changed for us, is not a real conversation. Within the last year, with the acceptance of the idea of a fiscal floor for Northern Ireland and the UK Government accepting fiscal need in Northern Ireland, it has already been breached. Yes, we are slightly above for this year because we are getting moneys that were owed for previous years when we had fallen behind. Average it out over the years, and we are going down below need, and, if something is not done, we will be below need for another decade and a half.

It is worth pointing out that — Ann mentioned the fiscal cliff edge that we face in 2026-27 — it is not a coincidence that the shortfall that we face there equals what we would gain if we moved to 124% in our fiscal settlement immediately. One is a product of the other. If you consciously underfund a region like Northern Ireland, you will produce a deficit equal to the amount by which you have underfunded it. The terms of the game have been set, and we are set up for a fall.

**The Chairperson (Mr O'Toole):** I do not disagree with very much of that, to be honest. One response to that would be that, given that we know that the Treasury is setting rules that are to its advantage or are based on its own biases, there is the obvious question about institutional instability and how that bureaucratically makes all these things worse because decisions are not made, which makes public services worse, whatever the quantum of spending. However, does that not make an argument that, within our current devolved set-up — Lisa has had previous experience of this from the commission — you want to move towards something like more fiscal autonomy?

I will bring you back in on the original question, Ann, but this is almost a broader philosophical question: if we are set up to fail within the confines of the current fiscal framework — obviously, we can look to renegotiate the fiscal framework — does it not argue strongly that we should look for more fiscal autonomy, which would inevitably mean more revenue raising?

**Mr MacFlynn:** I will ask Lisa to come in on that point.

**Dr Lisa Wilson (Nevin Economic Research Institute):** I do not think that fiscal devolution will correct the state of your public finances. To reach what you have suggested would mean that you are sure that, when you achieve fiscal devolution, the performance of the Northern Ireland economy will outpace that of the rest of the United Kingdom. That is by no means a certainty, or even likely. I have not been convinced of it to date. To embark on fiscal devolution for the purpose of filling gaps or plugging holes would take more responsibility for fiscal sustainability than Northern Ireland needs to take.

The fiscal sustainability of Northern Ireland is a UK-wide issue. In the past, what we have done poorly is that we have abdicated to the UK Government the responsibility to ensure the fiscal sustainability of Northern Ireland. Northern Ireland keeps being asked to publish a fiscal sustainability plan, but what part the UK Government play in ensuring and assisting that fiscal sustainability has not been clear. From all the indications that we have, even the fiscal sustainability plan that is being written at the minute, there seems to be such a lack of clarity on what is being asked of the Department of Finance or the Fiscal Council. The UK Government's role in that needs to be queried.

**The Chairperson (Mr O'Toole):** We will shoe it into devolved politics and negotiations rather than economics — other than behavioural economics.

**Mr MacFlynn:** I will just add briefly to that. If you look at Scotland's experience, you see that the public spending envelope has not changed greatly. It is still determined by UK fiscal policy. It has just introduced a new wave of volatility within that already constrained package. There is more scope for it, but, as we have said in the past, it would be better if the UK as a whole were to embark on greater fiscal devolution, if that is the plan for English regions with metro mayors. A system where the risk would be spread between regions like that could be beneficial to Northern Ireland in the longer term.

**The Chairperson (Mr O'Toole):** Ann, I come back to you on the original question, which was on prioritisation. My view — I got hints of this from the three of you as well, but I do not want to quote you — is that there may not have been as much prioritisation as there could have been. Accepting and agreeing that the quantum of funding is not enough, how should the Executive go about prioritisation?

**Ms Watt:** It comes back to having a Programme for Government that says, "This is what we think is important". It has to be a meaningful Programme for Government. As has been said, it should be about what the Executive's priorities are and, therefore, what they will spend on. At the minute, it looks very much as though the money was just divided up in a way that was acceptable to everyone, rather than saying what was particularly important. It is about setting out priorities and then deciding where the money goes.

On making efficiencies, I noted that Neil Gibson was at the Committee a few weeks ago and said that the kind of savings needed this year are not achievable through belt tightening. That ties in with what Paul said about being on the back of 10 years of tight Budgets. It has to be about longer-term transformation of public services. That will not yield the financial rewards this year, but you have to start doing that in a serious way. There is a dedicated pot of money for longer-term transformation. There is the transformation board. We have to see that making a difference. We have been in this situation so many times — saying that transformation is a priority — and it has not happened to the extent that it needs to

**The Chairperson (Mr O'Toole):** Would it be right to say that acknowledging, for the time being, the limitations of the devolved spending settlement and how it works that a better way of securing concessions, or at least putting pressure on the Treasury to agree a more reasonable medium-term fiscal framework for Northern Ireland, is by saying that, "On your terms and in your language, you asked for a sustainability plan. Here is our sustainability plan, these are our priorities for the rest of this mandate, and these are the choices that we are willing to make. Some of them are difficult, but these are the choices that we will make because of our priorities. You now need to match our choices". Are you saying that, basically, the Executive have to show that they are willing to make choices, even if,

theoretically, they do not accept the confines that are being placed on them, and then say, "Now, you hold up your end of the bargain".

**Mr MacFlynn:** I think that the Treasury would be more impressed by a longer-term look at Northern Ireland's public finances. On any kind of trajectory of our current spending levels, via Departments, we are not going anywhere good, and we are going there very fast. If there is an ability to take a longer-term frame of what public spending pressures we will face, we can look at what we can do, within and between Departments, to transform services, but also, in many cases, to make earlier interventions to contain demands that just end up in the system. That is the key, and the Treasury can get behind that because, over the longer term, it is the only thing that will make a difference. You can say that it is a hard decision to cut a service now, but what are the unintended consequences of that in years to come? When you remove a vital public service, can you say that you will not create problems that will cost money further down the road anyway? People expect a range of public services here equivalent to what is provided in the UK as a whole. That is part of the bargain, and, without that, it undermines the legitimacy of devolution itself.

**The Chairperson (Mr O'Toole):** OK. I will open up to members. Diane Forsythe?

**Ms Forsythe:** I am OK, thank you. I have a sore throat.

**Mr Frew:** Thank you for your presentations. Paul, you used striking language when we talked about the fiscal devolution of income tax. Most would say that it would be ineffective or would not make a big difference, but you used the word "danger". You said that it presents "short-term dangers". Can you elaborate on that, please? What do you mean? Can you put the meat on the bones?

**Mr MacFlynn:** We would face a funding shortfall. If income tax were to be devolved to Northern Ireland, we would calculate the effect by subtracting the sum of that from our block grant. There may be schemes put in place for a safety net, as there have been before, but they are not there to entirely recover the danger. The danger is that we would have our block grant reduced by that amount, and we would be counting on a forecast that we would get that amount coming to the Executive in revenue. The block grant is calculated on how the UK economy grows over that period. If Northern Ireland's economy were to grow at a slower pace over that time — all UK regional economies are on different trajectories, so it could — we would face an immediate fiscal shortfall. It is a problem with trying to attach fiscal devolution to a system of government that is not fully devolved. The UK is a big country. Any other country of comparable size has federal structures. There are state, regional and national taxes and powers of fiscal equalisation going on between all of them. There is a whole system available to those regions. We do not have any of that, and we would be flying blind to take that on immediately. It is good for the longer term to make a region more responsive to what is happening in the local economy by having its revenue and spending determined. It makes you more responsible for your actions, and that is a laudable aim in the longer term. Given the public finances situation that we find ourselves in at the moment, I do not think that we can afford to take the risk.

**Mr Frew:** Is it just the fact that there is a danger of stagnation in your economy, which means that you do not draw in as much money? Is it also true that you would actually de-socialise your pot? At the minute, it is a UK-wide socialised pot. If you were to differentiate in any shape or form in the context of Northern Ireland, would that mean that Northern Ireland would basically have to socialise its own pot?

**Mr MacFlynn:** Yes, to a certain extent, because you would be assuming a responsibility that was previously the responsibility of the UK Government.

**Mr Frew:** That could even work out to be a greater hit than the hit on the block grant.

**Mr MacFlynn:** I would say that the short-term hit is to the block grant. Yes, you would be breaching a principle of how Northern Ireland public spending is determined, but Scotland has done the same thing and is still a part of the UK. As I say, its overall public spending is still determined by UK fiscal policy; it just has that short-term volatility.

**Mr Frew:** I will come on to Scotland. In the past number of days, I read or somebody told me that, basically, Scotland has raised its income tax by 1p to pay for the hit on the block grant. Am I right in saying that? Can you explain that to me?



**Mr MacFlynn:** It was not done with the intention to do that, but Scotland has not gained as much as it had forecast from increasing it. There has been a fallback.

**Dr Wilson:** Significant behavioural effects have accrued to Scotland that we might not expect to occur here. The migratory impact from Scotland to England is likely to be greater than from Northern Ireland.

**Mr Frew:** Do you mean people moving from Scotland across the border just because of an income tax rise?

**Dr Wilson:** Yes.

**Mr MacFlynn:** The evidence so far on that is limited, but it would still be more likely in that situation than in ours.

**Mr Frew:** Basically, it does nothing but diminish the tax base.

**Mr MacFlynn:** That would diminish the tax base in Northern Ireland, yes.

**Mr Frew:** Surely there would have to be big movements to see that on the radar.

**Mr MacFlynn:** It would depend. If you look at the HMRC income statistics, you will see that there are some quite high earners in Northern Ireland, and they stand out. If they were to leave, it would have a not immaterial impact on Northern Ireland's tax take.

**Mr Frew:** Of course, any devolution of power down here is also dependent on the right decisions being taken by local Ministers and then the results of that being positive.

**Mr MacFlynn:** Yes.

**Mr Frew:** So, there are multilayered dangers everywhere we look.

**Mr MacFlynn:** That is a political danger as well. I will leave that to Ann.

**Dr Wilson:** May I add to that? There are local dangers in doing it, but there are also dangers from UK decisions on policy changes to income tax and the impact that those have on Northern Ireland's fiscal position. When the personal tax allowance was increased to £12,500, the knock-on effect that that had on the revenue per head raised in Northern Ireland was not talked about. When that was raised, so many people were brought out of having to pay income tax in Northern Ireland. You can look at the trends: the impact that that has had on the fiscal position of Northern Ireland from the widening fiscal gap over time is substantial. That is the impact of the UK Government policy on Northern Ireland. Obviously, we do not have control over that.

**Mr Frew:** Fascinating. Thank you.

**Ms Watt:** I have one more point. It is not about income tax but about revenue raising generally. I know that this is not a popular topic, and I completely accept Paul's point that you are talking about small amounts in a lot of cases. I think that we should be having a fuller conversation about this. We should be saying, "If we want to fund childcare more fully, where are we getting the money from? Are we cutting existing services? Are we doing efficiencies and transformation?". The money has to come from somewhere. One of the places that it could come from is revenue raising, and I would say that some people could pay more in household charges. Household charges, as discussed in the last session, are between £500 and £800 less a year in Northern Ireland than in Scotland, Wales and England. Not raising revenue is an absolutely legitimate political decision, but you cannot do that and also say, "We don't have the money that we would have raised from it". You cannot have your cake and eat it.

We should have a fuller conversation about whether we should raise more revenue, at least to look at the numbers, look at all of the consequences and reject it. We should not just reject the idea out of hand.

**Mr Frew:** Surely disposable income has a massive part in that formula, as has wage structure.

**The Chairperson (Mr O'Toole):** The point that you are making — I agree with it — is that, if you are trying to have a conversation about policy interventions, it should be, "Revenue raising will solve all our problems, and that will get us to where the Treasury has decided we should be" versus, "Let's think about specific policy interventions and where we could locally raise the revenue to do it". That is a legitimate conversation. However — I say this all the time — albeit I believe in general in the greater devolution of revenue, we are spending £2.5 million a year —

**Mr Frew:** What is that?

**The Chairperson (Mr O'Toole):** — on non-existent long-haul flights. *[Laughter.]*

**Mr Frew:** Why have you never mentioned that before?

**The Chairperson (Mr O'Toole):** It is not very much, but, unfortunately, it undermines fiscal devolution, which is a bad thing.

**Dr Aiken:** Thanks, everybody, for your briefing. In all the briefings that we have had today, there is one word that I have not heard: growth. The one thing that we need to do is develop the circumstances in which we can generate growth. Conventional wisdom is that we do that by investing in higher education, we sort out our infrastructure, and we do something about corporation tax. What is your collective perspective on growth? We keep on talking about the downsides of the situation. What are we trying to do to fix it?

**The Chairperson (Mr O'Toole):** You do not have to have a collective perspective; you are allowed to have different opinions.

**Ms Watt:** You had a good conversation last week with Gareth Hetherington about that. He came here to talk about the Budget, but this comment was very powerful: basically, he said, "This is about economic growth and —

**Dr Aiken:** If we do not grow, we are going nowhere.

**Ms Watt:** — public-sector reform". I will say three things about growth. You have already mentioned two of them. The first thing about growth is stability. That is stability in government, not just stable government but knowing what the Government are going to do. Businesses want to know what the Government's plan is for investment in schools, the health service and infrastructure. They want to know that those things will be there, that they can trust that they will be there and that they can rely on them. Whether it is indigenous firms or companies that are involved in inward investment, they want stability in government. That is a very important factor here, as we know.

As you said, skills and infrastructure are both extremely important, particularly given our lower levels of adult skills. There are far too many adults with no or very low qualifications and not enough at the other end with science, technology, engineering and mathematics (STEM) degrees and higher-level degrees. We must address that by going back to 'A Fair Start', with early intervention for disadvantaged children. We will see what comes out from the Budget, but I do not think that that is funded at the moment; I think that the funding that was in place disappeared last year. When we are talking about childcare, we need to be thinking about the most disadvantaged particularly and trying to narrow the gap.

I am sure that you, as a Committee, have talked lots of times about the water and waste water infrastructure and how that is constraining development. Those are my priorities.

**Mr MacFlynn:** It would be great if the Programme for Government did an analysis of economic policymaking in Northern Ireland over the past two decades. What we have done so far is clearly not working. When we look at the productivity stats, we see that something has to change. The report on Invest Northern Ireland was excellent, because it started a conversation about, "Yes, there may have been a time when this mode of supports and the type of investments that we made were key to improving growth, but the game has changed". The game has changed on corporation tax. People in the Republic know that they are running down the clock on that policy. Actually, they are flabbergasted that it has lasted as long as it has, particularly given the revenue generation that has come from it, but it already appears to be levelling off.

We have to be more honest about the fact that our economic policy over the past number of years has failed. We talk about making decisions about government spending. The Programme for Government should not be about things that we were doing before, which we are not going to do any more, because they are clearly not having the desired impact on the economy. We need to look at our productivity performance, and we need more data on it. That is a point to make. The most recent productivity figures that we have for Northern Ireland are from 2019. We are talking about a central pillar of the Executive's economic policy, yet we are once again flying blind. Considering the cataclysm that we experienced between then and now, we have no idea how productivity has shifted. We therefore need an honest appraisal of the economic policy failures that we have had, and we can start to build from there.

We have talked about infrastructure. Absolutely, but we put a lot of money into economic development in Northern Ireland and do not get bang for our buck at all. We need to ask questions about that.

**Dr Wilson:** I started in the Nevin Economic Research Institute in 2016, and the very first thing that I had to do when I started was respond to the draft Programme for Government, which was the outcomes-based thing that was never agreed. There has never been an agreed Programme for Government. That is an issue, but the long-run thing through previous Programmes for Government has been economic growth and reducing poverty and social exclusion. Those are two worthy targets, and they are still as worthy today, but we have not been able to get to the point at which we are putting those things into action. If you think about what should go into a Programme for Government, the four pillars outlined in the Department for the Economy's vision are very clear things that could fit into a short list of focus points for a Programme for Government and added to, although I do not think that you should end there.

Your point about having more warm homes is about reducing fuel poverty. Fuel poverty kills people. We therefore should not necessarily be so flippant about the importance of those things. One could not really disagree with many of the outcomes that were previously in Programmes for Government. What was missing was delivery, action and linking outcomes to the Budget.

**Dr Aiken:** He is not actually responsible for it.

**Ms Watt:** I did a presentation at a Fiscal Council conference last autumn, and its title was 'Does public spending support economic growth?'. I am sure that my presentation was fabulous, or 10 or 15 minutes of it was. The answer is that we do not know, because —.

**Dr Aiken:** It is not measured.

**Ms Watt:** We have never had that sort of theme running through public spending decisions, so it is an interesting example of why we need a Programme for Government. If you were to say that growth is our number-one priority, you would be asking what that means for the health budget, the education budget, the infrastructure budget and so on, but we do not do that.

**Dr Aiken:** Thank you for the high-level response. I am glad you came up with all those answers. Ann, you put your finger on it. Here we are putting together a Budget, and, as I said to Sir Robert, who was being rather diplomatic, we agreed a very large Vote on Account of 65%. That gave us more time, because we thought that we would be faffing around creating a Programme for Government, holding a consultation process and all the rest of it, yet here we are, rushing ahead with the Budget. There is no PFG, there are no priorities and there has been no consultation. Everything just seems to be stovepiped, and departmental budgets have been salami-sliced by 2% from last time. Some have 1% more and some have 1% less. That is not a good baseline from which to move forward, is it?

**Ms Watt:** No, obviously not.

**Dr Aiken:** We will leave it at that.

**Ms Watt:** We can just leave it there. Yes, you are right. Several MLAs have raised this issue in recent days. In the period when there was no Government, all those conversations were going on, and I thought —.

**Dr Aiken:** Some of us sat there for them.

**Ms Watt:** I do not know. I was not part of any of that, but I thought that the returning Executive would be in a much better position to move forward quite quickly with a Programme for Government.

**Dr Aiken:** I have to declare an interest. I sat in on most of those conversations, and what was agreed then has absolutely no bearing on what we are doing now.

**Ms Watt:** That explains it a bit, I suppose. There is a risk that we will get a Programme for Government that is long, detailed and includes everything, and you could not disagree with any of it, as there will be lots of worthy outcomes and lots of important things being done, but I think that we will get something that is not a priority list. If the Executive wished, they could at their next meeting write down the top five or six things, and there you go: there is your Programme for Government, for the short term at least. That would be a serious prioritisation exercise. It would be difficult to do, but it would place a real focus on what can be done. Perhaps that is what you need to do rather than put in everything in a way that does not become that meaningful.

**Mr MacFlynn:** There is still time to do a Programme for Government. It cannot be set out for the longer term, but you can retroactively look at the Budget decisions that have been made and explain them as part of a longer-term strategy by saying, "This is a holding document. We will be coming back to it again and again and adding to it". To come up with an entire Programme for Government and tie it into a fiscal sustainability plan now would be a rushed job, but at least it would point people in the direction in which this is going. That can be done. It would have been ideal to have had it done beforehand, but it is not too late.

**The Chairperson (Mr O'Toole):** In the Assembly the other day, all Executive parties agreed an SDLP motion calling for just that, so I presume that we are going to get it fairly soon. Phillip Brett is giving me a charming grin. *[Laughter.]*

**Mr Brett:** Ann, it is good to see you again. Paul, I think that I was on television with you last night, although your contribution was pre-recorded. Dr Wilson, congratulations on your recent appointment by the Minister, and good luck in defining that long-elusive term of a "good job". We look forward to hearing that in another place.

Paul, you said that there was scope for an increase in the regional rate. Will you go into that in a bit more detail?

**Mr MacFlynn:** We had the discussion earlier. I am keen to say that it should not be cast, and it has been cast, as comparing ourselves to households in England, Scotland and Wales. The danger of doing that is that we are looking at one tax in isolation.

Yes, it is undeniable that we pay less in money terms than households in other UK regions do. That does not necessarily mean that we pay less tax. Lisa ran the figures recently, and, based on the data, which is sometimes choppy, we pay as much if not more in tax as a share of our total output — our GVA — than people in England do. We pay more VAT than other regions. We do not go to households in England and say, "You need to pay more VAT to even yourselves up with what they pay in Northern Ireland", so we should not say to households here, "You should pay this amount in household charges, because they do so in England".

Yes, there is scope to broaden, and there are progressivity measures within the existing system that can be enacted. We can show a direction of travel to where we want to get to, but some of the figures that have been talked about, whether on water charges or an increase in rates to match water bills in other regions, is a level of increase for households that people will simply not be in a position to pay. We may be able to calculate it and put it in nice fancy tables, but it is not a realistic proposition for household budgets.

**Mr Brett:** I get that. Perhaps I am quoting you incorrectly, but you did say that there was scope for an increase.

**Mr MacFlynn:** There is scope to increase. We did increase this year, but we could have said that we were going to increase by x per cent next year, the year after and the year after that to reach a certain point. Doing that allows households to plan financially for the increases. Such announcements are best when given as far in advance as possible, but I do not think that doing it all at once was ever a realistic proposition.

**Mr Brett:** I am going to disagree with you, if you do not mind. Your view is that it is better to compare the out-turn from last year for Departments with the opening Budget of this year. That is not what Sir Robert said.

**Ms Watt:** I will look at my notes.

**Mr Brett:** His view was that you have to compare time with time. His preferred option would be that you compare the close of last year with —.

**The Chairperson (Mr O'Toole):** My impression of what Sir Robert said was that he did not not say what you are saying but that he also said that he could see the perspective of someone on the public service delivery end of things and that he could also, as an ex-Treasury person, see the year-end to year-end thing. That would be a fair depiction, but I am not contradicting you.

**Mr Brett:** His view was that you cannot compare two different time periods. I wonder, having had him say that to you, has your view changed? Do you still think that it is better to —?

**Ms Watt:** It would have been good to have had both in the written ministerial statement. When glancing at the numbers that came out on that Thursday afternoon at the end of April, I thought that it looked like great news: a 7% increase, which amounted to a £950 million increase on last year. It looked as though we would not be in as much trouble. The reality, however, is that the amount that the Department of Education, the Department for Infrastructure, the Department of Health or whatever other Department spent last year on pay, pay awards and everything else that they fund is what they needed to spend last year. There is an expectation that they will need to spend a similar amount this year, plus some more to account for inflation and new pay awards. Comparing with an allocation that was inadequate at the start of the year is a little bit misleading, although that is probably too strong a word. It would, however, have been good to have had both sets of figures. In its report, the Fiscal Council reports both sets of figures, comparing the budget at the start of the year with the likely out-turn. That is what I would like to have seen from the Department.

**Mr Brett:** That is not the usual way in which —.

**Ms Watt:** No.

**Mr Brett:** I am new to this. Is that the way in which budgets have always been done?

**Ms Watt:** They are usually compared with the start of the year, because there is a sense that additional in-year allocations can distort the figures in some way. In the current situation, in which we have been topped up so much, which has been essential for keeping services running and particularly for making pay awards, then to strip that out a little bit misleading.

**Mr Brett:** OK. Your view is that there are people in Northern Ireland — I do not want to misquote you — who can afford to pay more in rates. Is that right?

**Ms Watt:** There are people in Northern Ireland, including perhaps some of us in this room, who have a reasonably comfortable lifestyle and could afford to pay more.

**Mr Brett:** I am wondering whether you can identify those people. On what are you basing that? Are you basing it on property value or current income? How would you do it?

**Ms Watt:** If it were rates, it would be based on property value, but I would say that it is a combination of both. There are a sizeable number of people with a very or extremely comfortable lifestyle who could afford to pay some more. If we believe in a progressive system, perhaps we should look more to those people. The problem is that, comparatively, there are not very many of them, so the amount of money that would be raised by doing that would be relatively small.

**Mr Brett:** I am trying to work out who, in your view, those people are.

**Ms Watt:** You would have to look at income and property price data, but one thing that has been, and, I think, still is, on the table is the cap on higher-value property rates. That is an obvious first place to

go. That will not be popular, but I always say that we should look to those people who are more able to absorb the cost than to people on lower incomes.

**Mr Brett:** OK. That is all that I have, Chair. Thank you.

**Miss Brogan:** Thank you very much to all of you for the presentation. It is really interesting stuff and useful information.

Ann and Paul, you both discussed the cliff edge that we will face in 2026-27, when the financial package essentially runs out and needs a top-up. That is very concerning for all of us. How severe a crisis will that be? How concerned are you about that cliff edge?

**Ms Watt:** As well as 2026-27, I am concerned about this year and next year, because the allocation is basically flat compared with how last year turned out at the end of the year. We already have serious problems. We can see that from the numbers that have come through for allocations to Departments. The situation in 2026-27 is a drop-off of something of the order of £500 million. That cannot be absorbed. It is not sustainable at all from the Treasury's point of view. Public finances cannot be planned on that basis, and the Fiscal Council's previous report made exactly that point. How can you justify that? That situation has to be rectified.

**Mr MacFlynn:** The discussion with the Treasury on the fiscal floor has to happen before we reach that fiscal cliff edge. No one is explicitly saying it, but it is not a realistic proposition, so we will have to reach some sort of agreement before then.

**Miss Brogan:** In that case, do the Executive need to have those negotiations with Treasury, or can they implement anything themselves to alleviate the pressures?

**Mr MacFlynn:** No. With the scale of it, being £500 million, as Ann said, you would be talking about a wholesale withdrawal of certain public services. That is not in any way feasible or desirable for anybody involved who has agency in the discussion.

**Miss Brogan:** Thank you for that.

**Ms Watt:** The UK Government chose to top up Northern Ireland to about 124% or 125% this year, last year and next year. Why therefore do they say, "There is a big drop, and then you go up to converge with 124% by the mid-2030s"? It does not make sense to me.

**Miss Brogan:** Nor to me. Thank you for that, Ann. You have made clear the importance of the transformation of public services to bringing finances under control. The Executive parties appear to have agreed with what you are saying. At what pace and on what scale must transformation be undertaken in order to avoid future Budget crises?

**Ms Watt:** I am not sure that I can answer that question. I would look to bring in external expertise on that. The transformation board will be set up. You have to get really good people to join it — local people but also people from outside who have been involved in the same kind of process — and put in place something that is ambitious yet deliverable. I am not in a position to answer your question in any detail, however.

**Mr MacFlynn:** Transformation agendas were begun. In particular, there was the beginnings of a plan in the Department of Health from the outworkings of Bengoa. That work never got off the ground, but it is now ready to go. There are things that can be started, and we would be best concentrating on starting them now.

**Miss Brogan:** The work is already in place.

You talked about how people in the North pay more tax, as a percentage of their income, than those in Great Britain. Lisa, can you give me a bit more information and your analysis of that? Should negotiations with Treasury include the impact that our paying more tax has on budgetary pressures here?

**Dr Wilson:** I think that what you are referring to is that, when we estimate the percentage of tax as a ratio of GDP, Northern Ireland is not out of step with the rest of the UK, so, on the whole, we do not pay less tax. Whether the percentage is slightly above or below really depends on which year's data you use. Severe revisions to GDP data and to country and regional public finance data make it difficult to have certainty based on those data sets, but, because of the consistency of the trend, we do not think that, on the whole, Northern Ireland pays less tax.

**Miss Brogan:** OK. Thank you very much to the three of you.

**Mr Carroll:** Everybody has raised really good points. I liked the myth-busting stuff that challenges the idea behind the hated begging-bowl analogy that we often battle with: people here pay just as much as, if not more than, people in Britain. That was helpful and useful. Thank you for that. The suggestion that the English council tax comparison is not a good one for us to use when considering revenue raising and other measures was also useful. As a final comment, my takeaway from Paul's comments is that "fiscal sustainability" is not a neutral term. It was created by the Tory Government: a Government who are very right wing and anti-public services.

I have two points on which I would like your views. Is there an element of hypocrisy at play? The Government, the last time that I checked, were £2.5 trillion in debt, yet they are dictating to Ministers and politicians in the Assembly that they need to raise revenue and cannot live beyond their means, as they would call it. Is there an element of hypocrisy at play: one rule for the British Government and another for devolved Administrations?

**Mr MacFlynn:** I tend to agree. I go back to the point that "fiscal sustainability" is not a neutral term. We are having the goalposts changed on us constantly. That does not allow us to have longer-term thinking and more responsible government.

**Ms Watt:** If Northern Ireland wants to get a better fiscal settlement from the UK Government, it needs to demonstrate that it is taking steps to manage its own Budget. That is important, be they steps through revenue raising, a transformation in public services or making efficiency savings. Hopefully, those things would yield more revenue to spend on other things, but it is also important to indicate to the UK Government that Northern Ireland is taking that on itself and being responsible. That, I hope, would mean more flexibility from the UK Government in those conversations.

**Mr Carroll:** Thanks. I have a final question. I think that it was Lisa who mentioned the impact on humans of public spending decisions. I am not saying that this has come from anybody who is presenting today, but, often, it is often just numbers and data about which we hear, while humans are often neglected, not emphasised or talked about enough. Have you any views on an anti-poverty strategy? It is something that has been promised for many's the year, and we were promised that it would be an urgent priority for an incoming Executive. What are your views on what such a strategy, if one were implemented and had money allocated to it, could do? What impact would it have on reducing inequality and similar issues across our sector? I am interested in your views.

**Dr Wilson:** One of the most frustrating things about the anti-poverty strategy is how long we have been talking about it. The last that we heard about it was that there were even plans to scrap the most recent experts' report. That is a very frustrating place in which to be, because that is purely down to the fact that the Executive had collapsed. A set of decisions was made, and a report was produced, but it is now a case of, "No, we have decided that we want to do things differently". The detail and substance of the anti-poverty strategy plan, which was then to go to the co-design process, should not materially change. The long-run focus on reducing poverty and social exclusion that has run through Northern Ireland Executive Programmes for Government has been a worthy goal of government. When we talk about super-parity and measures for how we do things differently — our policy choices — some of the most significant things that Northern Ireland politicians have decided to do have been to reduce the impact of policies that would have a detrimental impact on the most poor and vulnerable in Northern Ireland. We are talking about welfare mitigation and the like. To say that we need to stop doing such things because the public finances are calling and there are difficult choices to be made ignores the fact that the goal of supporting people in poverty and doing as much as we can is a worthy one and should be continued.

**Ms Watt:** One thing that I hope will be helpful on that front is the fact that the Joseph Rowntree Foundation has said that it will set up a team in Northern Ireland, which it has not done before. That will lend that organisation's weight, status and connections to issues of poverty and destitution, which will be very welcome.

**The Chairperson (Mr O'Toole):** That is most useful. At this stage, unless colleagues have any further questions, we will release Paul, Ann and Lisa. That was extremely useful, wide-ranging and clear evidence. Thank you all very much. We will hopefully hear from you again during the mandate. Thank you very much for all your work on the broader policy debate, as well as for today.